BKW Group

Financial Report 2010

With a turnover of CHF 3,187 million in 2010, the BKW Group is one of Switzerland's largest energy companies. It employs more than 2,800 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. BKW's production portfolio covers hydroelectric power plants, a nuclear power plant, a gas-fired combined-cycle power plant and new renewable energy facilities. Today, BKW is the leading Swiss producer of power from photovoltaics, wind energy, small-scale hydropower and biomass.

Facts & Figures 2010
BKW Group

Total operating revenue

CHF millions

2006: 2,373.1
2007: 2,813.9
2008: 3,496.2
2009: 3,592.6
2010: 3,187.2

Net profit

CHF millions

2006: 332.6
2007: 226.9
2008: 138.7
2009: 298.5
2010: 228.3

Number of employees

Full-time equivalents

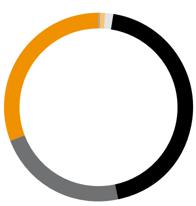
2006: 2,448
2007: 2,615
2008: 2,781
2009: 2,862
2010: 2,862

Electricity business

GWh	**2010**	2009	2008	2007	2006
Sales					
Electricity sales Switzerland	8,153	8,075	7,978	7,760	7,674
Electricity sales International	6,015	5,768	5,201	4,835	5,004
Electricity trading	11,838	12,638	11,882	10,842	6,223
Pump/substitution energy	331	509	536	465	660
Transmission losses/own consumption	236	265	372	317	314
Direct sales from financial interests	111	55	0	0	0
Total	**26,684**	**27,310**	**25,969**	**24,219**	**19,875**
Generation and purchases (incl. financial interests)					
Hydroelectric plants	3,754	4,052	4,012	3,875	3,629
Nuclear power plants incl. purchase contracts	5,921	5,784	5,884	5,799	5,915
Thermal power plants	700	648	375	0	0
New renewable energy	177	94	28	14	16
Trade (purchases) and energy buy-backs	16,132	16,732	15,670	14,531	10,315
Total	**26,684**	**27,310**	**25,969**	**24,219**	**19,875**

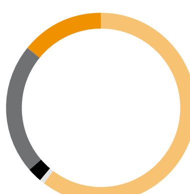
Sales 2010

Electricity sales Switzerland	30.6%
Electricity sales International	22.5%
Electricity trading	44.4%
Pump/substitution energy	1.2%
Transmission losses/own consumption	0.9%
Direct sales from financial interests	0.4%



Generation and purchases 2010

Hydroelectric plants	14.1%
Nuclear power plants incl. purchase contracts	22.2%
Thermal power plants	2.6%
New renewable energy	0.7%
Trade (purchases) and energy buy-backs	60.4%



Financials

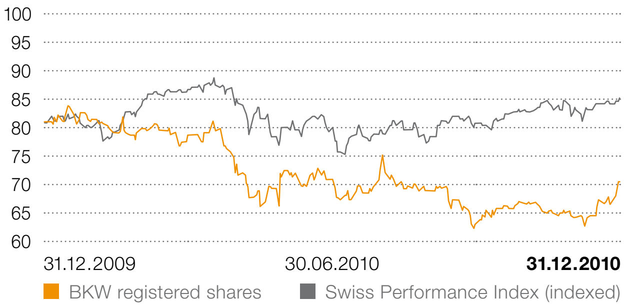
CHF millions	**2010**	2009	2008	2007 restated	2006
Total operating revenue	3,187.2	3,592.6	3,496.2	2,813.9	2,373.1
Operating profit before depreciation, amortisation and impairment	480.6	501.6	471.3	412.6	604.1
Net profit	228.3	298.5	138.7	226.9	332.6
Cash flow from operating activities	274.8	602.7	242.5	362.1	267.8
Purchase of property, plant and equipment	317.7	289.7	270.3	211.5	129.4
Balance sheet total	6,569.6	6,519.0	5,989.3	5,868.3	5,597.9
Shareholders' equity	2,904.7	3,244.3	3,069.8	3,104.9	2,966.5
› as % of balance sheet total	44.2	49.8	51.3	52.9	53.0

Key figures per share

CHF	**2010**	2009	2008	2007 restated	2006
Par value	2.50	2.50	2.50	2.50	2.50
Share price					
› Year-end price	70.70	80.50	102.00	144.00	143.30
› Year high	82.85	108.00	159.50	148.00	143.40
› Year low	62.90	63.35	90.00	114.40	90.50
Earnings per share (BKW shareholders' portion)	4.45	5.74	2.65	4.36	6.31
Equity per share (BKW shareholders' portion)	60.57	61.87	58.63	59.43	56.08
Market capitalisation in CHF millions	3,733.0	4,250.4	5,385.6	7,603.2	7,566.2

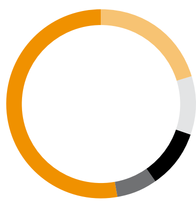
Changes in IFRS accounting and valuation principles from 2007 have resulted in limited scope for comparison with 2006.

Performance of the BKW share 31.12.2009 – 31.12.2010



Shareholders

Canton of Berne	52.54%
E.ON Energie AG	7.03%
Groupe E Ltd.	10.00%
Treasury stock	9.99%
Other	20.44%



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Financial Report 2010

→ Cover picture: Hydroelectric power plant of BKW Group company Idroelettrica Lombarda S.r.l., in the Italian province of Brescia.

Financial Result
Solid performance in the energy business

In the 2010 financial year the BKW Group[1] stood firm in difficult market and financial conditions, achieving a solid operating result. Revenue and operating profit for BKW fell due to the difficult market environment. Net profit was negatively impacted by the lower financial result, which declined as a result of the situation on equity markets and the low euro exchange rate. Given these difficult conditions, however, net profit of CHF 228 million can be regarded as a good result.

Good operating result
BKW held its ground well in the difficult economic and regulatory environment of 2010, posting total consolidated operating revenue of CHF 3,187.2 million (continuing operations CHF 2,788.1 million). The result was impacted by lower electricity prices and the weak euro. At CHF 480.6 million, operating profit before depreciation, amortisation and impairment (EBITDA) was CHF 21 million lower year-on-year (continuing operations CHF 474.1 million, CHF 28.2 million lower than the prior year). Despite the weak euro and lower market prices, the national and international energy businesses performed well. Developments on international currency and financial markets resulted in a negative financial result and a corresponding reduction in profit. Net profit for 2010 amounted to CHF 228.3 million (net profit from continuing operations CHF 224.0 million).

Changes in accounting principles and the scope of consolidation
The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). Various new or revised accounting standards became applicable in the 2010 financial year. However, with the exception of the following standards, these changes have no significant effect on the financial position, results of operations and cash flows of BKW, nor do they necessitate changes in the principles of accounting and valuation or disclosure obligations.

- IFRS 3 Business Combinations governs the method of accounting for and measuring of business combinations. Contingent considerations are now always integrated in the acquisition price on the acquisition date and recognised as liabilities. The liability is regularly measured after the acquisition date, and any adjustments are recognised in profit or loss. Furthermore, transaction costs no longer form part of the acquisition price but are expensed as incurred.
- IAS 27 Consolidated and Separate Financial Statements governs the preparation and presentation of consolidated financial statements. All effects of transactions with noncontrolling interests must be recorded directly in equity provided there have been no changes in control. Other changes relate to accounting for loss of control of Group companies.

In 2010 BKW applied IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, since the disposal of the sales business in Germany at the beginning of 2011 qualifies as a discontinued operation. Assets and liabilities of discontinued operations are disclosed separately on the face of the balance sheet for the year ended 31 December 2010. Components of continuing and discontinued operations are separately disclosed in the 2010 income statement as well as in the 2009 comparative figures. The cash flow statement contains cash flows from continuing and discontinued operations. Cash flows from discontinued operations are disclosed separately in the Notes to the Consolidated Financial Statements.

Besides several minor changes, a significant addition was made to BKW's scope of consolidation in the year under review: BKW Dubener Platte Wind GmbH of Wiesbaden acquired Dubener Platte wind farm in the German federal state of Brandenburg. The wind farm has an installed capacity of 40 Megawatts (MW), producing around 85.5 Gigawatt hours (GWh) of CO_2-free electricity a year from a total of 20 turbines.

Solid Swiss energy business
In 2010 BKW recorded consolidated operating revenue of CHF 3,187.2 million, 11.3% lower than the prior-year period (continuing operations 13.8% lower at CHF 2,788.1 million). The energy business performed well in a difficult economic and regulatory environment, enabling BKW to further strengthen its market position in Switzerland.

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

The Energy Switzerland segment grew total operating revenue by 5.0% to CHF 2,156.2 million. Net sales to external customers rose by 3.0% to CHF 1,151.2 million, chiefly as a result of increased sales of electricity in BKW's supply region in the wake of economic recovery. Net sales to other segments rose by 6.0% to CHF 934.7 million due to higher internal transfer prices for electricity production. EBIT was significantly higher, increasing by 213.5% to CHF 232.6 million due to lower internal procurement costs for energy and lower costs for billing general ancillary services to power plants with a capacity of 50 MW or more, as well as to refunds of ancillary service costs. In addition, a provision of CHF 28.9 million for onerous energy procurement contracts with partner plants was fully reversed. Excluding this reversal of provision, operating profit amounted to CHF 203.7 million.

Energy International and Trading recorded a 15.2% reduction in total operating revenue to CHF 2,623.7 million. Net sales to external customers dropped by 20.0% to CHF 1,758.2 million, while net sales to other segments fell by 3.5% to CHF 856.4 million due to lower internal transfer prices for energy. Operating profit (EBIT) dropped sharply by 68.0% to CHF 50.9 million, mainly due to low energy prices, the weak euro, lower internal transfer prices for energy and a decline in income from participation in auctions for ancillary services. Revenue from electricity trading fell by 27.0% to CHF 1,063.7 million. At minus CHF 1.0 million, revenue from derivatives trading was CHF 25.5 million below the prior-year figure. The decline is attributable to the difficult market environment. While price-related factors reduced revenue from international sales by 6.3% to CHF 554.1 million, international sales posted volume-related growth, posting higher earnings and increased sales to existing customers in Germany. Nevertheless, these effects were unable to fully offset the effect of falling market prices on revenue. Due to disposal of the sales business in Germany on 1 January 2011, the provisions of IFRS 5 governing discontinued operations are relevant for the 2010 reporting year. Although the sale was completed at the beginning of 2011, IFRS 5 requires discontinued operations to be disclosed separately in the 2010 figures and, in the case of the income statement, also for the preceding financial year. The income statement is therefore broken down into continued and discontinued operations. The disposal group is disclosed in the balance sheet as “assets and liabilities held for sale”.

In the international sales area, revenue from discontinued operations in Germany amounted to CHF 355.2 million (2009: CHF 340.8 million) while revenue from continuing operations in Italy ended the year at CHF 198.9 million (2009: CHF 250.3 million).

Total operating revenue for the Networks segment was stable, increasing slightly by 1.6% to CHF 657.6 million. Net sales to external customers were down 4.3% to CHF 167.0 million, while net sales to other segments rose by 3.0% to CHF 431.2 million. Since external revenue for grid usage is largely invoiced by Energy Switzerland and disclosed as internal revenue under “Networks”, network revenue generated outside the Group is low. The bulk of this revenue is accounted for by engineering services and the electrical installation business, which posted a 2.9% increase in revenue to CHF 112.4 million. Operating profit (EBIT) fell by CHF 40.6 million to CHF 61.8 million, primarily due to the ElCom decision to impose additional charges on ancillary services for 2009 and 2010.

Good operating profit, lower financial result
Energy procurement costs in 2010 amounted to CHF 1,941.2 million, corresponding to a reduction of 16.7% compared to the prior-year period (continuing operations CHF 1,554.7 million, corresponding to a reduction of 21.3%). The decrease is chiefly attributable to a decline in trading business.

Personnel expenses were 9.3% higher at CHF 345.4 million (continuing operations CHF 341.6 million, 9.1% higher). Personnel expenses were lower in 2009 due to a change of CHF 28.6 million in pension plan assets which was booked to income. In the year under review this effect amounted to only CHF 6.7 million. Due primarily to lower costs for charging general ancillary services to power plants with a capacity of 50 MW or more, material and third-party services were CHF 3.5 million lower at CHF 201.1 million, while other operating expenses fell by CHF 22.3 million to CHF 218.9 million as a result of various cost-saving measures (continuing operations by CHF 22.6 million to CHF 216.6 million).

Operating profit before depreciation, amortisation and impairment (EBITDA) fell by 4.2% to CHF 480.6 million (continuing operations by 5.6% to CHF 474.1 million). The positive contributions made by the solid earnings trend in the Swiss energy business and reversal of a provision of CHF 28.9 million for onerous energy procurement contracts with partner plants were cancelled out by market-related reductions in trading income. Depreciation expenses fell year-on-year by CHF 3.8 million to CHF 140.9 million (continuing operations by CHF 3.8 million to CHF 140.6 million). At CHF 339.7 million, operating profit (EBIT) was CHF 17.2 million lower than the prior-year figure (continuing operations CHF 24.4 million lower at CHF 333.5 million)

Developments on equity markets, coupled with higher financing costs and the weaker euro, reduced the financial result by CHF 84.7 million to minus CHF 56.5 million. The main influencing factor was the return on shares in the decommissioning and disposal funds, which are measured at fair value. Contrary to the exchange rate gains recorded in the prior-year period, lower exchange rate gains led to a reduction in the 2010 result for the state funds. Due to the lower result, income tax expenses fell year-on-year by CHF 31.7 million to CHF 54.9 million (continuing operations by CHF 33.6 million to CHF 53.0 million).

Because of the lower financial result, the good operating profit recorded by BKW in 2010 was not fully reflected in net profit, which ended the year at CHF 228.3 million compared to CHF 298.5 million in 2009 (continuing operations CHF 224.0 million compared to CHF 299.4 million in 2009). Given the difficult market and financial environment, this is a good result.

Higher balance sheet total and lower equity ratio
In 2010 the balance sheet total rose slightly by 0.8% to CHF 6,569.6 million. While non-current assets rose by 8.9%, current assets fell by 17.3% largely due to an investment-related reduction in current financial assets. On the liabilities side, long-term liabilities rose by 19.3% to CHF 450 million, largely due to the issue of two bonds, while short-term liabilities fell by 15.0%. At CHF 2,904.7 million, shareholders' equity was 10.5% lower year-on-year mainly as a result of acquiring a tranche of 8.9% treasury shares from E.ON worth CHF 304.3 million, with the equity ratio dropping accordingly from 49.8% to 44.2%. Provisions for nuclear waste disposal were made according to schedule in the period under review.

In addition, the balance sheet for the 2010 financial year was adjusted to account for the assets and liabilities of the sales business in Germany, which were disclosed separately under "Assets held for sale" and "Liabilities held for sale".

Lower cash flow from operating activities

At CHF 274.8 million, cash flow provided by operating activities was CHF 327.9 million below the corresponding prior-year figure. This drop is mainly attributable to a negative change in net current assets of CHF 222.1 million. Cash flow from investing activities was CHF 255.7 million lower at CHF 340.4 million as a result of the reduction in current and non-current financial assets due to the reversal of existing fixed-term deposits. Investments in property, plant and equipment and equity-valued companies remained virtually unchanged. Cash inflow from financing activities fell by CHF 180.7 million to CHF 59.0 million.

Outlook[2]

BKW expects to close the current financial year with revenue on a par with the prior-year figure. The difficult environment, marked by sustained low energy prices on the international markets, regulatory requirements and costs related to strategic projects – particularly in connection with the drive to expand production – will continue to impact the operating result in 2011. Taking all these factors into account, operating profit before interest, depreciation and impairment (EBITDA) for 2011 – adjusted for the special effect related to reversal of the provision for onerous energy procurement contracts for partner plants in 2010 – is expected to be within the prior-year range. The result is dependent on energy price developments, the regulatory environment and financial markets. Assuming stable conditions and taking into account the aforementioned special effect, BKW expects to close the financial year with net profit on a par with the prior year.

→ [2] Basis for comparison: continuing operations excluding Sales Germany

Consolidated Financial Statements of the BKW Group

Consolidated Income Statement

CHF millions	Note	Continuing operations 2010	Discontinued operations 2010	Total 2010	Continuing operations 2009	Discontinued operations 2009	Total 2009
Net sales	7	2,677.5	398.9	3,076.4	3,131.1	357.4	3,488.5
Own work capitalised		46.7		46.7	42.8		42.8
Other operating income		63.9	0.2	64.1	61.1	0.2	61.3
Total operating revenue		**2,788.1**	**399.1**	**3,187.2**	**3,235.0**	**357.6**	**3,592.6**
Energy procurement	7	–1,554.7	–386.5	–1,941.2	–1,975.8	–353.3	–2,329.1
Material and third-party services		–201.1		–201.1	–204.6		–204.6
Personnel expenses	8	–341.6	–3.8	–345.4	–313.1	–3.0	–316.1
Other operating expenses	9	–216.6	–2.3	–218.9	–239.2	–2.0	–241.2
Total operating expenses		**–2,314.0**	**–392.6**	**–2,706.6**	**–2,732.7**	**–358.3**	**–3,091.0**
Operating profit before depreciation, amortisation and impairment		**474.1**	**6.5**	**480.6**	**502.3**	**–0.7**	**501.6**
Depreciation, amortisation and impairment	10	–140.6	–0.3	–140.9	–144.4	–0.3	–144.7
Operating profit		**333.5**	**6.2**	**339.7**	**357.9**	**–1.0**	**356.9**
Financial income	11	62.1		62.1	111.1	0.1	111.2
Financial expenses	11	–118.4		–118.4	–84.7		–84.7
Income from equity-valued companies	16	–0.2		–0.2	1.7		1.7
Profit before income taxes		**277.0**	**6.2**	**283.2**	**386.0**	**–0.9**	**385.1**
Income taxes	12	–53.0	–1.9	–54.9	–86.6		–86.6
Net profit		**224.0**	**4.3**	**228.3**	**299.4**	**–0.9**	**298.5**
Profit attributable to non-controlling interests		1.5		1.5	0.1		0.1
Profit attributable to BKW shareholders		222.5	4.3	226.8	299.3	–0.9	298.4
Earnings per share in CHF (diluted and undiluted)	13	4.45	0.09	4.54	5.75	–0.01	5.74

Consolidated Financial Statements of the BKW Group
Consolidated Statement of Comprehensive Income

CHF millions	2010	2009
Net profit	**228.3**	**298.5**
Currency translations		
› Currency translations	– 147.4	– 9.8
› Income taxes on currency translations		– 0.3
Available-for-sale financial assets		
› Value adjustments	– 4.6	– 5.1
› Income taxes on value adjustments	1.9	1.3
Cash flow hedges		
› Value adjustments	5.1	
› Income taxes on value adjustments	– 1.1	
Total changes in value recorded in shareholders' equity	**– 146.1**	**– 13.9**
Total comprehensive income	**82.2**	**284.6**
Total comprehensive income attributable to non-controlling interests	1.1	0.1
Total comprehensive income attributable to BKW shareholders	81.1	284.5

Consolidated Financial Statements of the BKW Group
Consolidated Balance Sheet

CHF millions	Note	31.12.2010	31.12.2009
Assets			
Property, plant and equipment	15	2,271.8	2,025.1
Investments in equity-valued companies	16	1,127.9	1,040.7
Derivatives	28	15.7	38.6
Non-current financial assets	17	1,097.4	1,033.2
Intangible assets	18	193.8	175.8
Deferred tax assets	12	21.6	27.8
Total non-current assets		**4,728.2**	**4,341.2**
Inventories	19	20.6	20.7
Accounts receivable	20	559.9	578.9
Income tax receivables		5.0	4.8
Derivatives	28	54.5	86.4
Current financial assets	17	558.3	860.8
Prepaid expenses and accrued income	21	169.2	166.4
Cash and cash equivalents	31	432.7	459.8
Total current assets		**1,800.2**	**2,177.8**
Assets held for sale	6	41.2	0.0
Total assets		**6,569.6**	**6,519.0**

CHF millions	Note	31.12.2010	31.12.2009
Liabilities			
Share capital	22	132.0	132.0
Capital reserves		35.0	35.0
Retained earnings		3,084.0	3,138.1
Treasury shares	22	–372.4	–84.3
Equity attributable to BKW shareholders		**2,878.6**	**3,220.8**
Equity attributable to non-controlling interests		26.1	23.5
Total shareholders' equity		**2,904.7**	**3,244.3**
Deferred tax liabilities	12	551.6	553.4
Derivatives	28	9.9	37.8
Long-term provisions	23	1,147.3	1,140.2
Long-term financial liabilities	24	1,054.4	573.7
Other long-term liabilities	25	199.6	178.7
Total long-term liabilities		**2,962.8**	**2,483.8**
Other short-term liabilities	26	418.7	425.2
Derivatives	28	50.3	92.2
Short-term provisions	23	55.8	48.7
Short-term financial liabilities	24	1.6	0.0
Liabilities from income taxes		19.6	64.7
Deferred income and accrued expenses	21	126.8	160.1
Total short-term liabilities		**672.8**	**790.9**
Liabilities held for sale	6	29.3	0.0
Total liabilities		**3,664.9**	**3,274.7**
Total liabilities and shareholders' equity		**6,569.6**	**6,519.0**

Consolidated Financial Statements of the BKW Group
Changes in Consolidated Equity

CHF millions	Share capital	Capital reserves	Accumulated profit	Currency translations	Revaluation reserve available-for-sale financial assets	Hedging reserves	Treasury shares	Attributable to BKW shareholders	Attributable to non-controlling interests	**Total**
Equity at 31.12.2008	132.0	35.0	2,875.8	–33.4	132.7	0.0	–96.4	3,045.7	24.1	3,069.8
Total comprehensive income			298.4	–10.1	–3.8			284.5	0.1	284.6
Dividend			–119.9					–119.9	–0.5	–120.4
Purchase/sale of treasury shares			–1.6				12.1	10.5		10.5
Acquisition of non-controlling interests								0.0	–0.5	–0.5
Acquisition/foundation of Group companies								0.0	0.3	0.3
Equity at 31.12.2009	**132.0**	**35.0**	**3,052.7**	**–43.5**	**128.9**	**0.0**	**–84.3**	**3,220.8**	**23.5**	**3,244.3**
Total comprehensive income			226.8	–147.0	–2.7	4.0		81.1	1.1	82.2
Dividend			–130.8					–130.8	–0.5	–131.3
Purchase/sale of treasury shares			–4.0				–288.1	–292.1		–292.1
Acquisition of non-controlling interests			–0.3					–0.3	–0.6	–0.9
Foundation of Group companies								0.0	0.4	0.4
Changes in investments in Group companies			–0.1					–0.1	2.2	2.1
Equity at 31.12.2010	**132.0**	**35.0**	**3,144.3**	**–190.5**	**126.2**	**4.0**	**–372.4**	**2,878.6**	**26.1**	**2,904.7**

Consolidated Financial Statements of the BKW Group
Consolidated Cash Flow Statement

CHF millions	Note	2010	2009
Profit before income taxes		283.2	385.1
Adjustment for:			
› Depreciation, amortisation and impairment	10	140.9	144.7
› Income from equity-valued companies	16	0.2	–1.7
› Financial result	11	56.3	–26.5
› Gains/losses from sale of non-current assets		–0.1	–1.5
› Change in long-term provisions (excl. interest)		–54.9	–17.7
› Change in assigned rights of use		–8.3	–8.7
› Other non-cash positions		–6.5	–26.9
Other financial items paid		–1.7	–2.8
Change in net current assets (excl. financial assets/liabilities)		–43.8	178.3
Income taxes paid		–90.5	–19.6
Cash flow from operating activities		**274.8**	**602.7**
Purchase of property, plant and equipment	15	–317.7	–289.7
Proceeds from sale of property, plant and equipment		7.3	8.5
Acquisition of non-controlling shares		–0.6	–0.9
Acquisition of Group companies	5	–62.8	–10.0
Disposal of Group companies		0.1	0.0
Investments in equity-valued companies	16	–220.9	–247.1
Disposals of equity-valued companies		14.9	0.1
Investments in current and non-current financial assets		–117.8	–163.1
Disposals of current and non-current financial assets		352.6	84.0
Purchase of intangible assets	18	–54.7	–36.3
Disposals of intangible assets	18	24.4	5.1
Interest received		11.3	23.8
Dividends received		23.5	29.5
Cash flow from investing activities		**–340.4**	**–596.1**
Purchase/sale of treasury shares	22	–298.9	5.2
Foundation of Group companies (non-controlling interest)		0.4	0.0
Increase in long-term financial liabilities		477.4	343.7
Increase in other long-term liabilities		32.3	21.9
Decrease in other long-term liabilities		–2.3	–2.9
Increase in short-term financial liabilities		1.6	0.0
Decrease in short-term financial liabilities		0.0	–0.6
Interest paid		–20.2	–7.2
Dividends paid		–131.3	–120.4
Cash flow from financing activities		**59.0**	**239.7**
Translation adjustments on cash and cash equivalents		–20.5	–2.5
Net change in cash and cash equivalents		**–27.1**	**243.8**
Cash and cash equivalents at start of reporting period		**459.8**	**216.0**
Cash and cash equivalents at end of reporting period	31	**432.7**	**459.8**

Consolidated Financial Statements of the BKW Group

Notes to the Financial Statements

1 Description of business

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

2 Accounting principles

2.1 General principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They provide a true and fair view of the financial position, the results of operations and the cash flows of BKW. The financial statements also comply with Swiss company law. The closing date for the Group financial statements and those of its fully consolidated companies is 31 December. The statements are presented in Swiss francs (CHF).

The consolidated financial statements were prepared on the basis of historical acquisition costs. Exceptions are described in the Note on "Principles of accounting and valuation".

2.2 Adoption of new standards and interpretations

All standards and interpretations in force on the balance sheet date were applied in preparing the consolidated financial statements.

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

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

In addition the Conceptual Framework for Financial Reporting 2010 was published in September 2010, for immediate adoption.

Of the aforementioned new or revised standards, the following changes affected the financial position, results of operations and cash flows of BKW and resulted in changes in the principles of accounting and valuation as well as disclosures:

- IFRS 3 Business Combinations governs the method of accounting for and measuring business combinations. The main changes relate to the recognition of transaction costs and the treatment of contingent considerations. Future contingent considerations are now always integrated in the acquisition price on the acquisition date and recognised as liabilities. The liability is regularly measured after the acquisition date, and adjustments are recognised in profit or loss. Furthermore, transaction costs no longer form part of the acquisition price but are expensed as incurred. In the case of step acquisition, prior to control the existing equity interest to be recognised in the income statement is remeasured. The new regulations apply to business combinations occurring in the reporting year. However, the existing IFRS provisions are applied to agreements on business combinations which were in place prior to 1 January 2010. In addition, IFRS allows an accounting policy choice to measure non-controlling interests either at fair value or based on the proportionate share of net assets of the acquired company.
- IAS 27 Consolidated and Separate Financial Statements governs the preparation and presentation of consolidated financial statements. All effects of transactions with non-controlling interests must be recorded directly in equity provided there have been no changes in control. Other changes relate to accounting for loss of control of Group companies.

2.3 New standards and interpretations published but not yet applied

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

- Amendment to IAS 32 – Classification Rights Issues (1 February 2010)
- Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters (1 July 2010)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instrument (1 July 2010)
- IAS 24 Related Party Disclosures (1 January 2011)
- Improvements to International Financial Reporting Standards (1 January 2011)
- Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement (1 January 2011)
- Amendments to IFRS 7: Disclosures – Transfers of Financial Assets (1 July 2011)
- Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets (1 July 2011)
- Amendment to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (1 July 2011)
- IFRS 9 Financial Instruments (1 January 2013)

BKW is currently examining the possible effects of applying these new or changed standards and interpretations. As things stand at present and with the exception of the following standard, these changes are not expected to have any significant impact on the financial position, results of operations and cash flows of BKW published for the year ended 31 December 2010.

IFRS 9 Financial Instruments is part of the project to develop a successor standard to IAS 39 and must be adopted for financial years beginning on or after 1 January 2013. The changes already published in 2009 concern the classification and measurement of financial assets. The four measurement categories for financial assets have been reduced to two categories: amortised cost and fair value. The changes published in 2010 concern the classification and measurement of financial liabilities. The existing provisions of IAS 39 governing financial liabilities were taken over. The changes concern only the measurement of financial liabilities if the fair value option is exercised. BKW will examine its reporting principles with a view to the introduction of this new standard.

3 Consolidation principles

3.1 Consolidation method

The financial statements are based on the closing statements of the individual Group companies drawn up according to Group-wide principles of valuation and presentation. Group companies are included in the consolidated financial statements in their entirety. Assets and liabilities as well as expenditure and income are included in their entirety. Non-controlling interests in shareholders' equity and in net income of the relevant Group companies are disclosed separately in the balance sheet and income statement. Intercompany income and expenditure as well as intercompany assets and liabilities are eliminated on consolidation. Profits from intercompany transactions and balances not yet realised from sales to third parties are eliminated.

3.2 Investments in associates and joint ventures

Investments in companies in which BKW is able to exercise significant influence but not overall control (generally ownership between 20% and 50%) are classified as associates and accounted for using the equity method.

Companies which are jointly managed on the basis of contractual agreements between the shareholders (usually partner plants) are treated as joint ventures. Joint ventures are included in the consolidation using the equity method, irrespective of the size of the holding.

BKW's share of assets and liabilities as well as expenses and income of associates and joint ventures is disclosed in Note 16. The closing date for some partner plants differs from that of BKW since these companies close their accounts on 30 September in line with the hydrological year.

3.3 Acquisition and sale of Group companies

Companies acquired by BKW during the year are consolidated as from the effective date of acquisition. Net assets acquired (including intangible assets) are measured at fair value and integrated using the purchase method. Differences between the higher purchase price and the fair value of net assets are classified as goodwill from acquisitions. Goodwill in respect of acquisitions is subjected to annual impairment tests or ad hoc testing whenever impairment is indicated. Any negative difference is immediately recognised in income.

Companies disposed of during the year are excluded after the date of sale. Differences between the selling price and the net assets disposed of are recorded in income on the effective date. Goodwill recorded in the balance sheet as well as accumulated foreign currency translation differences and value fluctuations for financial instruments charged to the statement of comprehensive income are derecognised in income as a component of the gain or loss on sale.

3.4 Foreign currency translations

The reporting currency is Swiss francs (CHF). BKW records transaction in foreign currencies at the prevailing exchange rates on the transaction date. Exchange rate gains and losses arising from such transactions as well as the translation of foreign currency balances on the balance sheet date are charged to the financial result. Foreign-currency financial statements of Group companies outside Switzerland are converted to Swiss francs according to the following principles:

- Balance sheet, at the prevailing exchange rate on 31 December;
- Income statement, at average exchange rates for the reporting year;
- Cash flow, at average exchange rates for the reporting year.

Goodwill and adjustments made to the carrying amounts of identified net assets in the course of the purchase price apportionment are carried in the foreign currency and converted to the reporting currency on the balance sheet date without affecting income.

Differences arising from the translation of the financial statements of Group companies, associates and joint ventures quoted in foreign currencies, are accounted for in the statement of comprehensive income.

4 Principles of accounting and valuation

4.1 Presentation of sales

Sales of energy in the sales business are considered as realised and are recorded as sales when delivery is complete.

Energy trading revenue is presented according to the underlying transaction motive. Energy transactions are conducted either for the purpose of actively managing the power plant base or for physical coverage of energy supply or purchase contracts, and the gross revenue from these transactions is recorded as sales ("Electricity Trading" or "Gas Business") at the time of delivery.

Other energy transactions are conducted with the sole intention of achieving a trading margin. These transactions come under the IAS 39 definition of financial instruments and are measured at the fair value on the closing date, with realised as well as unrealised gains and losses from these transactions recorded net under "Income from Energy Derivatives Trading". Income from energy trading transactions concluded to achieve a trading margin consists of two components: effective realised gains or losses from transactions in progress, and unrealised capital gains and losses from valuation of the fair value of open contracts.

4.2 Financial instruments (general)

Financial instruments constitute all contractual agreements that give rise to financial assets for BKW and financial liabilities for a counterparty, and vice versa. In accordance with IAS 39, financial assets and liabilities are categorised as follows:

- Financial assets or financial liabilities at fair value through profit or loss (financial instruments held for trading and derivatives);
- Held-to-maturity investments (non-derivative financial assets with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold to maturity);
- Loans and receivables;
- Financial assets held for sale (non-derivative financial assets that cannot be classified under any other category);
- Financial liabilities at amortised cost.

Financial assets are recorded and derecognised on the trade date. Financial assets and liabilities are subjected to a standard valuation procedure according to category. They are initially recognised at fair value. Transaction costs for financial instruments not categorised as "at fair value through profit or loss" are assigned to the acquisition or issuance of the financial instrument. For subsequent valuation, financial instruments categorised as "at fair value through profit or loss" are recorded in the balance sheet at fair value, and the related gains or losses are recorded in the income statement. Financial assets held for sale are also measured at fair value but the gains or losses are recorded in the statement of comprehensive income, unless they qualify as an impairment or the financial instrument is sold. In the event of impairment, disposal or other derecognition, the amount recorded in the statement of comprehensive income is transferred to the income statement. Held-to-maturity investments as well as loans granted by and receivables due to BKW are carried at amortised cost using the effective interest method less impairments.

Impairment is recognised if there are objective indications that the value of an asset is at risk. Assets carried at amortised costs are considered to be impaired if the carrying amount is higher than present value of estimated future cash flows. Assets held for sale are considered to be impaired if the fair value is lower than the acquisition value. Equity instruments are considered to be impaired only if the decline in value is significant or prolonged.

The fair value for a stock-exchange-quoted share for which the market is assumed to be active is determined based on the published market price. The fair value of other financial instruments is determined using the discounted cash flow method or other recognised measurement methods. Financial assets are derecognised when the rights are realised or have expired, or when BKW hands over control. Financial liabilities are derecognised only when they are discharged

As yet, BKW has not made use of the "Fair Value Option" described in IAS 39.

4.3 Derivatives

4.3.1 Energy derivatives

BKW trades in contracts in the form of forwards with fixed and flexible profiles, and futures for the underlying electricity, gas, oil, coal and certificates. Contracts concluded with the sole intention of achieving a trading margin are treated as financial instruments and designated as energy derivatives. Transactions open on the balance sheet date are measured at fair value. BKW receivables in respect of counterparties are recorded under assets as positive replacement values, while payables are recorded under liabilities as negative replacement values. Ongoing transactions with positive or negative replacement values are netted if the respective contract terms provide for this and settlement is legally enforceable and intended. Realised and unrealised gains and losses from energy derivatives are recorded as income from energy derivative trading. A table listing replacement values and contract volume, i.e. the basis or nominal value of the transactions, is provided in Note 28.

4.3.2 Hedge accounting

Derivative financial instruments can be used to hedge the exposure to changes in fair value of an asset or liability (fair value hedge) and to hedge the exposure to variability in cash flows (cash flow hedge). This is done in accordance with the existing guidelines governing BKW's hedging and credit risk policy. They are measured at fair value.

To qualify as a hedging transaction under IAS 39, strict criteria must be met in terms of documentation, the effectiveness of a hedging instrument and the probability of occurrence. On conclusion of a hedging transaction, the relationship between the hedging instrument and the hedged position as well as the purpose and strategy of risk hedging must be documented. The effectiveness of the hedging relationship is assessed and documented at the inception of the hedge and throughout its duration.

Changes in the value of financial instruments which are used to hedge the fair value of a balance sheet item and are highly effective (qualification as a fair value hedge) are recognised in profit or loss together with the respective change in fair value of the underlying asset or liability. The effective portion of the gain or loss on financial instruments that qualify as cash flow hedges is recognised in the statement of comprehensive income. The ineffective portion of the gain or loss is recognised in profit or loss.

Realised and unrealised changes in the value of financial instruments that serve economically and according to Group guidelines to hedge against exchange rate and interest rate risks related to ongoing business activities, but which do not qualify as hedging instruments, are charged to income as financial income/expenses.

4.4 Property, plant and equipment

Property, plant and equipment are recorded at acquisition or manufacturing cost less accumulated depreciation and impairment losses recognised. Depreciation is calculated using the straight-line method and systematically based on the useful lives of the objects. The useful lives and indications of impairment are annually reviewed. Impairments in respect of property, plant and equipment are determined according to the principles set forth in Note 4.13. Property, plant and equipment dependent on concessions, which are revertible without compensation, are written down at most over the expected term of the concession.

Present values of estimated decommissioning and disposal costs are charged to the balance sheet together with acquisition or manufacturing costs (see also Note 4.15). Fuel elements produced specifically for the nuclear power plant are disclosed in the balance sheet under property, plant and equipment and written down on the basis of wear and tear (burn-off).

For long-term investment projects the borrowing interest is charged to the balance sheet during the set-up phase. Land is valued at acquisition cost. Depreciation is recorded only in the event of impairment.

The costs of repairs and maintenance with no added value are charged to the income statement as incurred. They are carried as assets only if the costs extend the original useful life or give rise to other significant economic benefits (cost reduction, increase in earnings). Costs incurred due to legal requirements that generate no direct future benefit are capitalised only if and when this enables other assets to generate benefits.

Estimated useful lives of property, plant and equipment:

Buildings	50 years
Power plants	40 to 80 years
Transmission and distribution systems	20 to 50 years
IT systems	10 to 30 years
Operating facilities and vehicles	3 to 20 years
Fuel elements	After burn-off

4.5 Intangible assets

Intangible assets cover rights of use and contractual or legal rights acquired as a result of acquisitions, as well as software, goodwill and certificates.

Rights of use are contractually agreed amounts to compensate a contractual partner for the use of its operating installations as well as licences for the construction and operation of the Company's own installations. Rights of use and intangible assets obtained as a result of an acquisition are written down over the period of use, or at most the contract period, using the straight-line method.

Goodwill is not written down but assigned to the relevant cash-generating unit and subjected to annual impairment tests or ad hoc tests whenever impairment is indicated. For the treatment of certificates, see Note 4.6.

4.6 Emission rights

For emission rights held under national or international emissions allowance schemes for the purpose of compliance with carbon emission allowances, the net liability method is used. Assigned or purchased emission rights are recognised as intangible assets at the nominal value of the consideration. A provision is recognised as soon as the carbon output exceeds the emission allowances originally allocated and still held. A defined useful life is assumed for emission rights. However, there is no distortion of value as long as the certificates are held, hence they are not amortised on a systematic basis. The value of the certificates is realised when they are sold or returned to the authorities as compensation for emissions. Emission rights are tested for impairment if there are indications of impairment.

For transactions in emission rights conducted with the sole intention of achieving a trading margin, BKW applies the brokerage exemption defined by IAS 2, under which emission rights can be recognised at fair value through profit or loss, less costs to sell. Changes in value on the balance sheet date as well as realised purchases and sales are recorded in the income statement. Transactions in derivatives on emission rights which are conducted with the intention of achieving a trading margin are treated in the same way as energy trading derivatives (see Note 4.3.1).

Green certificates which certify the generation of electricity from renewable energies are treated in the same way as emission rights.

4.7 Financial assets

Financial assets cover holdings, securities, loans and term deposits. Also included under financial assets are receivables from state funds and pension surpluses which do not come under the scope of IAS 32, IAS 39 and IFRS 7.

Stock-exchange-listed securities which constitute part of a portfolio of financial instruments, jointly managed and regularly purchased and sold, are categorised as "assets at fair value through profit or loss" and recorded under current assets. Other holdings and securities are categorised as "held for sale" and assigned to non-current assets.

Term deposits and loans are valued at amortised cost.

Nuclear power plant operators are required by law to make annual payments to state funds (federal decommissioning and disposal funds). Future costs for disposal and decommissioning are paid to the operators by these state funds according to the statutory requirements. These payments are regarded as reimbursements under the terms of IFRIC 5 and are charged to income as receivables from state funds. The receivables are measured at the lower of the obligation (see Note 4.15) and the fair value of the proportional net assets of the fund. Changes in fund valuations are recorded in the financial result for the period in question.

The pension surplus is valued on the basis of IAS 19 (see Note 4.18).

4.8 Accounts receivable/payable, and prepaid/accrued expenses and deferred/accrued income

Accounts receivable are stated at nominal value minus any adjustment in value required due to assessments of individual receivables, non-performance of contractual receivables and debtor payment behaviour. Accounts receivable are derecognised only if there is sufficient indication that payment can no longer be expected. Trade accounts payable are not subject to interest and are recorded at nominal value. Prepaid/accrued expenses and deferred/accrued income cover the periodical adjustment of expenses and income and are also recorded at nominal value and broken down into financial and other accruals. Financial accruals consist of goods and services provided or purchased on a contractual basis but not billed by the balance sheet date.

4.9 Inventories

Inventories include materials held in stock for network construction and the electrical installation business. These are recorded at the lower of acquisition/manufacturing cost or net realisable value. The acquisition/manufacturing cost of raw and auxiliary materials is measured at the weighted moving average. Semi-finished and finished products include the directly assignable cost and share of overall construction costs. Impairments on materials held in stock are calculated based on a markdown for changes in market demand. Interest on borrowed capital is not capitalised. Inventories also include certificates which are purchased with the intention of achieving a trading margin. These certificates are measured at fair value (see Note 4.6).

4.10 Work in progress

Production contracts are valued according to the Percentage of Completion (POC) method. The stage of completion is determined on the basis of individual progress reports or cost estimates. Progress is expressed as the proportion that contract costs incurred for work performed to date bears to the estimated total contract costs. The associated income is recorded in the income statement as revenue. The income includes the original contract sum as well as variations in contract work, claims and incentive premiums, to the extent that it is probable they will result in revenue and can be reliably measured. Orders and order groups whose pro-rata income cannot be reliably estimated are capitalised at cost. Anticipated losses are immediately recorded in their entirety. After taking into account customer progress billings and advance payments, work in progress is stated under accounts receivable as net assets from production contracts or under other short-term liabilities as customer payments.

4.11 Cash and cash equivalents

Cash is stated at fair value and covers cash on hand, bank account balances and cash invested with financial institutes for a maximum period of three months. This definition of cash also applies to the cash flow statement.

4.12 Non-current assets or disposal groups held for sale and discontinued operations

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations. An operation is classified as discontinued from the date of disposal or from the date on which it meets the criteria for classification as held for sale. For this to be the case, the sale must be highly probable and the non-current asset or disposal group must be available for immediate sale. Non-current assets or disposal groups held for sale are presented separately under current assets and short-term liabilities. Non-current assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell, and impairment losses arising from initial recognition are presented in profit or loss. Assets and disposal groups held for sale are no longer written down. The assets and liabilities of a discontinued operation are regarded as disposal groups.

If discontinued operations are classified as held for sale or disposed of, a separate income statement must be prepared for discontinued operations. The components of continuing and discontinued operations are disclosed separately in the consolidated income statement for the full reporting period as well as for the corresponding prior period. Detailed disclosures of the individual income statement positions are provided in the Notes and contain the components of continuing and discontinued operations. The consolidated cash flow statement presents cash flows for the entire Group, including those from discontinued operations. Cash flows attributable to the operating, investing and financing activities of discontinued operations are disclosed separately in the Notes.

4.13 Impairment of property, plant and equipment and intangible assets

On each balance sheet date, assets are tested for impairment or reversal of impairment. If indications of impairment or reversal of impairment are identified, the recoverable amount of the asset is measured. The recoverable amount of assets with an indefinite useful life is measured irrespective of whether there is any indication of impairment. Assets whose carrying value exceeds the recoverable amount are value-adjusted. The recoverable value is the higher of the net selling price and value in use (present value of estimated future cash flows), and is separately measured for each asset or, if this is not possible, for the cash-generating unit to which the asset belongs. If the amount estimated for an impairment loss is greater than the carrying value of the asset, a liability is recognised only if the requirements for a provision or other obligation are met. An impairment loss recognised in previous years for an asset other than goodwill is reversed if no impairment or only a reduced impairment exists. Impairment losses for assets subject to depreciation are reversed to the value which would have been determined had the acquisition value been depreciated on a systematic basis. The reverse booking is also charged to income.

Energy produced by partner plants is billed to shareholders on the basis of existing agreements – irrespective of the current market prices – at actual cost. Overvaluation of partner companies' production plants is accounted for under onerous energy procurement contracts, due to the contractual obligation to pay energy production costs. Based on the obligation to pay actual costs, the recoverability of the holdings in partner plants measured at the proportional equity value is taken by shareholders as a given.

4.14 Assigned rights of use

Assigned rights of use consist of third-party payments for transit rights to transmission systems, plant usage rights and contributions to grid costs (connection contributions), and are recorded under other long-term liabilities at the nominal value of the cash inflow less reversals to income. They are recognised in profit and loss on a straight-line basis over the useful life of the facility or the life of the relevant assigned right, whichever is lower.

4.15 Provisions

Provisions cover all obligations on the balance sheet date arising from past transactions and events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the amount of which is not known but can be reliably measured. If an outflow of resources is no longer probable or determinable, a provision is charged to contingent liabilities. If the effect of the time value of the cash outflow is material, the amount of the provision is measured at the present value of the expected cash outflow.

As the operator of Mühleberg power plant, BKW is required by law to decommission the plant after the operating phase and to dispose of the nuclear waste. The resultant costs are periodically reviewed, and the present value of estimated decommissioning and disposal costs is provisioned and adjusted annually subject to interest. The same amount is carried together with the acquisition/manufacturing costs of the plant and written down over the useful life using the straight-line method. The costs incurred related to commissioning were recorded under assets and liabilities on the date on which the plant went into operation. In addition, the related decommissioning and disposal costs are capitalised annually over the operating period using the straight-line method, and written down over the average useful life of the fuel elements. The provision is calculated based on the following assumptions:

- Operating period of 50 years
- Average inflation rate of 3%
- Average interest rate of 5%.

4.16 Income taxes

Income taxes include current and deferred taxes based on profit. Deferred income taxes are determined based on local tax regulations. Deferred tax assets account for the income tax effects between internal and local tax evaluation guidelines for assets and liabilities according to the liability method, and are based on the actual tax rates or the tax rates expected to apply when this difference is adjusted.

Deferred tax liabilities are always recognised in the balance sheet. Deferred tax assets are recognised only if it appears probable that they will be of benefit on the basis of future anticipated gains.

Changes in deferred taxes are recorded in the income statement except when the origin of temporary differences is recognised as not affecting income. In this case, deferred taxes are recorded in the statement of comprehensive income.

4.17 Leasing

BKW has no finance leasing arrangements at present. Operating lease arrangements on the balance sheet date consist primarily of long-term rental contracts for operating properties and vehicle leasing agreements. Operating leases are not recorded in the balance sheet. The leasing payments are recorded in the current financial year as operating expenses.

4.18 Pension plan

BKW operates various pension plans in accordance with legal requirements. The majority of employees are covered by the Pensionskasse BKW, a legally autonomous defined benefit scheme compliant with the terms of IAS 19.

The costs and obligations arising from defined benefit schemes are determined on an actuarial basis using the projected unit credit method, which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Until this obligation or surplus is recalculated, current service costs are charged on the basis of selected parameters. A pension surplus is capitalised if overfunding of a pension plan generates an economic benefit in accordance with IAS 19. In this case the economic benefit from future reductions in contributions is measured in accordance with the guidelines in IFRIC 14. Annual service costs related to employment during the reporting period are charged to income. Actuarial gains and losses arising from periodic recalculations are charged to income on a straight-line basis over the average remaining period of service, provided they exceed the greater of 10% of plan assets and 10% of the defined benefit obligation.

Contributions payable towards defined contribution schemes are periodically recorded and recognised in the income statement.

4.19 Share-based payment

BKW employees have the opportunity to purchase BKW FMB Energy Ltd. share capital on preferential terms. Until further notice, full-time employees of BKW are offered a defined number of BKW registered shares every year at a fixed preferential price, subject to a blocking period. Allocation of shares to employees is not subject to any other conditions, hence there is no vesting period and the compensation is recorded on the grant date, with fair value measured on the basis of the share price. The difference between the fair value and the preferential price paid by employees is recorded under personnel expenses on the date on which the shares were granted. The issued shares are deducted from the number of treasury shares.

4.20 Segment reporting

Segments and segment results are defined on the basis of the management approach. Reportable segments under the terms of IFRS 8 are based on the internal organisational and reporting structure. BKW is organised into business divisions which have operational responsibility for results and manage a defined part of BKW's activities autonomously. Operating income (EBIT) is used by the senior decision-making body, the Executive Board, as a basis for resource allocation and performance measurement.

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 intercompany transactions (transfer prices) are based on the market price on the transaction date.

4.21 Measurement uncertainties

Preparation of the financial statements in accordance with the applicable accounting standards necessitates the use of estimates and assumptions that affect the reported amounts of assets, provisions, liabilities and contingent liabilities on the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on past findings and best possible assessment of future developments. Actual results may differ from these estimates. Estimates and assumptions are regularly reviewed, and changes are charged to income in the period in which they were identified.

4.21.1 Projects (construction in progress, investments in equity-valued companies)

BKW is investing in a wide range of projects to build new production and grid capacities and expand existing ones. These projects are at different stages of development. The earlier the development phase, the more difficult it is to determine whether a project will be realised. The feasibility of projects and their subsequent profit-generating operation are dependent on various factors such as the legal framework, the granting of licences and future market trends. Only when concrete, directly assignable project costs are incurred (i.e. from the planning/design phase) are they capitalised. As soon as the realisation of a project is regarded as no longer probable, they are written off against income. Consequently, the balance-sheet value of construction in progress and project companies in which BKW has an interest and which are measured using the equity method may deviate from the future recoverable amount.

4.21.2 Goodwill

Goodwill acquired as a result of a business combination is subjected to impairment tests on an annual basis or more frequently if events or a change in circumstances indicate the possibility of impairment. The recoverable amount estimated as a result of an impairment test is assigned to one or more cash-generating units.

The recoverable amount of a cash-generating unit is the higher of the fair value minus selling costs and value in use. In determining the value in use, various assumptions are made with regard to medium- and long-term developments, for example estimated payment streams or growth rates. The applicable discount rate is based on the average weighted capital costs of BKW, taking into account appropriate adjustments for the specific risk profile of the cash-generating unit.

4.21.3 Provisions

Measurement of the provision for nuclear waste disposal is essential for assessment of the balance sheet and income statement of BKW. The industry calculates shared, detailed costs for decommissioning and the disposal of nuclear waste. These cost calculations are reviewed by the Swiss federal government. The cost calculations were last updated in 2006. Since Mühleberg nuclear power plant was granted an open-ended operating licence in December 2009, BKW has applied an assumed operating period of 50 years for the facilities, in line with the industry's cost estimation parameters. The estimates of BKW are applied for plant-specific obligations. Cost calculations based on incorrect estimates as well as changes in legal provisions governing decommissioning and nuclear waste disposal can affect BKW's financial position, results of operations and cash flows.

4.21.4 Pension plan

The pension obligations arising from defined benefit pension plans are calculated based on actuarial assumptions which may not reflect reality and hence may have an impact on BKW's financial position, results of operations and cash flows.

4.21.5 Revenue recognition

Energy sales in the sales business are partly calculated and billed, particularly in the case of residential customers, only on a half-yearly basis at the end of March and end of September based on meter readings. Energy sales unbilled at the balance sheet date on 31 December are therefore accrued. The accrual is calculated based on a simulation which takes into account the historic consumption of customers as well as current product prices, where the total sum of volumes delivered can be estimated relatively accurately on the basis of known feed-in and feed-out volumes. The accrual calculated in this way may deviate from the actual values determined from meter readings and billing.

5 Business combinations

Business combinations in 2010

BKW Dubener Platte Wind GmbH

In the year under review, BKW Dubener Platte Wind GmbH of Wiesbaden, Germany, acquired the Dubener Platte wind farm in the German federal state of Brandenburg. The acquisition date was 17 November 2010. The wind farm has an installed capacity of 40 MW and produces around 85.5 GWh of electricity a year from a total of 20 turbines. While the transaction involved the purchase of assets and liabilities rather than the acquisition of a company, it is nevertheless subject to the provisions of IFRS 3 (Business Combinations) since the wind farm represents a business as defined by this standard.

The main determinant of the purchase price for the wind farm was the future average capacity of the wind turbines. If the capacity on which the purchase price is based is significantly higher, the purchase price could be increased by up to CHF 1.2 million. Based on the information available, however, BKW does not expect the estimated capacity to be exceeded, hence an adjustment to the purchase price is unlikely. In line with this assessment, the contingent consideration is therefore not charged to the balance sheet. The effective average capacity is calculated one year after the last wind turbine goes into operation.

The fair value of the receivables amounts to CHF 6.8 million, primarily in respect of sales tax credit from investments. The default risk for these receivables is estimated to be extremely low.

Dubener Platte wind farm was set up during the fourth quarter of 2010. No significant net revenues and results were generated by the wind farm up to 31 December 2010.

Other business combinations

Other business combinations cover the acquisition of various small companies and controlling interests. These transactions involve no contingent consideration obligations. The fair value of the receivables amounts to CHF 5.9 million and covers trade receivables for which the default risk is estimated to be extremely low; hence no adjustments were made to the value of these receivables. Had these companies and controlling interests already been acquired as at 1 January 2010, the net sales of BKW for 2010 would have been CHF 4.0 million higher and the profit for the year CHF 0.1 million lower.

The following table shows the allocation of the purchase price to assets and liabilities.

CHF millions	Dubener Platte	Other
Cash and cash equivalents	0.0	0.4
Other current assets	6.8	5.9
Property, plant and equipment	76.1	22.5
Intangible assets	0.0	0.0
Financial assets	0.0	0.4
Short-term liabilities	–6.9	–18.9
Long-term liabilities	–2.0	–3.6
› of which deferred taxes	0.0	–0.4
Net assets acquired	**74.0**	**6.7**
Goodwill	0.0	0.0
Purchase price	**74.0**	**6.7**
Deferred purchase price payments	–10.8	0.0
Offsetting against loan	0.0	–6.7
Minus cash and cash equivalents acquired	0.0	0.4
Cash outflow/inflow	**63.2**	**–0.4**

The amounts recognised in the consolidated financial statements for the assets acquired and liabilities assumed on the acquisition date correspond to the fair values.

Business combinations in 2009

No significant business combinations occurred in 2009.

6 Discontinued Operations

BKW intends to concentrate its future activities in Germany on electricity production and trading. BKW exited the sales business in Germany by disposing of BKW Energie GmbH (D) and BKW Balance GmbH (D) from its Energy International and Trading segment. The sale was contractually agreed in 2010 and the components of the companies were transferred on 1 January 2011.

Cash flow from discontinued activities is broken down as follows:

CHF millions	**2010**	2009
Cash flow from operating activities	– 12.7	9.0
Cash flow from investing activities	– 0.4	– 0.5
Cash flow from financing activities	– 2.3	– 0.2
Translation adjustments on cash and cash equivalents	– 1.1	– 0.3
Net change in cash and cash equivalents from discontinued operations	**– 16.5**	**8.0**
Cash and cash equivalents attributable to assets held for sale	0.0	16.5

The following table lists assets and liabilities held for sale, measured at the existing carrying amount:

CHF millions	**31.12.2010**
Non-current assets	1.4
Current assets	39.8
Total assets held for sale	**41.2**
› of which Cash and cash equivalents	0.0
Long-term liabilities	0.1
Short-term liabilities	29.2
Total liabilities held for sale	**29.3**

Accumulated gains and losses from foreign currency translation of CHF 2.3 million (2009: CHF – 1.5 million) are recorded in the statement of comprehensive income.

7 Segment reporting

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

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

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

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

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

2010 CHF millions	Energy Switzerland	Energy International and Trading	Networks	Other	Consolidation	**Total**	Discontinued operations	Continuing operations
Electricity sales Switzerland	754.9					754.9		754.9
Distribution grid usage fees	374.1		6.6			380.7		380.7
Electricity sales international		554.1				554.1	–355.2	198.9
Electricity trading		1,063.7				1,063.7		1,063.7
Income from energy derivatives trading		–1.0				–1.0		–1.0
Other energy business	15.2	115.0	48.9			179.1	–43.7	135.4
Gas business	3.2	26.4				29.6		29.6
Construction/engineering services and electrical installation business	2.8		112.4			115.2		115.2
Changes in work in progress	1.0		–0.9			0.1		0.1
Net sales to external customers	**1,151.2**	**1,758.2**	**167.0**	**0.0**	**0.0**	**3,076.4**	**–398.9**	**2,677.5**
Net sales to other segments	934.7	856.4	431.2	48.1	–2,270.4	0.0		0.0
Own work capitalised	4.1	0.4	37.5		4.7	46.7		46.7
Other operating income	66.2	8.7	21.9	117.5	–150.2	64.1	–0.2	63.9
Total operating revenue	**2,156.2**	**2,623.7**	**657.6**	**165.6**	**–2,415.9**	**3,187.2**	**–399.1**	**2,788.1**
Electricity procurement, third parties	–19.2	–1,390.8				–1,410.0	386.4	–1,023.6
Electricity procurement, partner plants and associates	–291.0	–28.9				–319.9		–319.9
Other expenses for electricity procurement	–15.3	–105.8	–60.5			–181.6	0.1	–181.5
Gas procurement	–5.2	–24.5				–29.7		–29.7
Energy procurement from third parties, partner plants and associates	**–330.7**	**–1,550.0**	**–60.5**	**0.0**	**0.0**	**–1,941.2**	**386.5**	**–1,554.7**
Energy procurement from other segments	–1,257.0	–907.2	–21.4		2,185.6	0.0		0.0
Operating expenses excluding energy procurement	–299.3	–106.8	–432.5	–156.4	229.6	–765.4	6.1	–759.3
Operating expenses	**–1,887.0**	**–2,564.0**	**–514.4**	**–156.4**	**2,415.2**	**–2,706.6**	**392.6**	**–2,314.0**
Operating profit before depreciation, amortisation and impairment	**269.2**	**59.7**	**143.2**	**9.2**	**–0.7**	**480.6**	**–6.5**	**474.1**
Depreciation, amortisation and impairment	–36.6	–8.8	–81.4	–14.2	0.1	–140.9	0.3	–140.6
Operating profit	**232.6**	**50.9**	**61.8**	**–5.0**	**–0.6**	**339.7**	**–6.2**	**333.5**
Financial result						–56.3		–56.3
Income from equity-valued companies						–0.2		–0.2
Profit before income taxes						**283.2**	**–6.2**	**277.0**
Additions property, plant and equipment, intangible assets and state funds	147.3	57.9	158.8	14.2	–1.1	377.1	–0.4	376.7
Additions equity-valued companies	11.3	212.3	0.1			223.7		223.7
Investments in equity-valued companies at 31.12.2010	475.4	646.8	5.7			1,127.9		1,127.9
Total assets at 31.12.2010	2,791.5	1,627.5	1,637.3	5,007.2	–4,493.9	6,569.6	–41.2	6,528.4

2009 CHF millions	Energy Switzerland	Energy International and Trading	Networks	Other	Consolidation	**Total**	Discontinued operations	Continuing operations
Electricity sales Switzerland	746.1					746.1		746.1
Distribution grid usage fees	356.9		10.1			367.0		367.0
Electricity sales international		591.1				591.1	–340.8	250.3
Electricity trading		1,456.9				1,456.9		1,456.9
Income from energy derivatives trading		24.5				24.5		24.5
Other energy business	12.3	91.4	57.8			161.5	–16.6	144.9
Gas business	2.9	32.7				35.6		35.6
Construction/engineering services and electrical installation business	0.6		109.2			109.8		109.8
Changes in work in progress	–1.4		–2.6			–4.0		–4.0
Net sales to external customers	**1,117.4**	**2,196.6**	**174.5**	**0.0**	**0.0**	**3,488.5**	**–357.4**	**3,131.1**
Net sales to other segments	882.2	887.5	418.6	46.9	–2,235.2	0.0		0.0
Own work capitalised	3.5	0.1	35.8	0.3	3.1	42.8		42.8
Other operating income	51.1	10.1	18.6	116.4	–134.9	61.3	–0.2	61.1
Total operating revenue	**2,054.2**	**3,094.3**	**647.5**	**163.6**	**–2,367.0**	**3,592.6**	**–357.6**	**3,235.0**
Electricity procurement, third parties	–48.1	–1,680.3				–1,728.4	353.1	–1,375.3
Electricity procurement, partner plants and associates	–305.7	–89.2				–394.9		–394.9
Other expenses for electricity procurement	–10.7	–103.9	–56.4			–171.0	0.2	–170.8
Gas procurement	–2.6	–32.2				–34.8		–34.8
Energy procurement from third parties, partner plants and associates	**–367.1**	**–1,905.6**	**–56.4**	**0.0**	**0.0**	**–2,329.1**	**353.3**	**–1,975.8**
Energy procurement from other segments	–1,260.5	–868.1	–20.4		2,149.0	0.0		0.0
Operating expenses excluding energy procurement	–340.0	–112.3	–396.7	–130.4	217.5	–761.9	5.0	–756.9
Operating expenses	**–1,967.6**	**–2,886.0**	**–473.5**	**–130.4**	**2,366.5**	**–3,091.0**	**358.3**	**–2,732.7**
Operating profit before depreciation, amortisation and impairment	**86.6**	**208.3**	**174.0**	**33.2**	**–0.5**	**501.6**	**0.7**	**502.3**
Depreciation, amortisation and impairment	–12.4	–48.9	–71.6	–11.9	0.1	–144.7	0.3	–144.4
Operating profit	**74.2**	**159.4**	**102.4**	**21.3**	**–0.4**	**356.9**	**1.0**	**357.9**
Financial result						26.5	–0.1	26.4
Income from equity-valued companies						1.7		1.7
Profit before income taxes						**385.1**	**0.9**	**386.0**
Additions property, plant and equipment, intangible assets and state funds	104.0	54.8	140.4	33.7	–0.5	332.4	–0.5	331.9
Additions equity-valued companies	4.3	242.8				247.1		247.1
Investments in equity-valued companies at 31.12.2009	469.2	566.3	5.2			1,040.7		1,040.7
Total assets at 31.12.2009	2,560.5	1,601.9	1,572.2	4,731.8	–3,947.4	6,519.0		6,519.0

Information by country

Net sales to external customers by country are broken down by the place of delivery for the respective product. Non-current assets cover property, plant and equipment, intangible assets and holdings in equity-valued companies in the respective countries.

	Switzerland		Germany		Italy		Other countries		**Total**	
CHF millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Net sales to external customers	1,493.8	1,550.5	958.7	1,098.0	501.6	712.6	122.3	127.4	3,076.4	3,488.5
Non-current assets	2,735.3	2,503.3	466.9	263.5	392.7	474.8			3,594.9	3,241.6

Information on significant customers

There are no transactions with individual external customers which generate revenue accounting for 10% or more of net sales.

8 Personnel expenses

CHF millions	**2010**	2009
Salaries and wages	288.5	276.9
Social security contributions and other personnel expenses	63.6	67.8
Change in pension surplus	–6.7	–28.6
Total	**345.4**	**316.1**

Number of employees on balance sheet date (full-time equivalent/FTE)	**31.12.2010**	31.12.2009
Employees	2,695	2,688
Apprentices/trainees	167	174
Total	**2,862**	**2,862**

9 Other operating expenses

CHF millions	2010	2009
Charges, levies and other taxes	70.5	69.9
Miscellaneous operating expenses	148.4	171.3
Total	**218.9**	**241.2**

10 Depreciation, amortisation and impairment

CHF millions	2010	2009
Property, plant and equipment	134.7	113.2
Intangible assets	6.2	31.5
Total	**140.9**	**144.7**

11 Financial result

CHF millions	2010	2009
Interest income	11.5	16.8
Dividends	5.3	5.7
Value adjustment on state funds	23.1	75.3
Gain on sale of financial assets	1.2	2.7
Gains from the disposal of investments in associates	7.4	0.0
Value adjustment on securities held for trading	12.4	10.5
Other financial income	1.2	0.2
Financial income	**62.1**	**111.2**
Interest expenses	– 21.7	– 13.0
Capitalised borrowing costs	1.1	1.3
Interest on provisions	– 56.4	– 59.2
Loss from sales of financial assets	– 1.8	– 1.7
Value adjustment on securities held for trading	– 8.4	– 1.4
Other financial expenses	– 4.2	– 8.3
Currency translations	– 27.0	– 2.4
Financial expenses	**– 118.4**	**– 84.7**
Total	**– 56.3**	**26.5**

12 Income taxes

CHF millions	**2010**	2009
Current income taxes	47.1	71.9
Deferred taxes	7.8	14.7
Total income taxes	**54.9**	**86.6**

Reconciliation with reported income taxes CHF millions	**2010**	2009
Profit before income taxes	283.2	385.1
Tax expenses at anticipated rate of 20.2% (2009: 20.0%)	57.2	77.0
Valuation adjustment on deferred tax assets	1.2	0.2
Influence of participation reduction and non-taxable income	0.9	0.8
Effect of using uncapitalised tax losses	–0.9	0.0
Influence of non-tax-deductible expenses	0.8	6.9
Uncapitalised or partially capitalised tax losses	3.4	2.9
Taxes in respect of previous years	–7.3	–0.6
Other items	–0.4	–0.6
Total income taxes	**54.9**	**86.6**
Effective tax rate	19.4%	22.5%

Changes in deferred tax assets/liabilities CHF millions	**2010**	2009
Deferred tax assets/liabilities at 01.01.	**525.6**	**511.9**
Changes in the scope of consolidation	0.3	0.2
Formation/release in the income statement	7.8	14.7
Value adjustment to financial instruments in the statement of comprehensive income	–1.9	–1.3
Change in the value of cash flow hedges in the statement of comprehensive income	1.1	0.0
Currency translations	–2.9	0.1
Deferred tax assets/liabilities at 31.12.	**530.0**	**525.6**

Deferred tax assets/liabilities by origin of temporary differences CHF millions	31.12.2010	31.12.2009
Non-current assets	261.8	266.3
Current assets	24.4	24.3
Provisions and other long-term liabilities	238.9	237.2
Short-term liabilities	9.5	3.7
Capitalised loss carry-forwards	–4.6	–5.9
Total deferred tax assets/liabilities	**530.0**	**525.6**
of which taxes disclosed in the balance sheet as:		
› Deferred tax liabilities	551.6	553.4
› Deferred tax assets	–21.6	–27.8
Net deferred tax liabilities	**530.0**	**525.6**

CHF 18.8 million of deferred tax assets is attributable to temporary differences in non-current assets (2009: CHF 21.3 million), and CHF 2.6 million to temporary differences in short-term liabilities (2009: CHF 4.3 million). The change in temporary differences resulted in a deferred tax expense of CHF 6.5 million (2009: CHF 17.2 million) recorded in the income statement.

The anticipated tax rate is determined annually as a weighted average (based on the pre-tax earnings of individual Group companies and the applicable local tax rate). In 2010 there was no significant year-on-year change in the anticipated tax rate.

At 31 December 2010 there were uncapitalised loss carry-forwards of CHF 14.0 million (2009: CHF 3.5 million). These were not capitalised since their charging against future taxable earnings is not regarded as probable within the permissible tax period. CHF 0.5 million of these loss carry-forwards falls due in 2012, CHF 3.6 million in 2014, CHF 0.7 million in 2015, CHF 0.5 million in 2016, and CHF 8.3 million in 2017; the remaining CHF 0.4 million remains valid indefinitely. The average applicable tax rate on tax loss carry-forwards will be 22.2%.

On the balance sheet date there were no temporary differences on investment interests with tax consequences, for which no deferred taxes were recognised since the reversal of the temporary difference can be controlled and is not probable in the foreseeable future.

13 Earnings per share

	2010	2009
Number of shares issued (at a par value of CHF 2.50)	52,800,000	52,800,000
Less treasury shares (weighted average)	–2,812,733	–775,037
Number of shares in circulation (weighted average)	**49,987,267**	**52,024,963**
Net profit attributable to BKW shareholders from continuing operations, in CHF millions	222.5	299.3
Earnings per share in CHF	4.45	5.75
Dividend per share in CHF	2.50	2.50

Undiluted earnings per share are calculated based on the weighted average share capital. There are no circumstances which lead to a dilution of earnings per share.

The dividend of CHF 2.50 per share for fiscal 2010 corresponds to the proposal by the Board of Directors to the General Shareholders' Meeting and must be approved by shareholders at this meeting. Based on the shares in circulation on the balance sheet date, the proposed dividend amounts to CHF 118.8 million.

14 Foreign currency exchange rates

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

	Closing date **31.12.2010**	Closing date 31.12.2009	Average **2010**	Average 2009
CHF/EUR	1.2472	1.4878	1.3854	1.5281

15 Property, plant and equipment

CHF millions	Power plants	Transmission and distribution plants	Buildings and land	Nuclear fuel	Other property, plant and equipment	Construction in progress	**Total**
Gross values at 31.12.2008	1,503.9	2,329.8	203.5	620.0	306.8	231.2	5,195.2
Changes in the scope of consolidation			–4.9		0.3	9.7	5.1
Additions	7.7	2.6	0.4	27.1	5.1	251.9	294.8
Disposals	–70.8	–8.4	–0.1	–79.1	–29.8		–188.2
Reclassifications	60.5	89.0	24.9		27.1	–201.5	0.0
Currency translations	–0.5		0.1			–0.8	–1.2
Gross values at 31.12.2009	**1,500.8**	**2,413.0**	**223.9**	**568.0**	**309.5**	**290.5**	**5,305.7**
Changes in the scope of consolidation	16.5		5.4			76.7	98.6
Additions	15.0	3.2	4.6	43.8	5.3	247.3	319.2
Disposals	–29.0	–13.1	–0.6		–25.8		–68.5
Reclassifications	165.5	127.3	15.8		24.4	–333.0	0.0
Reclassification to assets held for sale					–1.2		–1.2
Currency translations	–27.0	–0.2	–0.2		–0.8	–6.1	–34.3
Gross values at 31.12.2010	**1,641.8**	**2,530.2**	**248.9**	**611.8**	**311.4**	**275.4**	**5,619.5**
Accumulated depreciation and impairments at 31.12.2008	1,161.7	1,265.8	87.3	548.8	196.4	0.0	3,260.0
Changes in the scope of consolidation					0.1		0.1
Depreciation	33.1	56.7	4.9	18.1	21.7		134.5
Impairment	10.5					7.1	17.6
Disposals	–2.8	–6.3	–0.1	–53.4	–29.7		–92.3
Reversal of impairment	–20.0			–18.9			–38.9
Reclassifications	–0.7	0.5	0.2				0.0
Currency translations	–0.4						–0.4
Accumulated depreciation and impairments at 31.12.2009	**1,181.4**	**1,316.7**	**92.3**	**494.6**	**188.5**	**7.1**	**3,280.6**
Depreciation	19.9	62.2	5.3	18.1	26.6		132.1
Impairment		0.9				1.7	2.6
Disposals	–22.7	–12.7	–0.5		–25.6		–61.5
Reclassification to assets held for sale					–0.6		–0.6
Currency translations	–3.7				–0.4	–1.4	–5.5
Accumulated depreciation and impairments at 31.12.2010	**1,174.9**	**1,367.1**	**97.1**	**512.7**	**188.5**	**7.4**	**3,347.7**
Net values at 31.12.2009	**319.4**	**1,096.3**	**131.6**	**73.4**	**121.0**	**283.4**	**2,025.1**
Net values at 31.12.2010	**466.9**	**1,163.1**	**151.8**	**99.1**	**122.9**	**268.0**	**2,271.8**

The fire insurance values at 31 December 2010 amounted to CHF 3,947.3 million (2009: CHF 3,030.5 million). Borrowing costs for investments of CHF 1.1 million (2009: CHF 1.3 million) were capitalised using an average interest rate of 3.3%. In the year under review, compensation of CHF 0.5 million (2009: CHF 0.5 million) for property, plant and equipment which was impaired, lost or decommissioned was charged to the income statement. Increases of CHF 1.5 million (2009: CHF 5.1 million) do not affect cash. This relates to the non-cash increase of CHF 4.7 million in respect of the nuclear waste disposal obligation and an addition from prior-year investments in respect of power plant facilities affecting liquidity.

In 2009, due to the DETEC decision to grant Mühleberg nuclear power plant an open-ended operating licence which resulted in a change in the assumed operating periods for the facilities from 40 to 50 years, acquisition costs for the power plant facilities and nuclear fuels were reduced by CHF 63.2 million and CHF 25.8 million respectively (reversal of the provision for nuclear waste disposal not recognised in income). In addition, impairments of CHF 38.9 million on nuclear power plant facilities and nuclear fuels were reversed and charged to income. Due to the extended useful life and the lower acquisition costs, depreciation for 2010 fell year-on-year by around CHF 15 million.

16 Investments in equity-valued companies

CHF millions	Joint ventures	Associates	**Total**
At 31.12.2009	**385.3**	**655.4**	**1,040.7**
Additions	3.8	219.9	223.7
Changes in the consolidation method	–0.1		–0.1
Disposals	–4.7	–5.0	–9.7
Dividends	–13.1	–5.0	–18.1
Prorata income	13.9	–10.3	3.6
Impairment		–3.8	–3.8
Currency translations	–0.8	–107.6	–108.4
At 31.12.2010	**384.3**	**743.6**	**1,127.9**

Investments in associates include capital investments in shares in power plants under construction: CHF 193 million related to the 33% holding in GDF SUEZ Kraftwerk Wilhelmshaven GmbH & Co. KG in Germany, and CHF 16 million to the 33% holding in Fortore Wind S.r.l. in Italy.

Due to indications of impairment, individual investments in equity-valued companies were tested for impairment. The carrying amount was found to exceed the recoverable amount. The recoverable amount of the holdings corresponds to their value in use. The value of holdings in these equity-valued companies was reduced by CHF 3.8 million to the recoverable amount of CHF 5.6 million. The impairments were charged to income from equity-valued companies and concerned the Energy Switzerland segment.

Financial values of joint ventures CHF millions	Gross values **31.12.2010**	Gross values 31.12.2009	Share **31.12.2010**	Share 31.12.2009
Non-current assets	8,928.1	8,818.1	1,575.5	1,554.1
Current assets	747.9	628.8	129.8	127.6
Long-term liabilities	6,629.4	6,272.9	1,082.3	1,076.5
Short-term liabilities	1,079.7	1,210.3	238.7	219.9
Shareholders' equity	1,966.9	1,963.7	384.3	385.3
Income	1,777.6	1,939.9	369.7	395.4
Expenses	1,709.9	1,814.9	355.8	378.3
Profit	67.7	125.0	13.9	17.1

Joint ventures primarily consist of partner plants. Due to existing partner contracts, shareholders in partner plants are obliged to pay the annual costs due on their share (including interest and repayment of borrowed funds).

Financial values of associates CHF millions	Gross values **31.12.2010**	Gross values 31.12.2009	Share **31.12.2010**	Share 31.12.2009
Non-current assets	2,724.4	2,526.5	860.3	787.1
Current assets	866.5	848.3	189.8	190.6
Long-term liabilities	532.1	543.9	167.3	178.6
Short-term liabilities	698.9	727.4	139.2	143.7
Shareholders' equity	2,359.9	2,103.5	743.6	655.4
Income	1,520.2	1,953.6	294.2	385.6
Expenses	1,561.7	1,993.6	308.3	401.0
Loss	–41.5	–40.0	–14.1	–15.4

17 Financial assets

CHF millions	Available-for-sale financial assets	Securities held for trading	Loans	Term deposits	Receivables from state funds	Pension surplus	**Total**
At 31.12.2008	289.6	200.8	33.4	617.8	503.2	70.1	1,714.9
Additions	0.6	96.7	62.6	655.1	0.8		815.8
Disposals		–41.8	–11.4	–685.0			–738.2
Currency translations			–0.7				–0.7
Value adjustment in the income statement		8.4			75.3	28.6	112.3
Value adjustment in the statement of comprehensive income	–5.1						–5.1
Impairment			–5.0				–5.0
At 31.12.2009	**285.1**	**264.1**	**78.9**	**587.9**	**579.3**	**98.7**	**1,894.0**
Changes in the scope of consolidation			–0.1				–0.1
Additions	18.7	45.8	42.5	455.9	0.8		563.7
Disposals		–144.8	–23.5	–650.0		–0.3	–818.6
Currency translations	–1.0		–6.9	–0.1			–8.0
Value adjustment in the income statement		–0.5			23.1	6.7	29.3
Value adjustment in the statement of comprehensive income	–4.6						–4.6
At 31.12.2010	**298.2**	**164.6**	**90.9**	**393.7**	**603.2**	**105.1**	**1,655.7**
of which:							
› Current financial assets		164.6	0.1	393.6			558.3
› Non-current financial assets	298.2		90.8	0.1	603.2	105.1	1,097.4
of which:							
› Financial assets according to IFRS 7	298.2	164.6	90.9	393.7			947.4
› Other assets					603.2	105.1	708.3

The weighted average residual term to maturity of short-term investments is 5.1 months (2009: 4.7 months), and the weighted average interest rate is 0.4% (2009: 0.5%).

Financial assets held for sale, securities held for trading, and shares in the state funds, are recorded at fair value. Since the state funds are managed by the federal government, BKW has no access to the managed assets. If the share of net assets of the state funds exceeds the cash value of the estimated decommissioning costs and nuclear waste disposal costs for Mühleberg nuclear power plant, BKW is entitled to a refund corresponding to the surplus capital.

Disposals of CHF 20.1 million under loans do not affect cash. This concerns the charging of a loan to the purchase price of an acquisition and the conversion of a loan to share capital of an equity-valued company.

18 Intangible assets

CHF millions	Rights of use	Goodwill	Certificates	Other	**Total**
Gross values at 31.12.2008	121.2	178.5	0.0	15.1	314.8
Changes in the scope of consolidation	0.4			1.0	1.4
Additions from acquisitions	4.9	0.5	28.2	3.2	36.8
Disposals			−5.0	−3.8	−8.8
Currency translations	−0.1	−0.1			−0.2
Gross values at 31.12.2009	**126.4**	**178.9**	**23.2**	**15.5**	**344.0**
Changes in the scope of consolidation	−8.7				−8.7
Additions from acquisitions	1.7		45.8	6.0	53.5
Additions from internally generated intangible assets				1.2	1.2
Disposals			−25.1		−25.1
Reclassification to assets held for sale	−0.1			−0.9	−1.0
Currency translations	−3.8	−1.4	−0.8	−0.3	−6.3
Gross values at 31.12.2010	**115.5**	**177.5**	**43.1**	**21.5**	**357.6**
Accumulated amortisation and impairments at 31.12.2008	42.7	92.4	0.0	5.9	141.0
Depreciation	2.1			3.0	5.1
Impairment	23.5		2.9		26.4
Disposals				−3.7	−3.7
Currency translations	−0.6				−0.6
Accumulated amortisation and impairments at 31.12.2009	**67.7**	**92.4**	**2.9**	**5.2**	**168.2**
Changes in the scope of consolidation	−5.6				−5.6
Depreciation	2.0			4.2	6.2
Disposals			−0.7		−0.7
Reclassification to assets held for sale				−0.3	−0.3
Currency translations	−3.8			−0.2	−4.0
Accumulated amortisation and impairments at 31.12.2010	**60.3**	**92.4**	**2.2**	**8.9**	**163.8**
Net values at 31.12.2009	**58.7**	**86.5**	**20.3**	**10.3**	**175.8**
Net values at 31.12.2010	**55.2**	**85.1**	**40.9**	**12.6**	**193.8**

Due to the internal organisational and reporting structure according to business divisions with responsibility for operating results, goodwill is tested for impairment at the segment level. For the purpose of assessing goodwill disclosed on the balance sheet, segments are therefore defined as the relevant cash-generating units.

On the balance sheet date, goodwill was distributed among the following cash-generating units:

CHF millions	**31.12.2010**	31.12.2009
Energy Switzerland	77.6	77.6
Energy International and Trading	7.4	8.8
Other	0.1	0.1
Total	**85.1**	**86.5**

The change in the goodwill of the Energy International and Trading cash-generating unit is attributable to fluctuations in the exchange rate for the euro.

In the year under review, goodwill disclosed on the balance sheet was tested for impairment by comparing the carrying amount of the cash-generating units with their recoverable amount (corresponding to the value in use). The calculations were made on the basis of estimated cash flows from business projections approved by management over a period of four years. Cash flows beyond this period were extrapolated using an estimated growth rate. The impairment test on goodwill disclosed on the balance sheet did not identify any need for impairment.

The value in use is measured on the basis of the following material assumptions:

%	WACC (before tax)		WACC (after tax)		Long-term growth rate	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Energy Switzerland	7.4	7.6	5.9	6.0	1.0	1.0
Energy International and Trading	8.6	8.8	6.7	6.8	1.0	1.0

Based on the findings of a sensitivity analysis, realistic changes in the material assumptions do not suggest that the recoverable amount could fall below the carrying amount.

19 Inventories

CHF millions	**31.12.2010**	31.12.2009
Goods and materials	16.3	17.7
Valuation adjustment on goods and materials	–2.9	–2.9
Certificates	7.2	5.9
Total	**20.6**	**20.7**

20 Accounts receivable

CHF millions	**31.12.2010**	31.12.2009
Trade accounts receivable	394.0	483.2
Other financial receivables	48.1	56.5
Other receivables	42.3	29.1
Prepayments	64.2	0.3
Work in progress	11.3	9.8
Total	**559.9**	**578.9**

Work in progress includes advance payments of CHF 16.9 million (2009: CHF 14.1 million) recorded on the balance sheet date, as well as pro-rata profits of CHF 1.4 million (2009: CHF 1.0 million).

The following table shows the age of trade accounts receivable which are overdue but not impaired:

CHF millions	**31.12.2010**	31.12.2009
Trade accounts receivable	394.0	483.2
of which		
› not past due	301.9	413.2
› 1 – 30 days past due	17.6	15.5
› 31 – 90 days past due	62.5	48.3
› 91 – 180 days past due	4.4	3.7
› 181 – 360 days past due	6.8	1.3
› Over 360 days past due	0.8	1.2

On the balance sheet there were no indicators that parties owing trade accounts receivable as well as other financial assets would be unable to meet their payment obligations.

The value adjustments for trade accounts receivable and other financial receivables are as follows:

CHF millions	Trade receivables	Other financial receivables
Provisions for impairment at 31.12.2008	5.2	1.6
Net charge for the year	2.9	
Derecognition of uncollectable receivables	– 1.6	
Provisions for impairment at 31.12.2009	**6.5**	**1.6**
Net charge for the year	0.9	1.9
Derecognition of uncollectable receivables	– 0.1	
Currency translations	– 0.3	
Provisions for impairment at 31.12.2010	**7.0**	**3.5**

There are value adjustments for other financial assets, with the exception of the long-term loan (see Note 17). The other balance sheet items contain no material overdue but unimpaired financial assets.

21 Accrued/deferred income and prepaid/accrued expenses

CHF millions	**31.12.2010**	31.12.2009
Financial accruals	155.2	130.3
Other accruals	14.0	36.1
Total prepaid expenses and accrued income	**169.2**	**166.4**
Financial accruals	96.2	126.7
Other accruals	30.6	33.4
Total deferred income and accrued expenses	**126.8**	**160.1**

22 Share capital and reserves

Significant shareholders and their direct holdings	**31.12.2010**	31.12.2009
Canton of Berne	52.54%	52.54%
E.ON Energie AG	7.03%	20.99%
Groupe E Ltd.	10.00%	4.99%

Treasury share transactions	Number	Carrying amount CHF millions	Cash-relevant proportion CHF millions
31.12.2008	855,581	96.4	
Purchases	4,750	0.4	0.4
Sales/allotments	–116,574	–12.5	–5.6
31.12.2009	**743,757**	**84.3**	
Purchases	4,732,188	308.0	308.0
Sales/allotments	–199,253	–19.9	–9.1
31.12.2010	**5,276,692**	**372.4**	

Share capital

The fully paid up and issued share capital consists of 52,800,000 registered shares at a par value of CHF 2.50 each.

Capital reserves

Capital reserves include the premium paid on issuance of the shares.

Retained earnings

Retained earnings consist of legal and statutory reserves (excluding capital reserves), retained earnings from previous years, and gains/losses on the sale of treasury shares.

Currency translations

Reserves for currency translations cover currency differences arising from the conversion of foreign Group companies' financial statements.

Revaluation reserve

The revaluation reserve includes fair value adjustments for assets held for sale until their realisation or their classification as an impairment.

Treasury shares

BKW shares held by BKW Energy Ltd. or Group companies are deducted from equity at acquisition cost. On 31 December 2010, 17,980 BKW shares (2009: 17,980) were held by Group companies and 3,600 (2009: 3,600) by equity-valued companies.

Capital management

BKW pursues a strategy aimed at the sustainable increase and retention of corporate value. The aim of BKW capital management is to ensure the Group's long-term capital market standing and financing capability by maintaining a balance sheet structure that is compatible with the defined target rating, and to keep the potential impact of fluctuations in the value of the entire financial and risk portfolio within narrow boundaries. BKW is committed to a consistent dividend payout based on a ratio of 40 – 50% of net profit. BKW's financial resources primarily serve the core business and provide the requisite scope for action in accordance with the requirements of the Group strategy.

On the balance sheet date the equity ratio was 44.2%, corresponding to a reduction of 5.6% versus the previous year. This reduction is primarily attributable to the repurchase of treasury shares (see Note 29) and currency translation losses recognised in the statement of comprehensive income. There were no changes in capital management in 2010.

23 Provisions

CHF millions	Nuclear waste disposal	Onerous contracts, energy procurement	Onerous contracts, energy sales	Restructuring	Other provisions	**Total**
At 31.12.2008	1,149.4	28.9	1.9	1.3	32.1	1,213.6
Provisions made	5.2		0.8	3.7	19.8	29.5
Interest	57.5	1.7				59.2
Provisions used	–13.3	–1.7	–0.2	–0.3	–2.2	–17.7
Provisions released	–89.0		–1.5	–0.4	–4.4	–95.3
Currency translations					–0.4	–0.4
At 31.12.2009	**1,109.8**	**28.9**	**1.0**	**4.3**	**44.9**	**1,188.9**
Changes in the scope of consolidation					2.0	2.0
Provisions made	4.7		1.3	1.8	26.2	34.0
Interest	55.5	0.9				56.4
Provisions used	–24.5	–0.9		–0.5	–16.0	–41.9
Provisions released		–28.9		–2.3	–2.7	–33.9
Reclassification to liabilities held for sale					–0.1	–0.1
Currency translations					–2.3	–2.3
At 31.12.2010	**1,145.5**	**0.0**	**2.3**	**3.3**	**52.0**	**1,203.1**
of which:						
› Short-term provisions	33.1		1.6	0.9	20.2	55.8
› Long-term provisions	1,112.4		0.7	2.4	31.8	1,147.3

On 31 December 2010 the provision of CHF 1,145.5 million for nuclear waste disposal comprised the following:

- CHF 529.6 million is set aside for decommissioning of the nuclear power plant. This covers the costs of the post-operational phase after shutdown, as well as the costs of dismantling the plant and rehabilitation of the surrounding area. Payments are anticipated from the end of commercial operation (provisionally the end of 2022) until completion of the decommissioning work (after approximately 12 years). The costs for disposal of decommissioning waste are due on an ongoing basis until the final storage depot for weak to medium-active nuclear waste is sealed off (scheduled for 2101).
- An additional CHF 540.5 million is set aside for disposal, outside the plant compound, of spent fuel elements and radioactive waste. These payments are due on an ongoing basis until the final storage depot for highly active nuclear waste is sealed off. This is currently scheduled for 2115.
- CHF 75.4 million is set aside for plant-specific costs. These cover the costs of waste disposal within the power plant and are payable on an ongoing basis until a few years after commercial operations cease.

In December 2009, following a ruling by the Federal Court, DETEC upheld BKW's application to abolish the time limit for Mühleberg nuclear power plant. The provision for nuclear waste disposal was accordingly reviewed on 31 December 2009 and revised in accordance with the industry-wide cost estimate, updated in 2006, which in particular is based on an assumed operating period of 50 years (previously 40 years). While the longer operating period entails more nuclear waste and hence higher disposal costs, it will also among other things reduce decommissioning costs, since future payments are measured at present value. In total, CHF 89.0 million was released from the provision in 2009. In accordance with IFRIC 1, the reversal of the provision was booked against the acquisition cost of the nuclear power plant facilities and nuclear fuels (see Note 15) without affecting income. Due to the change in operating period from 40 to 50 years, impairments of CHF 38.9 million in respect of the nuclear power plant facilities and fuels were re-assessed and the reversal was booked to income.

BKW is required to make regular payments to the state funds for decommissioning and nuclear waste disposal. These funds pay the costs of decommissioning and disposal on behalf of operators following shutdown of the plants. The state fund receivables are disclosed under non-current financial assets (see Note 17).

The provision for onerous energy procurement contracts covers the cash outflows in excess of selling prices for energy purchases from partner plants. This provision was fully reversed in 2010.

The provision for onerous energy sales contracts covers future below-market cash inflows from energy sales contracts. The contracts have a term of up to two years.

The provision for restructuring covers future expenses for defined or legally required restructuring measures. The payments are spread over the next seven years.

Other provisions include obligations related to personnel as well as other operating obligations. The provision of CHF 15.5 million recognised in the year under review concerns statutory obligations in respect of ancillary services. The provision of CHF 14.9 million recognised in 2009 for an obligation related to the construction of power plants in Italy, which constitutes an onerous contract for BKW due to the negative economic trend, was used in 2010. Cash outflows in respect of other provisions are largely anticipated over the next two years.

Interest on provisions calculated at present value is charged via financial expenses.

24 Financial liabilities

CHF millions	31.12.2010	31.12.2009
3% debenture bond 2007–2022 (nom. CHF 200 mill.)	195.9	195.6
3.375% debenture bond 2009–2019 (nom. CHF 350 mill.)	346.8	343.9
1.875% debenture bond 2010–2018 (nom. CHF 150 mill.)	147.7	0.0
2.5% debenture bond 2010–2030 (nom. CHF 300 mill.)	290.4	0.0
Pension plans	30.0	30.0
Other financial liabilities	45.2	4.2
Total	**1,056.0**	**573.7**
of which:		
› Short-term financial liabilities	1.6	0.0
› Long-term financial liabilities	1,054.4	573.7

On the balance sheet date the weighted average interest rate for financial liabilities, based on the nominal value, amounted to 2.8% (2009: 3.25%).

On 15 October 2010, BKW issued a 1.875% bond for CHF 150 million with a term of eight years and a 2.5% bond for CHF 300 million with a term of 20 years. That portion of the bonds which qualifies as a hedged item in a fair value hedge is measured at fair value, while the remainder is measured using the effective interest rate method (see Note 28). The effective interest rate of 3.4% (2009: 3.3%) led to interest expenses of CHF 21 million in the year under review (2009: CHF 11.4 million).

25 Other long-term liabilities

CHF millions	31.12.2010	31.12.2009
Assigned rights of use	191.4	167.4
Other long-term financial liabilities	7.5	10.4
Other long-term liabilities	0.7	0.9
Total	**199.6**	**178.7**

26 Other short-term liabilities

CHF millions	**31.12.2010**	31.12.2009
Trade accounts payable	283.2	321.2
Other financial liabilities	35.7	32.3
Other liabilities	92.4	59.2
Pension plans	1.5	0.7
Customer prepayments	5.9	11.8
Total	**418.7**	**425.2**

Customer prepayments concern work in progress and include order costs of CHF 23.4 million (2009: CHF 27.6 million) on the balance sheet date, as well as pro-rata in net income of CHF 1.0 million (2009: CHF 1.2 million).

27 Pension plan

Pension plan expenses CHF millions	**2010**	2009
Current service cost (employer)	31.5	27.1
Interest expenses	40.2	39.3
Expected return on plan assets	–51.0	–46.1
Actuarial gains/losses according to § 58A	0.0	0.5
Past service cost (employer)	0.0	–23.7
Pension plan expenses	**20.7**	**–2.9**

Plan assets CHF millions	**2010**	2009
Fair value of plan assets at 01.01.	**1,280.7**	**1,158.7**
Expected return on plan assets	51.0	46.1
Employer contributions	27.4	25.4
Employee contributions	13.6	13.3
Contributions paid/benefits paid out	–49.4	–48.7
Actuarial gains/losses	–7.4	85.9
Fair value of plan assets at 31.12.	**1,315.9**	**1,280.7**

CHF millions	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Fair value of plan assets	1,315.9	1,280.7	1,158.7	1,328.1	1,307.8
Present value of pension plan obligations	–1,390.2	–1,278.9	–1,214.7	–1,191.4	–1,161.5
Surplus/shortfall	**–74.3**	**1.8**	**–56.0**	**136.7**	**146.3**
Experience adjustment to pension obligation	8.9	43.2	4.0	38.6	3.0
Experience adjustment to plan assets	–7.4	85.9	–246.3	–24.0	30.9

Amount recorded in the balance sheet at year-end CHF millions	31.12.2010	31.12.2009
Fair value of plan assets	1,315.9	1,280.7
Present value of funded pension plan obligation	–1,390.2	–1,278.9
Surplus/shortfall	–74.3	1.8
Unrecorded actuarial gains/losses	179.4	96.9
Amount recorded in the balance sheet at 31.12.	**105.1**	**98.7**

Present value of pension plan obligation CHF millions	2010	2009
Present value of pension plan obligation at 01.01.	**1,278.9**	**1,214.7**
Interest expenses	40.2	39.3
Current service cost (employer)	31.5	27.1
Contributions paid/benefits paid out	–49.4	–48.7
Employee contributions	13.6	13.3
Past service cost (employer)	0.0	–23.7
Actuarial gains/losses	75.4	56.9
Present value of pension plan obligation at 31.12.	**1,390.2**	**1,278.9**

Effective return on plan assets CHF millions	2010	2009
Expected return on plan assets	51.0	46.1
Actuarial gains/losses	–7.4	85.9
Effective return on plan assets	**43.6**	**132.0**

Breakdown of fair value of plan assets CHF millions	**31.12.2010**	31.12.2009
BKW investment instruments	3.2	3.7
Third-party investment instruments	506.9	458.5
BKW debt instruments	28.0	29.4
Third-party debt instruments	492.7	482.3
Real estate used by BKW	9.0	9.2
Other real estate	250.4	246.1
Other	25.7	51.5
Total	**1,315.9**	**1,280.7**

Actuarial assumptions	**2010**	2009
Discount rate	2.80%	3.15%
Expected rate of return on plan assets	4.00%	4.00%
Expected rate of future salary increases	2.00%	2.00%
Expected rate of future pension increases	0.50%	0.50%

Due to the investment strategy adopted by the pension funds and the anticipated rate of return on individual investment categories, the long-term return was measured over the average remaining period of service.

Estimated contributions for the next period CHF millions	**2010**	2009
Expected employer contributions	21.9	21.0
Expected employee contributions	13.6	13.1

28 Derivatives

The following table provides information on replacement values and contract volumes for derivative financial instruments open on the balance sheet date in respect of energy trading and exchange rate hedging (forward currency contracts). Options comprise contracts of an optional nature, of the type concluded in particular during the power plant project development phase. Derivatives that qualify as hedging instruments under IAS 39 and are treated according to hedge accounting provisions are disclosed separately.

Derivatives are recorded at fair value in the balance sheet, as positive replacement values (receivables) or negative replacement values (liabilities). Positive replacement values correspond to the costs which BKW would incur to replace all transactions that represent benefits for BKW if all counterparties were simultaneously unable to pay and the transactions could be immediately replaced. Negative replacement values correspond to the costs that counterparties would incur to replace all transactions that represent benefits for them if BKW were no longer able to meet its obligations. The contract volume corresponds to the basic value or contract volume of the underlying derivative financial instrument.

The replacement value for futures is zero, since price fluctuations are offset daily compared with the agreed closing prices. Forward energy trading contracts contain forwards with fixed and flexible profiles.

	Positive replacement value		Negative replacement value		Contract volume	
CHF millions	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Futures (energy trading)					56.8	23.7
Forward contracts (energy trading)	62.8	125.0	59.8	124.9	1,786.8	2,005.4
Options				4.9	0.0	0.0
Exchange rate hedging	0.1			0.2	5.8	11.4
Hedge accounting						
Swaps	2.7				110.0	0.0
Exchange rate hedging	4.6		0.4		121.8	0.0
Total	**70.2**	**125.0**	**60.2**	**130.0**	**2,081.2**	**2,040.5**
of which:						
› Current derivatives	54.5	86.4	50.3	92.2		
› Non-current derivatives	15.7	38.6	9.9	37.8		

Hedge accounting

The following hedging transactions were open at 31 December 2010:

Swaps

On the balance sheet date an interest rate swap existed for the purpose of hedging fluctuations in the fair value of a portion of the bonds issued. This hedging relationship, concluded in the reporting year and assessed as highly effective, qualifies as a fair value hedge. The change in the fair value of the underlying portion of the bonds amounted to CHF 2.4 million. The ineffective portion of the hedging instrument is recognised in the income statement (under financial income) as a gain of CHF 0.3 million.

Forward contracts (currencies)

Various forward contracts existed on the balance sheet date for the purpose of hedging euro exchange rate fluctuations. These hedging instruments are assessed as highly effective and qualify as cash flow hedges. They comprise hedges of euro-denominated revenue for the 2011 financial year, as well as hedges of euro-denominated investment payments in an equity-valued company. The gain or loss measured for these cash flow hedges is recognised in other comprehensive income, without affecting income. The cash flow hedges in respect of revenues are charged to the income statement in the 2011 financial year, and the cash flow hedges in respect of investment payments on the date of disposal of the equity-valued company. In the year under review the ineffective portion of the hedging relationships resulted in a gain of CHF 0.2 million recognised in financial income.

29 Related parties

The following financial relationships between BKW and related parties existed in the periods reported. All transactions were conducted on the same terms and conditions as with independent third parties:

	Parent		Companies exerting significant influence over the Group		Associates		Joint ventures		Pension funds	
CHF millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Income										
› Energy sales	6.4	7.6	66.8	210.6	107.4	163.3	31.6	25.8		
› Other sales and services	4.8	5.2	1.1	4.9	50.7	70.7	25.3	21.8	1.3	1.2
› Interest and dividends	1.5	3.4	1.5	1.4	5.1	13.1	13.4	13.4		
Expenses										
› Energy purchases			115.9	178.6	23.1	75.4	296.8	319.6		
› Other purchases and services	6.1	2.9	9.2	15.1	88.4	110.6	16.4	15.6	28.6	21.9
› Taxes and charges	15.5	14.9								
› Interest and dividends	69.7	64.0	33.0	30.4					1.0	1.0
› Income taxes	18.3	22.9								
Assets										
› Loans					48.8	32.7	20.3	1.6		
› Rights of use								4.1		
› Current financial assets	8.0	7.1						9.4		
› Receivables and accruals	21.0	3.7	8.5	5.1	30.2	29.3	39.4	10.9		0.1
› Cash and cash equivalents	56.4	75.7								
Liabilities										
› Loans			0.9						30.0	30.0
› Rights of use					1.8					
› Liabilities and accruals	8.6	28.6	17.2	12.5	23.3	33.9	36.8	17.2	1.4	0.6

Transactions with the parent

The canton of Berne is the majority shareholder of BKW. As such, it has a controlling influence on all decisions at the General Shareholders' Meeting, including the election of members of the Board of Directors and the appropriation of retained earnings. The relationship with the canton of Berne, its authorities, public-law institutions and the private-law companies it controls is on many levels: BKW delivers energy and other services, purchases material and services, and pays taxes, water rates and other levies and charges. Furthermore, it conducts financial transactions with the Cantonal Bank of Berne (BEKB).

Transactions with companies exerting significant influence over the Group

E.ON Energie AG and Groupe E Ltd. are represented on the BKW Board of Directors and are therefore able to influence decisions on BKW's financial and business policies. BKW delivers to and buys energy from both companies. All these transactions are performed at market conditions. BKW also provides other services to and purchases material and services from both companies. In turn, BKW holds a 10.0% share in Groupe E Ltd.

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

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

Transactions with Group companies

No transactions were conducted which were not eliminated within the scope of consolidation.

Transactions with associates

Reported transactions consist of energy deliveries, energy transports, dividends, engineering services (income), maintenance/servicing (income), energy purchases, material/third-party services and other services (expense). In 2010 associates borrowed CHF 25.4 million in loans from BKW (2009: CHF 30.4 million), and loan repayments of CHF 2.4 million were made (2009: none).

Transactions with joint ventures

Reported transactions consist of energy deliveries, energy transports, dividends, engineering services (income), operational management and maintenance/servicing (income), energy purchases, material/third-party services and other services (expense). Energy produced by partner plants is billed to shareholders at actual cost on the basis of existing agreements. In 2010 joint ventures paid back CHF 1.3 million in loans to BKW (2009: CHF 8.9 million) and borrowed CHF 10.6 million (2009: CHF 9.4 million). In 2010 BKW acquired property, plant and equipment from joint ventures at a purchase price of CHF 13.3 million (2009: property, plant and equipment at a purchase price of CHF 9.4 million and intangible assets valued at CHF 1.6 million).

Transactions with pension funds

Transactions with the pension funds are conducted as part of the occupational pension plan and consist of employer contributions, administrative charges (personnel, operational and administrative costs), real estate services (management of properties) and financial transactions (liquidity management including interest).

Transactions with the Board of Directors and Executive Board

Remuneration CHF millions	**2010**	2009
Short-term benefits	3.5	3.3
Contributions to pension plans	0.7	0.5
Share-based payments	0.1	0.1
Total	**4.3**	**3.9**

On the balance sheet date there were loans amounting to CHF 0.1 million (2009: CHF 0.1 million) to members of Executive Board.

Details of remuneration to the Board of Directors and Executive Board as well as their shareholdings pursuant to Art. 663b^{bis} and Art. 663c Para. 3 of the Swiss Code of Obligations are provided in the financial statements of BKW on pages 76 to 79.

30 Operating leases

Future minimum lease payments under non-cancellable operating leases on the balance sheet date:

Term at 31.12.2010 CHF millions	Long-term rental contracts	Other operating leases	**Total**
Up to 1 year	3.1	0.7	3.8
2 to 5 years	9.6	1.0	10.6
More than 5 years	1.5	0.6	2.1
Total	**14.2**	**2.3**	**16.5**
Leasing expense recorded in 2010	2.9	0.8	3.7

Term at 31.12.2009 CHF millions	Long-term rental contracts	Other operating leases	**Total**
Up to 1 year	2.9	0.9	3.8
2 to 5 years	10.4	1.6	12.0
More than 5 years	2.7	0.7	3.4
Total	**16.0**	**3.2**	**19.2**
Leasing expense recorded in 2009	2.7	1.0	3.7

31 Additional disclosures on the cash flow statement

Cash and cash equivalents CHF millions	**31.12.2010**	31.12.2009
Bank and cash balances	349.2	389.8
Term deposits	83.5	70.0
Total	**432.7**	**459.8**

Details on acquisitions of Group companies in the year under review are provided in Note 5.

The acquisition in 2009 of Group companies amounting to CHF 10 million corresponds to the purchase price of CHF 10.4 million minus a deferred purchase price payment of CHF 0.4 million. On the acquisition date these companies had net assets of CHF 10.4 million, of which property, plant and equipment accounted for CHF 9.9 million. No cash or cash equivalents were acquired.

32 Share-based payment

In the year under review BKW employees and members of the BKW Board of Directors had an opportunity to acquire up to 258,412 shares in BKW (2009: 248,655 shares) at a preferential price. In 2010 102,193 shares (2009: 93,099 shares) were assigned at a price of CHF 50.00 each (2009: CHF 60.00). The underlying present value per share was CHF 79.60 (2009: CHF 89.00). The personnel expense for this share-based payment was CHF 3.1 million (2009: CHF 2.8 million). No purchase rights remained open on the balance sheet date.

33 Disclosure of financial assets and liabilities

33.1 Carrying amount by balance sheet item and allocation to individual categories in accordance with IAS 39

Financial assets	Note	Loans and receivables		Fair value through profit or loss		Available for sale		**Total**	
CHF millions		2010	2009	2010	2009	2010	2009	2010	2009
Non-current financial assets	17	90.9	70.1			298.2	285.1	389.1	355.2
Trade accounts receivable	20	394.0	483.2					394.0	483.2
Other short-term financial receivables	20	48.1	56.5					48.1	56.5
Derivatives (short- and long-term)	28			70.2	125.0			70.2	125.0
Current financial assets	17	393.7	596.7	164.6	264.1			558.3	860.8
Financial accruals	21	155.2	130.3					155.2	130.3
Cash and cash equivalents	31	432.7	459.8					432.7	459.8
Total		**1,514.6**	**1,796.6**	**234.8**	**389.1**	**298.2**	**285.1**	**2,047.6**	**2,470.8**

The applicable amount stated per category is described in the principles of accounting and valuation.

Due to short residual terms to maturity, the carrying amounts of loans and receivables correspond approximately to their fair values. The carrying amount of term deposits included under current financial assets differs from the fair value. The fair value of term deposits corresponds to the present value of payments related to assets, taking into account the respective current interest rate parameters. At 31 December 2010 the fair value of term deposits was CHF 394.3 million and the carrying amount was CHF 393.6 million (2009: fair value CHF 588.3 million, carrying amount CHF 587.7 million).

Financial liabilities	Note	Liabilities at amortised cost		Fair value through profit or loss		Total	
CHF millions		2010	2009	2010	2009	2010	2009
Long-term financial liabilities	24	1,054.4	573.7			1,054.4	573.7
Other long-term financial liabilities	25	7.5	10.4			7.5	10.4
Trade accounts payable	26	283.2	321.2			283.2	321.2
Other short-term financial liabilities	26	35.7	32.3			35.7	32.3
Derivatives (short- and long-term)	28			60.2	130.0	60.2	130.0
Short-term financial liabilities	24	1.6				1.6	0.0
Financial accruals	21	96.2	126.7			96.2	126.7
Total		**1,478.6**	**1,064.3**	**60.2**	**130.0**	**1,538.8**	**1,194.3**

Due to short residual terms to maturity, the carrying amount of financial liabilities at amortised cost corresponds approximately to the fair value. At 31 December 2010, a difference existed between these amounts for the bonds included under long-term financial liabilities at a nominal value of CHF 1,000 million. At the end of 2010 the market value of the bonds was CHF 1,024 million and the carrying amount was CHF 980.8 million (2009: nominal value CHF 550 million, market value CHF 573.2 million, carrying amount CHF 539.5 million).

33.2 Hierarchy of fair values

Financial assets and liabilities measured at fair value through profit or loss 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: Over-the-counter derivatives. These transactions are conducted with a specific counterparty and cannot therefore be designated as actively held for trading at any time, but for all inputs which have a material impact on the fair value they are based on directly or indirectly observable market data. BKW currently classifies all forward energy trading contracts, interest rate swaps and forward currency contracts under this level.
- Level 3: Valuations which apply inputs with a material impact on the fair value which are not based on observable market data. BKW mainly classifies unlisted securities designated as financial assets held for sale under this level.

CHF millions	Carrying amount at **31.12.2010**	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss				
Non-current financial assets				
› Available-for-sale financial assets	298.2	119.4		178.8
Derivatives (short- and long-term)	70.2		70.2	
Current financial assets				
› Securities held for trading	164.6	164.6		
Financial liabilities at fair value through profit or loss				
Derivatives (short- and long-term)	60.2		60.2	

In 2010 the following fair values of Level 3 financial assets and liabilities were determined using the discounted cash flow method and discounted using a WACC of 7.1%:

CHF millions	Available-for-sale financial assets	Negative replacement values, derivatives
At 31.12.2009	**154.0**	**4.9**
Additions	17.8	
Value adjustment		
› Transfer to income statement		–4.9
› Changes in value included in the statement of comprehensive income	7.0	
At 31.12.2010	**178.8**	**0.0**

33.3 Net results of financial assets and liabilities measured in accordance with IAS 39:

Net result	Loans and receivables		Fair value through profit or loss		Available for sale		Liabilities at amortised cost		**Total**	
CHF millions	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Included in net sales:										
› Income from energy derivatives trading			–1.0	24.5					–1.0	24.5
› Change of provision for impairment of receivables	–2.4	–1.3							–2.8	–1.3
Included in financial result:										
› Interest income	6.8	9.5	4.5	6.5					11.3	16.0
› Interest expense							–21.7	–12.9	–21.7	–12.9
› Dividends			0.6	1.0	4.7	4.7			5.3	5.7
› Gains from subsequent measurement at fair value			4.0	9.1					4.0	9.1
› Gains from sales			–0.6	1.0					–0.6	1.0
› Other financial income	–1.8	–5.6	–1.1	–1.0					–2.9	–6.6
› Currency translations	–28.0	–4.8		1.2			1.0	1.2	–27.0	–2.4
Included in the statement of comprehensive income:										
› Gains from subsequent measurement at fair value					–4.6	–5.1			–4.6	–5.1
Total	**–25.8**	**–2.2**	**6.4**	**42.3**	**0.1**	**–0.4**	**–20.7**	**–11.7**	**–40.0**	**28.0**

No financial instruments were designated at fair value through profit or loss in the financial years presented above.

34 Financial risk management

34.1 Principles of risk management
Risk management is viewed as a supporting function for senior management. Its purpose is to provide decision makers with a transparent representation of the risks associated with individual business activities. The core element is the risk management process for the systematic recording and assessment of risks as well as their control and monitoring of implementation. This is integrated in the financial management process.

The defined risk management principles govern the management of operational, market price, share price, exchange rate, interest rate and credit risks. Principles have also been laid down governing the management of cash and cash equivalents as well as short- and long-term cash deposits. The Group monitors and controls these risks. Corporate Risk Management reports directly to the Head of Finance and Controlling, defines Group-wide requirements for risk management, and aggregates risks at Group level.

The risk spectrum monitored by the Executive Board covers risks related to operating activities as well as to strategy and its implementation in the form of projects. An Executive-Board-level Risk Committee prepares guidelines and risk reports as a decision-making basis for the Executive Board. The Risk Committee is an advisory body which submits independent recommendations on risk issues to the Executive Board in predefined processes. The Board of Directors last assessed the risks related to operating activities at its meeting on 7 December 2010.

34.2 Credit risks

A credit risk is the possibility of a loss which may be incurred if a customer or counterparty is unable to discharge its contractual obligations. Standardised credit risk management with defined limits per counterparty is practised with respect to accounts receivable from energy trading activities and the investment of funds.

The majority of credit risks are managed centrally by Corporate Risk Management. The process is separated into two parts: credit appraisal with defined limits, and limit monitoring and reporting. Credit appraisal involves the use of an internal rating system which assigns credit ratings of A, B or C to counterparties. A and B correspond approximately to the standard "Investment Grade" used by rating agencies. The rating is calculated based on the Basel II Internal Rating approach. The credit appraisal also takes into account external ratings by recognised rating agencies. A limit is defined for each counterparty based on the defined credit rating and the counterparty's equity situation.

The following table indicates the credit risk related to trade receivables, to derivatives with a positive replacement value, and to current accounts and term deposits with credit institutes on the balance sheet date, broken down by credit rating. The standardised rating process covers trading, bank and sales counterparties in Switzerland. Credit risk management for other counterparties is carried out decentrally on the basis of individual approaches.

CHF millions	**31.12.2010**	31.12.2009
Credit rating A	418.8	570.8
Credit rating B	690.4	832.9
Credit rating C	26.5	27.2
Other counterparties	154.8	224.8
Total	**1,290.5**	**1,655.7**
Included under:		
› Trade accounts receivable	394.0	483.2
› Derivatives (short- and long-term)	70.2	125.0
› Current financial assets (term deposits only)	393.6	587.7
› Cash and cash equivalents	432.7	459.8

The maximum credit risk (without secured guarantees) corresponds to the amount of outstanding financial assets on the balance sheet date. At 31 December 2010 the maximum credit risk for BKW was CHF 2,047.6 million compared to CHF 2,470.8 million in 2009 (carrying amount of all financial assets in accordance with Note 33.1). The maximum loss presented is based on the assumption that all counterparties simultaneously become unable to discharge their payment obligations and that existing collateral and netting arrangements cannot be utilised.

On the balance sheet date there were secured guarantees of CHF 37.0 million (2009: CHF 73.9 million), which increase the maximum default risk accordingly.

Collateral is required primarily for counterparties in the energy trading business, whereby the creditworthiness of the collateral issuer is assessed and rated. Customers with A and B ratings may be granted a higher limit than defined for the assigned credit category if collateral is provided. This ensures that the effective risk at no time exceeds the additional collateral. A business relation with C-rated counterparties is normally permissible only if collateral is provided to cover both billed and unbilled items. Collateral amounting to CHF 94.9 million (2009: CHF 148.2 million) was held for trade receivables and derivatives recorded on the balance sheet at 31 December 2010.

A clustering risk would arise if excessive credit were granted to an individual customer. The potential loss and the resultant write-down would be disproportionately high if the counterparty were to default. For this reason, care is taken to ensure an adequate spread of risks and limits, with a maximum limit defined per credit category.

In geographical terms, the credit risks are primarily concentrated on Switzerland. On the balance sheet date, counterparties in Switzerland accounted for 90% of the credit risk (2009: 85%).

34.3 Liquidity risks

Liquidity is defined as the ability to cover cash outflow requirements at any time without restrictions.

At Group level, liquidity management is based on the Group's mid-term planning, budget and forecast. These documents, supplemented by current findings, are used to draw up rolling liquidity plans with a 12-month horizon for the entire Group. These plans serve as the basis for examining the rationale behind long-term measures in light of the latest information, as well as for identifying potential liquidity shortfalls and formulating tactics to optimise the financial result.

Residual terms to maturity of financial liabilities

The following tables provide information on the residual terms to maturity of financial liabilities on a non-discounted basis.

CHF millions	Note	Carrying amount at **31.12.2010**	Not later than 1 month	Later than 1 month and not later than 3 months	Later than 3 months and not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Non-derivative financial liabilities							
Long-term financial liabilities	24	1,054.4			29.9	163.4	1,239.7
Other long-term financial liabilities	25	7.5				1.2	7.5
Trade accounts payable	26	283.2	228.5	51.1	3.6		
Other short-term financial liabilities	26	35.7	18.6	0.4	16.7		
Short-term financial liabilities	24	1.6			1.6		
Financial accruals	21	96.2	32.2	40.9	23.1		
Total non-derivative liabilities		**1,478.6**	**279.3**	**92.4**	**74.9**	**164.6**	**1,247.2**
Derivative financial assets and liabilities							
Energy derivatives/options							
› Positive replacement values	28	62.8	9.1	13.3	35.6	12.6	0.4
› Negative replacement values	28	−59.8	−9.4	−13.4	−35.1	−9.9	
Net replacement values		**3.0**	**−0.3**	**−0.1**	**0.5**	**2.7**	**0.4**
Currency forwards and swaps							
› Positive replacement values	28	7.4	0.4	0.8	3.5		2.7
› Negative replacement values	28	−0.4	−0.4				
Net replacement values		**7.0**	**0.0**	**0.8**	**3.5**	**0.0**	**2.7**
Gross cash flows related to derivatives							
› Gross outflow			−187.1	−313.2	−1,165.7	−527.6	−2.9
› Gross inflow			183.2	302.9	1,141.6	572.0	

CHF millions	Note	Carrying amount at **31.12.2009**	Not later than 1 month	Later than 1 month and not later than 3 months	Later than 3 months and not later than 1 year	Later than 1 year and not later than 5 years	Later than 5 years
Non-derivative financial liabilities							
Long-term financial liabilities	24	573.7			19.0	107.7	657.1
Other long-term financial liabilities	25	10.4				3.3	9.9
Trade accounts payable	26	321.2	278.5	41.6	1.1		
Other short-term financial liabilities	26	32.3	23.1	0.4	8.8		
Financial accruals	21	126.7	73.3	39.1	14.3		
Total non-derivative liabilities		**1,064.3**	**374.9**	**81.1**	**43.2**	**111.0**	**667.0**
Derivative financial assets and liabilities							
Energy derivatives/options							
› Positive replacement values	28	125.0	15.3	21.7	57.9	37.9	0.7
› Negative replacement values	28	–129.8	–13.0	–24.8	–62.7	–37.8	
Net replacement values		**–4.8**	**2.3**	**–3.1**	**–4.8**	**0.1**	**0.7**
Currency forwards							
› Positive replacement values	28	0.0					
› Negative replacement values	28	–0.2	–0.1	–0.1			
Net replacement values		**–0.2**	**–0.1**	**–0.1**	**0.0**	**0.0**	**0.0**
Gross cash flows related to derivatives							
› Gross outflow			–360.5	–532.4	–1,914.2	–595.0	–3.1
› Gross inflow			347.3	545.5	1,921.9	576.9	

Amounts in foreign currency are converted at the exchange rate on the balance sheet date. In the absence of any contractual provision, the maturity date for other financial liabilities and financial accruals is estimated. The table shows interest-bearing liabilities including the corresponding interest rate payments. The gross cash flows resulting from derivative financial instruments do not take netting arrangements into account.

34.4 Market risks

Market risks arise from price and exchange rate fluctuations on unsecured positions in the energy and financial business. BKW's risk policy permits the existence of monitored, open positions. Energy price, interest rate, share price, exchange rate and CO_2 certificate price risks are centrally managed. BKW's market risks are aggregated in a Group-level risk portfolio that takes full account of the mutual dependencies of various risk classes (correlations and the associated diversification effects) and enables a systematic analysis as well as efficient controls and effective limitation of the overall risk. The value at risk (VaR) limits required for the purpose of controls must be approved by the Executive Board and Board of Directors.

34.4.1 Share price risk

BKW is exposed to a share price risk for financial assets held for trading and financial assets held for sale, as well as for receivables from state funds (see Note 17). Receivables from state funds do not come under the definition of a financial instrument under the terms of IAS 32 and are consequently not covered by the following statements on risk measurement.

34.4.2 Interest rate risks

Power generation and the operation of transmission and distribution networks are capital-intensive. These are financed over the long term with phased maturity dates, so as to minimise the impact of interest rate changes on the earnings situation. In addition, interest rate hedging instruments are used where necessary. Cash is invested over the short to medium term primarily in fixed-interest positions.

34.4.3 Exchange rate risks

Energy trading is largely conducted in euros. Exchange rate fluctuations have an impact on the results of operations and cash flows stated in Swiss francs. To the extent considered necessary, foreign currency positions are secured by means of forward exchange transactions or currency swaps.

34.4.4 Energy price risks/CO_2 certificate price risks

For the purposes of asset management and proprietary trading, unsecured positions in energy and CO_2 certificate trading are entered into, with smaller positions are permitted for proprietary trading than for asset management. Unsecured energy positions can only be entered into in the current year and within up to three subsequent years. The permissible trading window for CO_2 positions extends to 2020.

34.4.5 Risk measurement

Interest rate, share price and exchange rate risks are regularly measured and reported on the basis of value at risk. BKW uses the variance/co-variance method with a one-year holding period, a confidence level of 99% and a historical rolling period of 250 days.

Value at risk CHF millions	**31.12.2010**	31.12.2009
Interest	8.9	12.5
Share price, financial instruments held for trading	10.6	14.4
Share price, financial instruments available for sale	57.9	118.4
Currencies	28.8	34.8

The value at risk shows the value fluctuation risk based on individual risks which, given no change, could occur in 12 months taking into account the defined confidence level. The values shown would impact the results as well as equity.

In the absence of any impairment, fluctuations in the value of assets held for sale have no influence on the annual results but are recorded directly in the statement of comprehensive income.

The risk of unfavourable price movements for open electricity, gas, CO_2, coal (financial) and oil (financial) positions is determined using the Cross-Commodity-Value-at-Risk (CC-VaR) method which factors in the mutual impact of these commodities. The calculation is based on a historical simulation with a one-day holding period, a confidence level of 99% and a rolling 260-day observation period. Besides CC-VaR limits, risk control covers position and trading volume limits. Proprietary trading is additionally subject to loss limits. At 31 December 2010 the CC-VaR amounted to CHF 1.2 million (2009: CHF 0.9 million).

35 Contingent liabilities and investment obligations

CHF millions	**31.12.2010**	31.12.2009
Guarantees		
› in favour of associates	25.7	57.6
› in favour of third parties	11.3	16.3
Investment obligations	173.2	435.4
Capital payment obligations	0.8	0.6
Total	**211.0**	**509.9**

Contingent liabilities

CHF 2.4 million of the secured guarantees have a term to maturity of up to 12 months. Unlimited guarantees amounting to CHF 24.7 million were granted.

Nuclear power plant operators are under a limited obligation to make supplementary contributions to the decommissioning and disposal funds in the event that an individual contributor is unable to pay.

In the event of a claim, power plant operators who are members of the European EMANI insurance pool must pay a contractually defined supplementary contribution of six annual premiums, which for BKW corresponds to a maximum obligation of around CHF 1.6 million.

Due to existing partner contracts, shareholders in partner plants are obliged to pay the annual costs due on their shares (including interest and repayment of borrowed funds).

Investment obligations

In January 2008 BKW acquired a 33% non-controlling interest in a coal-fired power plant project in Wilhelmshaven, Northern Germany, from Electrabel Deutschland AG. The aim of this acquisition was to further strengthen BKW's production capacities in Germany and support its sales activities there through proprietary generating facilities. The total investment required by BKW for its share in the partner plant is EUR 430 million, of which around EUR 309 million had been invested by 31 December 2010.

36 Events after the balance sheet date

These consolidated financial statements were approved by the Board of Directors on 11 March 2011. Up to this point in time, the following events had occurred after the balance sheet date. The consolidated financial statements are subject to the approval of the BKW General Shareholders' Meeting on 13 May 2011.

Acquisition of wind farms in Apulia (I)

In December 2010 signed an agreement to acquire four wind farms in Italy from Fortore Energia S.p.A. in return for its stake in Fortore Wind S.r.l. BKW had entered the wind power business in Italy in the spring of 2009 by acquiring a 33% interest in the newly-founded Fortore Wind. This interest was acquired by Fortore Energia, increasing Fortore Energia's stake in the new company to 67%. Fortore Energia is now buying back BKW's interest in Fortore Wind, in return for which BKW can now fully acquire and autonomously run four wind farms which are already operational and in which it already held a stake via Fortore Wind. The four wind farms are located in Italy's windiest region, Apulia, and with a collective capacity of 82 MW generate slightly more than 160 GWh of electricity. The transaction is pending approval from Italy's competition authority, and closing is expected in the first half of 2011.

Acquisition of hydroelectric power plants in Avellard (F)

In February 2011 BKW signed an agreement to acquire four hydroelectric power plants in France with a collective capacity of 30 MW and an annual production volume of 140 GWh. Previously owned by Ascométal, the power plants are located near Chambéry. The transaction is pending approval from the responsible French authorities, and closing is expected in mid-2011.

Holdings

	Energy Switzerland	Energy International and Trading	Networks	Other	Domicile	Share/basic capital in millions	Currency	% direct holding	BKW FMB Energy Ltd. holdings	Closing date
Group companies										
Arnold AG			●		Selzach	0.5	CHF	86.0	●	31.12.
BEBAG Bioenergie Bätterkinden AG	●				Bätterkinden	0.1	CHF	56.0		31.12.
Biomassekraftwerk Otelfingen AG	●				Otelfingen	0.5	CHF	50.0	●	31.12.
BKW Balance GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW Deutschland GmbH				●	Wiesbaden (D)	0.1	EUR	100.0	●	31.12.
BKW Dubener Platte Wind GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW Energie Dörpen Beteiligungs-GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW Energie GmbH		●			Wiesbaden (D)	1	EUR	100.0		31.12.
BKW Energie Wilhelmshaven Beteiligungs-GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW enex AG		●			Berne	15	CHF	100.0		31.12.
BKW Erneuerbare Energien GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW FMB Beteiligungen AG				●	Berne	50	CHF	100.0	●	31.12.
BKW FMB Borkum West II Beteiligungs GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
BKW FMB Energie Österreich GmbH		●			Vienna (A)	0.05	EUR	100.0	●	31.12.
BKW Handel AG		●			Berne	7.5	CHF	100.0	●	31.12.
BKW ISP AG			●		Ostermundigen	0.9	CHF	100.0	●	31.12.
BKW Italia S.p.A.		●			Milan (I)	13.4	EUR	100.0	●	31.12.
BKW Übertragungsnetz AG			●		Berne	40	CHF	100.0	●	31.12.
BKW Wind Service GmbH		●			Wiesbaden (D)	0.03	EUR	100.0		31.12.
Bradano Energia S.r.l.		●			Milan (I)	0.01	EUR	100.0		31.12.
Electra Italia S.p.A.		●			Milan (I)	1	EUR	80.1		31.12.
Elektrizitätswerk Grindelwald AG	●		●		Grindelwald	0.55	CHF	92.1		31.12.
Elektrizitätswerke Wynau AG	●				Langenthal	0.1	CHF	100.0		31.12.
Elektro Feuz AG			●		Grindelwald	0.1	CHF	66.0		31.12.
Energie Utzenstorf AG	●				Utzenstorf	1	CHF	100.0	●	31.12.
Erdgas Thunersee AG	●				Interlaken	6.9	CHF	66.7	●	31.12.
EWR Energie AG	●		●		Schattenhalb	2	CHF	100.0	●	31.12.
Holzwärme Grindelwald AG	●				Grindelwald	2.5	CHF	90.7		31.12.
Idroelettrica Lombarda S.r.l.		●			Milan (I)	25.43	EUR	100.0		31.12.
inelectro sa			●		Porrentruy	0.5	CHF	100.0		31.12.
Juvent SA	●				Berne	0.1	CHF	65.0		31.12.
Kraftwerk Utzenstorf AG	●				Utzenstorf	0.1	CHF	100.0		31.12.
Kraftwerke Kander Alp AG	●				Kandersteg	2.5	CHF	60.0		31.12.
Kraftwerke Milibach AG	●				Wiler (Lötschen)	1	CHF	80.0	●	31.12.
Luminosa S.r.l.		●			Milan (I)	0.1	EUR	94.0		31.12.
NetLeit AG			●		Visp	0.1	CHF	67.0		31.12.
Onyx Energie Dienste AG	●				Langenthal	2	CHF	100.0		31.12.
Onyx Energie Mittelland AG				●	Langenthal	10.5	CHF	100.0	●	31.12.
Onyx Energie Netze AG			●		Langenthal	10.5	CHF	100.0		31.12.
Onyx Energie Produktion AG	●				Langenthal	3	CHF	100.0		31.12.
Regionaler Wärmeverbund AG Heimberg-Steffisburg (REWAG)	●				Heimberg	2.5	CHF	51.0		31.12.
Simmentaler Kraftwerke AG	●				Erlenbach i. S.	7.31	CHF	83.9		31.12.
Société des forces électriques de la Goule SA	●		●		Saint-Imier	3.5	CHF	80.8		31.12.
sol-E Suisse SA	●				Berne	30	CHF	100.0	●	31.12.
Termoelettrica Veneta S.r.l.		●			Milan (I)	0.11	EUR	100.0		31.12.
TW Energie AG	●				Berne	0.4	CHF	75.0		31.12.
Volturino Wind S.r.l.		●			Verbania (I)	0.03	EUR	100.0		31.12.

	Energy Switzerland	Energy International and Trading	Networks	Other	Domicile	Share/basic capital in millions	Currency	% direct holding	BKW FMB Energy Ltd. holdings	Closing date
Joint ventures										
Bielersee Kraftwerke AG BIK	●				Bienne	20	CHF	50.0		31.12.
Biopower Sardegna S.r.l.		●			Milan (I)	0.1	EUR	10.5		31.12.
Biopower S.p.A.		●			Caserta (I)	4.7	EUR	24.9		31.12.
BKWind GmbH & Co. KG		●			Wörrstadt (D)	1.5	EUR	50.0		31.12.
BKWind Verwaltungs GmbH		●			Wörrstadt (D)	0.03	EUR	50.0		31.12.
cc energie sa	●				Murten	1.0	CHF	65.0	●	31.12.
EDJ, Energie du Jura S.A.	●				Delémont	7.4	CHF	41.0	●	30.09.
Electra-Massa AG	●				Naters	40	CHF	16.1		31.12.
Electricité de la Lienne SA	●				Sion	24	CHF	33.3		30.09.
Engadiner Kraftwerke AG	●				Zernez	140	CHF	30.0		30.09.
ETRANS Ltd.			●		Laufenburg	7.5	CHF	11.5		31.12.
Forces Motrices de Mauvoisin SA	●				Sion	100	CHF	19.5		30.09.
Gommerkraftwerke AG	●				Ernen	30	CHF	25.0		31.12.
Grande Dixence SA	●				Sion	300	CHF	13.3		31.12.
HelveticWind Deutschland GmbH		●			Wiesbaden (D)	0.03	EUR	50.0		31.12.
Kernkraftwerk-Beteiligungsgesellschaft AG (KBG)	●				Berne	150	CHF	33.3	●	31.12.
Kernkraftwerk Leibstadt AG	●				Leibstadt	450	CHF	9.6		31.12.
Kraftwerk Sanetsch AG (KWS)	●				Gsteig	3.2	CHF	50.0		30.09.
Kraftwerke Hinterrhein AG	●				Thusis	100	CHF	7.7		30.09.
Kraftwerke Mattmark AG	●				Saas-Grund	90	CHF	11.1		30.09.
Kraftwerke Oberhasli AG	●				Innertkirchen	120	CHF	50.0		31.12.
La Prairie Biogaz	●				Porrentruy	–	CHF	30.0		31.12.
MOHA ZOFI	●				Brienz	–	CHF	38.5		31.12.
Officine idroelettriche della Maggia SA	●				Locarno	100	CHF	10.0		30.09.
Officine idroelettriche di Blenio SA	●				Blenio	60	CHF	12.0		30.09.
Replacement nuclear power plant Beznau Ltd.	●				Döttingen	1	CHF	11.5	●	31.12.
Replacement nuclear power plant Mühleberg Ltd.	●				Mühleberg	1	CHF	51.0	●	31.12.
Zwilag Zwischenlager Würenlingen AG	●				Würenlingen	5	CHF	10.7		31.12.

	Energy Switzerland	Energy International and Trading	Networks	Other	Domicile	Share/basic capital in millions	Currency	% direct holding	BKW FMB Energy Ltd. holdings	Closing date
Associates										
Abonax AG	●				St. Gallen	1	CHF	34.0	●	31.12.
AEK Energie AG	●				Solothurn	6	CHF	39.5		31.12.
Biomasse Jungfrau AG	●				Interlaken	0.1	CHF	33.3		31.12.
DEVIWA AG	●				Leuk	0.1	CHF	34.0	●	31.12.
Efforte AG	●				Olten	3	CHF	50.0		31.12.
E.ON Produzione Centrale Livorno Ferraris S.p.A.		●			Milan (I)	10	EUR	25.0		31.12.
em electrocontrol ag			●		Berne	0.3	CHF	36.0	●	31.12.
Energie Biberist AG EBAG	●				Biberist	5	CHF	25.0		31.12.
EVTL Energieversorgung Talschaft Lötschen AG	●				Wiler (Lötschen)	1.3	CHF	49.0	●	31.12.
Fortore Wind S.r.l.		●			Lucera (I)	136	EUR	33.0		31.12.
GEBNET AG	●				Lohn-Ammannsegg	5.4	CHF	48.4	●	31.12.
Gesellschaft Biogas-Ittigen	●				Ittigen	–	CHF	25.0		31.12.
GDF SUEZ Kraftwerk Wilhelmshaven GmbH & Co. KG		●			Wilhelmshaven (D)	–	EUR	33.0		31.12.
Hertli & Bertschy AG, elektrische Anlagen			●		Tafers	0.1	CHF	40.0		31.12.
Kraftwerk Gohlhaus AG	●				Lützelflüh	0.1	CHF	34.0		31.12.
Kraftwerk Wannenfluh AG	●				Rüderswil	0.3	CHF	31.9		31.12.
Kraftwerke Färdabach AG	●				Ferden	0.1	CHF	34.0	●	31.12.
Metanord SA	●				Bellinzona	18.6	CHF	30.9	●	31.12.
NIS AG			●		Emmen	1	CHF	25.0	●	31.12.
Oberland Energie AG	●				Thun	9.1	CHF	49.0	●	31.12.
Panotron Ltd.	●				Worb	1.9	CHF	27.1	●	31.12.
RESUN AG	●				Aarau	1	CHF	31.3	●	30.09.
Spontis SA			●		Granges-Paccot	0.1	CHF	22.5	●	31.12.
STKW Energie Dörpen GmbH & Co. KG		●			Dörpen (D)	–	EUR	24.9		31.12.
swissgrid ltd			●		Laufenburg	15	CHF	11.2	●	31.12.
Tamarete Energia S.r.l.		●			Ortona (I)	3.6	EUR	48.0		31.12.
Youtility AG	●				Berne	7.5	CHF	39.8	●	31.12.

Report of the Statutory Auditor on the Consolidated Financial Statements

To the General Meeting of BKW FMB Energy Ltd., Berne
Berne, March 11, 2011

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of BKW FMB Energy Ltd., which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, changes in consolidated equity, consolidated cash flow statement and notes to the financial statements (pages 6 to 68) for the year ended 31 December 2010.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd.

Thomas Stenz
Licensed audit expert
(Auditor in charge)

Marc Christen
Licensed audit expert

Financial Statements of BKW FMB Energy Ltd.
Income statement

CHF thousands	2010	2009
Net sales	2,705,068	3,156,598
Changes in work in progress	406	–1,733
Own work capitalised	3,927	2,677
Other operating income	92,699	47,153
Total operating revenue	**2,802,100**	**3,204,695**
Energy procurement	–1,791,757	–2,172,200
Material and third-party services	–241,508	–225,381
Personnel expenses	–252,867	–254,530
Depreciation	–97,184	–92,799
Other operating expenses	–182,361	–155,341
Total operating expenses	**–2,565,677**	**–2,900,251**
Profit before interest and income tax	**236,423**	**304,444**
Financial income	149,188	169,699
Financial expenses	–171,066	–123,514
Income taxes	–36,752	–64,529
Profit before extraordinary items and taxes	**177,793**	**286,100**
Gain on disposal of non-current assets	754	2,028
Net profit	**178,547**	**288,128**

Financial Statements of BKW FMB Energy Ltd.
Balance Sheet

CHF thousands	Note	31.12.2010	31.12.2009
Assets			
Property, plant and equipment	2	908,298	811,643
Holdings		1,961,496	1,543,276
Non-current receivables and other financial assets	3	866,485	937,493
Intangible assets		53,016	37,075
Total non-current assets		**3,789,295**	**3,329,487**
Inventories		13,259	12,215
Trade accounts receivable	4	400,814	458,956
Other accounts receivable	5	555,992	718,618
Accrued income and prepaid expenses		125,864	145,192
Other current financial assets		355,331	58,425
Cash and cash equivalents		385,660	403,725
Total current assets		**1,836,920**	**1,797,131**
Total assets		**5,626,215**	**5,126,618**

CHF thousands	Note	31.12.2010	31.12.2009
Liabilities			
Share capital	7	132,000	132,000
Reserves from capital contributions		35,000	35,000
General legal reserves		37,560	37,560
Reserves for treasury shares	6	371,331	83,201
Free reserves		281,569	569,699
Unappropriated retained earnings		404,477	356,686
Total shareholders' equity		**1,261,937**	**1,214,146**
Provisions		2,343,349	2,341,531
Bonds	8	1,000,000	550,000
Third-party rights of use		161,016	139,978
Other long-term liabilities		15,831	8,282
Other long-term liabilities BKW pension plan		30,000	30,000
Total long-term liabilities		**3,550,196**	**3,069,791**
Trade accounts payable	9	257,069	286,426
Other short-term liabilities	10	390,970	361,360
Deferred income and accrued expenses		166,043	194,895
Total short-term liabilities		**814,082**	**842,681**
Total liabilities		**4,364,278**	**3,912,472**
Total liabilities and shareholders' equity		**5,626,215**	**5,126,618**

Financial Statements of BKW FMB Energy Ltd.
Notes and Explanations to the Financial Statements

1 Preamble

The following explanations comply with the standards prescribed by Art. 663b of the Swiss Code of Obligations (OR). The fully consolidated companies and companies consolidated at equity (hereafter referred to as associates) as well as their subsidiaries, listed on pages 66 to 68, are regarded as participations under the terms of Art. 663a and 663b of the Swiss Code of Obligtions.

2 Property, plant and equipment

Property, plant and equipment covers plant, buildings and land, operating equipment and installations under construction. The fire insurance values at 31 December 2010 amounted to CHF 3,068 million (2009: CHF 2,472.4 million). Insurance policies taken out by BKW FMB Energy Ltd. also cover the property, plant and equipment of BKW Übertragungsnetz AG.

3 Non-current receivables and other financial assets

Financial assets cover financial loans, receivables from state funds, and long-term financial claims on banks and securities. Receivables from the state funds are stated at fair value less reserves for value fluctuations.

CHF thousands	**31.12.2010**	31.12.2009
Financial assets		
› Third parties	697,420	790,008
› Associates	23,065	4,985
› Group companies	146,000	142,500
Total	**866,485**	**937,493**

4 Trade accounts receivable

CHF thousands	**31.12.2010**	31.12.2009
Trade accounts receivable		
› Third parties	234,122	263,069
› Associates	21,433	22,803
› Group companies	144,208	171,374
Work in progress	1,051	1,710
Total	**400,814**	**458,956**

5 Other accounts receivable

Other accounts receivable from third parties cover receivables from financial institutions with a minimum term to maturity of three months and a residual term to maturity of no more than 12 months (2010: CHF 385 million, 2009: CHF 580 million) as well as credit balances from settlements with various tax offices and social plans. This position includes a credit of CHF 3.0 million (2009: CHF 3.9 million) pledged as collateral for conducting transactions on the EEX.

Receivables from associates and Group companies cover current accounts for day-to-day business and short-term loans.

CHF thousands	**31.12.2010**	31.12.2009
Other accounts receivable		
› Third parties	430,767	624,641
› Associates	1,784	14,996
› Group companies	123,441	78,981
Total	**555,992**	**718,618**

6 Treasury shares

	BKW		Group companies		**Total**	
	CHF thousands	Number	CHF thousands	Number	CHF thousands	Number
At 31.12.2008	**96,171**	**837,601**	**53**	**17,980**	**96,224**	**855,581**
Additions	353	4,750			353	4,750
Disposals	–13,376	–116,574			–13,376	–116,574
At 31.12.2009	**83,148**	**725,777**	**53**	**17,980**	**83,201**	**743,757**
Additions	308,078	4,732,188			308,078	4,732,188
Disposals	–19,948	–199,253			–19,948	–199,253
At 31.12.2010	**371,278**	**5,258,712**	**53**	**17,980**	**371,331**	**5,276,692**

At 31 December 2010 the total of 5,276,692 shares or CHF 371.3 million is disclosed as reserves for treasury shares. Due to the lower market price versus the acquisition value at 31 December 2010, treasury shares on the assets side were adjusted by CHF 15.9 million.

7 Share capital

The share capital is divided into 5,280,000 registered shares at a par value of CHF 2.50 each. BKW FMB Energy Ltd. shares have been trading on the SWX Swiss Exchange since May 2003.

Significant shareholders and their direct holdings	**31.12.2010**	31.12.2009
Canton of Berne	52.54%	52.54%
E.ON Energie AG	7.03%	20.99%
Groupe E Ltd.	10.00%	4.99%

8 Bonds

CHF thousands	**31.12.2010**	31.12.2009
3% 2007–2022	200,000	200,000
3.375% 2009–2019	350,000	350,000
1.875% 2010–2018	150,000	0
2.5% 2010–2030	300,000	0
Total	**1,000,000**	**550,000**

9 Trade accounts payable

CHF thousands	**31.12.2010**	31.12.2009
Trade accounts payable		
› Third parties	180,211	234,853
› Associates	23,937	21,762
› Group companies	52,921	29,811
Total	**257,069**	**286,426**

10 Other short-term liabilities

CHF thousands	**31.12.2010**	31.12.2009
Other short-term liabilities		
› Third parties	84,964	124,863
› Associates	13,568	9,818
› Group companies	238,202	195,886
› BKW pension plan	640	255
Short-term provisions	53,596	30,538
Total	**390,970**	**361,360**

11 Contingent liabilities

Shareholders of Kernkraftwerk-Beteiligungsgesellschaft AG have agreed to pay the annual costs due on their share, including interest and repayment of borrowed funds. BKW has undertaken the same obligation towards the wind, hydroelectric and nuclear power plants as well as towards nuclear waste disposal companies in which it participates via BKW FMB Energy Ltd. or BKW FMB Beteiligungen AG. Nuclear power plant operators are under a limited obligation to make supplementary contributions to the decommissioning and disposal funds in the event that an individual contributor is unable to pay.

CHF thousands	**31.12.2010**	31.12.2009
Guarantees in favour of third parties	153,184	166,315

12 Leasing obligations not included in the balance sheet

Operating lease obligations outstanding at 31 December 2010 amounted to CHF 0.7 million (2009: CHF 1.1 million)

13 Remuneration of members of the Board of Directors and Executive Board

Remuneration of members of the Board of Directors in 2010

CHF thousands		Fixed remuneration	Share-based payment	Other remuneration	**Total**
Urs Gasche	Chairman (from 01.06.2010) Member (until 31.05.2010)	194	3	61	258
Dr Fritz Kilchenmann	Chairman (until 31.05.2010)	140	10	50	200
Antoinette Hunziker-Ebneter	Vice Chairwoman	89	0	5	94
Marc-Alain Affolter	Member	68	6	14	88
Dr Georges Bindschedler	Member	64	6	6	76
Barbara Egger-Jenzer	Member	78	0	10	88
Hartmut Geldmacher	Member	56	10	33	99
Prof. Dr Eugen Marbach	Member	68	6	14	88
Beatrice Simon-Jungi	Member (from 01.06.2010)	33	0	4	37
Ulrich Sinzig	Member	78	0	12	90
Dirk Steinheider	Member (until 07.07.2010)	28	10	18	56
Philippe Virdis	Member	58	10	10	78
Total		**954**	**61**	**237**	**1,252**

Remuneration of members of the Board of Directors in 2009

CHF thousands		Fixed remuneration	Share-based payment	Other remuneration	**Total**
Dr Fritz Kilchenmann	Chairman	280	6	101	387
Antoinette Hunziker-Ebneter	Vice Chairwoman	78	0	7	85
Marc-Alain Affolter	Member	66	4	15	85
Dr Georges Bindschedler	Member	58	4	5	67
Barbara Egger-Jenzer	Member	66	0	8	74
Urs Gasche	Member	76	2	9	87
Hartmut Geldmacher	Member (from 30.04.2009)	37	0	20	57
Prof. Dr Eugen Marbach	Member	58	4	13	75
Ulrich Sinzig	Member	70	0	13	83
Dirk Steinheider	Member	58	9	33	100
Philippe Virdis	Member	60	9	10	79
Total		**907**	**38**	**234**	**1,179**

"Fixed remuneration" comprises the fixed annual compensation and allowances for meetings which are paid to members of the Board of Directors for their services. For individual members of the Board, payment is made partly to the employers. "Share-based payments" comprise the benefit in fair value of the preferential purchase of BKW shares. In 2010 each member of the Board of Directors was offered the option of acquiring 600 BKW shares at a preferential price (2009: 600 shares). The shares acquired are subject to a blocking period of up to five years, which is taken into account when measuring the remuneration by applying a reduction. Members of the Board of Directors also receive a lump-sum expense allowance and the Chairman additionally receives compensation for the costs of his secretariat and infrastructure, which are included under "Other remuneration". This also includes the employer's contributions to AHV/IV (Old Age and Surviving Dependants' Insurance/Disability Insurance) as well as employee contributions and withholding tax paid by BKW.

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

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

	Kurt Rohrbach CEO		**Total paid to Executive Board members**	
CHF thousands	2010	2009	2010	2009
Fixed remuneration	531	490	1,954	1,870
Profit sharing	108	100	420	325
Share-based payment	10	9	51	35
Pension benefits	126	124	638	465
Total	**775**	**723**	**3,063**	**2,695**

Members of the Executive Board receive a fixed annual remuneration for their services, as well as a variable bonus up to 35% of their annual remuneration, indexed to business success and personal performance. The sum of the bonuses for members of the Executive Board amounts to no more than 25% of the total fixed remuneration. In 2010 each member of the Executive Board was offered the option of acquiring 600 BKW shares at a preferential price (2009: 600 shares). The shares acquired are subject to a blocking period of up to five years, which is taken into account when measuring the remuneration by applying a reduction. All remuneration subject to social security contributions is recorded gross. Pension benefits include the employer's contributions to the pension fund and AHV/IV/ALV insurance.

On 31 December 2010 there were outstanding loans of CHF 99,000 (2009: CHF 122,000) in respect of members of the Executive Board. No loans have been granted to the highest-earning member.

14 Holdings of members of the Board of Directors and Executive Board

Members of the Board of Directors

Number of shares		**31.12.2010**	31.12.2009
Urs Gasche	Chairman (from 01.06.2010), Member (until 31.05.2010)	1,157	957
Dr Fritz Kilchenmann	Chairman (until 31.05.2010)	n/a	11,800
Antoinette Hunziker-Ebneter	Vice Chairwoman	300	600
Marc-Alain Affolter	Member	1,800	1,200
Dr Georges Bindschedler	Member	4,030	3,430
Barbara Egger-Jenzer	Member	400	400
Hartmut Geldmacher	Member (from 30.04.2009)	600	0
Prof. Dr Eugen Marbach	Member	2,000	1,400
Beatrice Simon-Jungi	Member (from 01.06.2010)	0	n/a
Ulrich Sinzig	Member	2,300	2,300
Dirk Steinheider	Member (until 07.07.2010)	n/a	600
Philippe Virdis	Member	3,920	3,320
Total		**16,507**	**26,007**

Members of the Executive Board

Number of shares		31.12.2010	31.12.2009
Kurt Rohrbach	CEO	10,427	9,090
Beat Grossenbacher	Head of Finance and Services	1,200	600
Dr Suzanne Thoma	Head of Networks (from 01.08.2010)	0	n/a
Patrick Braun	Head of Networks (until 31.07.2010)	n/a	3,968
Hermann Ineichen	Head of Energy Switzerland	2,940	2,820
Samuel Leupold	Head of Energy International and Trading	2,355	1,335
Total		**16,922**	**17,813**

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

15 Risk assessment

Risk management is viewed as a supporting function for senior management. Its purpose is to provide decision makers with a transparent representation of the risks associated with individual business activities. The core element is the risk management process for the systematic recording and assessment of risks as well as their control and monitoring of implementation. This is integrated in the financial management process.

The defined risk management principles govern the management of operational, market price, share price, exchange rate, interest rate and credit risks. Principles have also been laid down governing the management of cash and cash equivalents as well as short- and long-term cash deposits. The Group monitors and controls these risks.

Corporate Risk Management reports directly to the Head of Finance and Controlling, defines Group-wide requirements for risk management, and aggregates risks at Group level.

The risk spectrum monitored by the Executive Board covers risks related to operating activities as well as to strategy and its implementation in the form of projects. An Executive-Board-level Risk Committee prepares guidelines and risk reports as a decision-making basis for the Executive Board. The Risk Committee is an advisory body which submits independent recommendations on risk issues to the Executive Board in predefined processes.

The Board of Directors last assessed the risks related to operating activities at its meeting on 7 December 2010.

Appropriation of Retained Earnings
Proposal to the General Shareholders' Meeting

CHF	
Retained earnings/profit carried forward	225,930,011
Net profit	178,546,945
Unappropriated retained earnings	**404,476,956**

The Board of Directors proposes the following appropriation of retained earnings:

Dividend of CHF 2.50 per share	132,000,000
Balance carried forward	272,476,956
Total	**404,476,956**

On the balance sheet date BKW FMB Energy Ltd. held 5,258,712 treasury shares. These shares carry no dividend rights. This total may change up to the date of dividend payment.

Subject to approval by the General Shareholders' Meeting, the following will be paid out:

Dividend per share	2.500
Minus 35% withholding tax	–0.875
Net dividend	1.625

Berne, 11 March 2011

On behalf of the Board of Directors
Chairman
Urs Gasche

Executive Board
Kurt Rohrbach Hermann Ineichen Dr Suzanne Thoma Beat Grossenbacher Samuel Leupold

Report of the Statutory Auditor on the Financial Statements

To the General Meeting of BKW FMB Energy Ltd., Berne
Berne, March 11, 2011

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of BKW FMB Energy Ltd., which comprise the income statement, balance sheet and notes (pages 71 to 79) for the year ended 31 December 2010.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

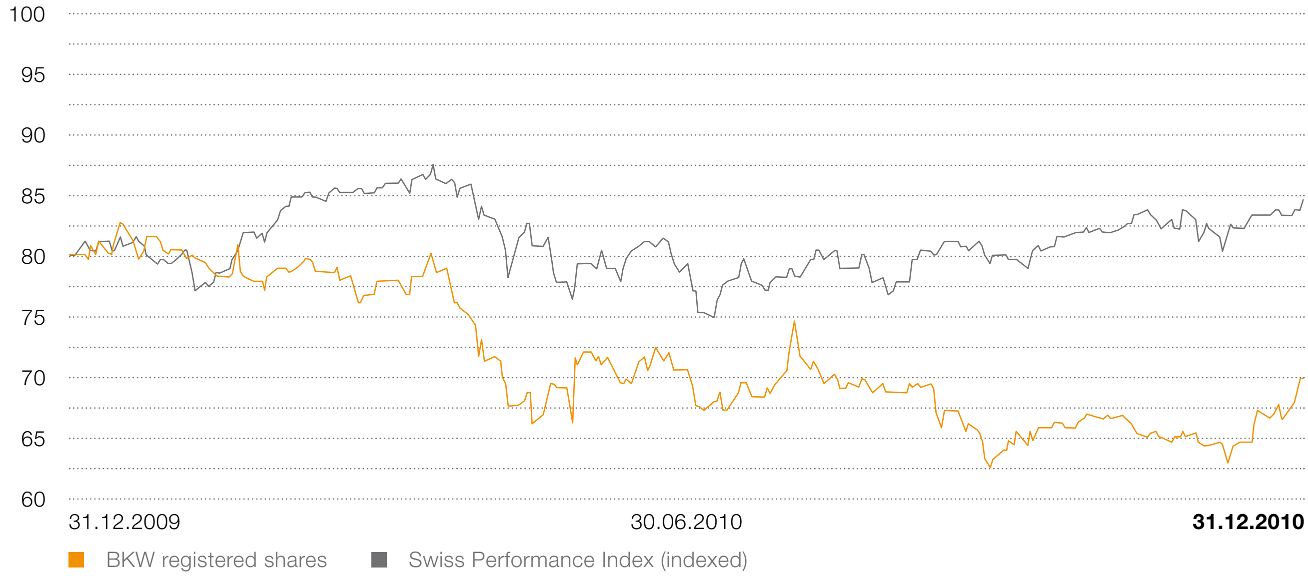
Ernst & Young Ltd.

Thomas Stenz	Marc Christen
Licensed audit expert	*Licensed audit expert*
(Auditor in charge)	

Investor Information
Key facts about the BKW share, financial calendar

BKW FMB Energy Ltd. share capital of CHF 132 million is divided into 52,800,000 registered shares at a par value of CHF 2.50 each. The share price fell by 12.17% during the period under review.

Performance of the BKW share 31.12.2009 – 31.12.2010



Listing

BKW FMB Energy Ltd. shares are listed on the main segment of the SIX Swiss Exchange and are also listed on the BX Berne Exchange.

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

Appropriation of retained earnings

The Board of Directors proposes to the General Shareholders' Meeting a dividend of CHF 2.50 per share for the 2010 financial year. The dividend will be paid out on 20 May 2011.

Restrictions on share transferability

The Company reserves the right to refuse registration of an acquirer of shares in the shareholder register if, through the acquisition, a natural person or legal entity or a partnership directly or indirectly holds more than 5% of the entire share capital. The same restriction applies to corporate bodies, partnerships or groups of persons who are interrelated or otherwise linked and act in concert to acquire shares. Registration may also be refused if the acquirer has not expressly declared that the shares were acquired in his own name and on his own account.

Significant shareholders

	31.12.2010	31.12.2009
Canton of Berne	52.54%	52.54%
E.ON Energie AG	7.03%	20.99%
Groupe E Ltd.	10.00%	4.99%
Treasury stock	9.99%	1.41%

The proportion of shares held by the public (free float) is approximately 20.4%. The BKW share is included in the Swiss Performance Index (SPI).

Key figures per share

	31.12.2010	31.12.2009
Earnings per share (in CHF)	4.45	5.74
Equity per share (in CHF)	60.57	61.87
Dividend per share (in CHF)	2.50	2.50
Dividend yield (in %)[1]	3.5	3.1
Price/earnings ratio[1]	15.9	14.0
Year-end price (in CHF)	70.70	80.50
Year high (in CHF)	82.85	108.00
Year low (in CHF)	62.90	63.35

[1] Based on year-end price

Financial Calendar

General Shareholders' Meeting	13 May 2011
Dividend Payment	20 May 2011
Half-Year Report	15 September 2011

Contact: investor.relations@bkw-fmb.ch

Production Facts & Figures

	Energy portion[1]	Installed production, BKW portion	**2010** BKW purchases	2009 BKW purchases	Change versus 2009
	%	MW	GWh	GWh	%
Own power plants and Group companies					
Hydroelectric plants					
Aarberg	100.0	15.0	80.7	79.9	1.0
Bannwil	100.0	28.5	144.4	142.9	1.0
Kallnach	100.0	8.0	59.4	61.0	–2.6
Kandergrund	100.0	18.8	93.2	95.5	–2.4
Mühleberg	100.0	45.0	153.1	150.5	1.7
Niederried-Radelfingen	100.0	15.0	69.9	69.9	0.0
Spiez	100.0	18.6	96.6	98.8	–2.2
Simmentaler Kraftwerke AG	100.0	27.0	103.9	93.6	11.0
Kraftwerke Kander Alp AG	100.0	2.2	9.4	1.1	754.5
Kraftwerke Milibach AG	100.0	1.4	1.6		
Elektrizitätswerk Grindelwald AG	100.0	1.5	6.8	5.5	23.6
EWR Energie AG (Schattenhalb 1 & 2)	100.0	6.0	18.9	32.4	–41.7
Société des forces électriques de la Goule SA	100.0	5.3	21.8	19.8	10.1
Onyx Energie Produktion AG	100.0	20.0	87.2	85.9	1.5
Idroelettrica Lombarda S.r.l.	100.0	42.0	161.6	137.9	17.2
Total hydroelectric plants		**254.3**	**1,108.5**	**1,074.7**	**3.1**
Nuclear power plants					
Mühleberg	100.0	373.0	2,979.5	2,959.7	0.7
New renewable energy					
sol-E Suisse AG	100.0	19.8	17.0	11.6	46.6
Biomassekraftwerk Otelfingen AG	100.0	2.6	7.3	8.8	–17.0
Bockelwitz wind farm	100.0	15.0	16.6	17.4	–4.6
EWR Energie AG (Schattenhalb 3)	100.0	9.9	24.6		
Total new renewable energy		**47.3**	**65.5**	**37.8**	**73.3**
Total own power plants and Group companies		**674.6**	**4,153.5**	**4,072.2**	**2.0**

[1] The energy portion may deviate from the capital shareholding due to special energy supply agreements.

	Energy portion[1]	Installed production, BKW portion	**2010** BKW purchases	2009 BKW purchases	Change versus 2009
	%	MW	GWh	GWh	%
Holdings and purchasing rights					
Hydroelectric plants					
Bielersee Kraftwerke AG BIK	50.0	9.7	54.1	55.6	–2.7
Officine idroelettriche di Blenio SA	12.0	49.3	115.5	122.0	–5.3
Electra-Massa AG	16.1	54.8	84.6	101.6	–16.7
Electricité de la Lienne SA	29.0	26.7	63.8	38.3	66.6
Engadiner Kraftwerke AG	29.7	128.0	413.6	425.7	–2.8
Gommerkraftwerke AG	27.5	33.0	73.1	138.3	–47.1
Grande Dixence SA	13.3	90.0	351.0	279.2	25.7
Kraftwerke Hinterrhein AG	7.6	50.0	121.2	109.2	11.0
Kraftwerke Mattmark AG	11.1	26.4	77.0	76.7	0.4
Forces Motrices de Mauvoisin SA	19.5	77.2	199.0	214.5	–7.2
Kraftwerke Oberhasli AG	50.0	551.0	856.2	1,173.9	–27.1
Kraftwerk Sanetsch AG (KWS)	50.0	9.0	20.0	15.1	32.5
Officine idroelettriche della Maggia SA	10.0	62.0	143.5	158.6	–9.5
Aarewerke AG	10.0	4.0	21.2	20.5	3.4
Flumenthal	37.9	8.2	51.6	48.1	7.3
Total hydroelectric plants		**1,179.3**	**2,645.4**	**2,977.3**	**–11.1**
Nuclear power plants					
Kernkraftwerk Leibstadt AG	14.7	171.0	1,290.8	1,380.2	–6.5
Cattenom	3.0	155.0	1,047.1	1,004.6	4.2
Fessenheim	5.0	90.0	603.3	439.4	37.3
Total nuclear power plants		**416.0**	**2,941.2**	**2,824.2**	**4.1**
New renewable energy					
Mont-Soleil solar power plant	100.0	0.5	0.5	0.7	–28.6
Thermal power plants					
E.ON Produzione Centrale Livorno Ferraris S.p.A.	25.0	200.0	700.4	648.2	8.1
Unmanaged energy from financial interests		**61.9**	**111.0**	**55.0**	**101.8**
Total holdings and purchasing rights		**1,857.7**	**6,398.5**	**6,505.4**	**–1.6**
Total production including purchases		**2,532.3**	**10,552.0**	**10,577.6**	**–0.2**

[1] The energy portion may deviate from the capital shareholding due to special energy supply agreements.

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