

Financial Section

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Financial Result

Positive trend in sales and profit

BKW has recorded a good financial year, posting total operating revenue of CHF 2,932.3 million and profit of CHF 251.7 million. While not quite matching the previous year, the result is nevertheless above expectations. In contrast to 2003, the operating result was not impacted by any special energy business factors, and significant parts of the price reductions amounting to CHF 50 million are included for the first time.

Changes in presentation according to IFRS

The consolidated financial statements of the BKW Group at 31 December 2004 were prepared in accordance with International Financial Reporting Standards (IFRS). No significant changes were made to the accounting principles or the scope of consolidation in the year under review.

Total operating revenue on a par with 2003

In 2004 the BKW Group recorded total operating revenue of CHF 2,932.3 million, representing a year-on-year reduction of 0.4%. Sales performance across the divisions was varied. Despite a CHF 50 million reduction in electricity prices, which significantly impacted the 2004 results, sales in Switzerland were stable. Trade-related sales rose slightly, while international sales and sales in the gas business were lower year-on-year. This trend reflects the company's thrust towards vertical integration and consolidation in the trading business and in international sales.

At CHF 886.5 million, sales in Switzerland were only CHF 1.6 million or 0.2% below the previous-year level of CHF 888.1 million. The increase of 254 GWh or 3.8% in sales almost offset reductions of CHF 50 million in electricity prices implemented in 2004 for small and medium sized enterprises and residential customers. Electricity sales rose as a result of new contracts with distribution partners and a growth in the volume of sales to directly-supplied customers. Trade-related sales increased by some 3% from CHF 1,475.6 million to CHF 1,520.7 million. While the trading environment was generally stable and prices consolidated at a higher level, no special factors such

as the cold February and hot, dry summer of 2003 impacted results.

Conversely, international sales dropped by 9.5% to CHF 266.1 million due to consolidation of market positions and the focus on interesting segments. Nevertheless, this concentration process led to higher price levels, as a result of which sales declined by a lesser percentage than the volume of electricity sold.

Gas sales fell from CHF 63.1 million to CHF 25.1 million. As a result of the difficult conditions currently being experienced on the international gas market, the gas business was unable to match the previous-year volume and sales figures.

Slight drop in operating income

The slight drop in sales experienced in 2004 also led to a reduction of 1.3% in energy procurement costs to CHF 2,051.9 million. While expenditure on energy procurement from partner plants was lower, expenditure on electricity procurement from third parties was higher. In the year under review, a new long-term community contract was concluded with almost all the communities in which BKW distributes electricity. This new agreement resulted in an increase of some CHF 5 million in annual payments to these communities.

Operating income before depreciation and amortisation (EBITDA) fell year-on-year by CHF 3.4 million to CHF 366.6 million. Given the lack of positive special factors, the significant impact of price reductions and higher payments to communities, this figure is higher than anticipated.

Stable annual result

Since there were no significant changes in depreciation expenses, the operating income (EBIT) also dropped slightly year-on-year by CHF 2.9 million to CHF 282.6 million.

The financial result was CHF 3.3 million lower at CHF 18.4 million, primarily due to weaker Euro exchange rates. As in 2003, securities valued at market values had a highly positive impact on the financial result. The reduction of CHF 3.8 million in income tax to CHF 65.1 million includes a tax refund of CHF 5 million for previous years, resulting in an annual profit for the year of CHF 251.7 million. At CHF 251.7 million, the consolidated annual profit for the BKW Group is only CHF 1.1 million below the extraordinarily good result of 2003.

Higher balance sheet total and equity ratio

The year under review saw a 1.1% rise in assets and in liabilities and shareholders' equity. While current assets fell by 5.6% due to the reduction in receivables, non-current assets rose due to an increase in long-term financial assets by 5.5%. Liabilities and shareholders' equity were stable. Shareholders' equity rose by 3.4% to CHF 2,274.8 million compared to the end of 2003, while the equity ratio increased slightly from 45.7% to 46.8%. Provisions for nuclear waste disposal and for energy procurement and sales contracts were used according to plan in the year under review. No significant changes were recorded in other provisions.

Increase in cash flow from operating activities

Cash flow from operating activities rose year-on-year by 43% to CHF 310.8 million, primarily due to the reduction in current assets. As in 2003, cash flow provided by operating activities was invested primarily in short and long-term financial assets and property, plant and equipment. The sharp rise in financing activities is attributable to the acquisition of own shares from the canton of Jura amounting to CHF 103 million, and a rise in dividend payments from CHF 6.7 to CHF 15.0 per share.

Higher dividend proposed

Net profit for fiscal 2004 amounts to CHF 251.7 million (2003: CHF 252.8 million). Based on this result, the Board of Directors has decided to propose to the General Shareholders' Meeting on 26 May 2005 a dividend of CHF 18 per share (2003: CHF 15 per share).

Consolidated Financial Statements of BKW Group

Consolidated Income Statement

CHF (million)	Note	2004	2003
Net sales	4	2,872.4	2,888.9
Own capitalised cost		19.5	16.2
Other operating income		40.4	39.4
Total operating revenue		2,932.3	2,944.5
Energy procurement	5	-2,051.9	-2,078.0
Nuclear fuel and disposal		-31.0	-30.6
Material and third-party services		-109.4	-112.3
Personnel expenses	6	-228.8	-216.7
Other operating expenses		-144.6	-136.9
Total operating expenses		-2,565.7	-2,574.5
Operating income before depreciation and amortisation		366.6	370.0
Depreciation and amortisation	7	-84.0	-84.5
Operating income		282.6	285.5
Financial result	8	18.4	21.7
Income from associated companies	12	16.4	16.0
Result before income taxes and minority interests		317.4	323.2
Income taxes	9	-65.1	-68.9
Result before minority interests		252.3	254.3
Minority interests		-0.6	-1.5
Net profit for the year		251.7	252.8
Earnings per share in CHF	10	48.15	48.68

Consolidated Financial Statements of BKW Group

Consolidated Balance Sheet

Assets

CHF (million)	Note	31.12.2004	31.12.2003
Property, plant and equipment	11	1,309.2	1,264.5
Investments in associated companies	12	377.9	371.6
Non-current financial assets	13	1,302.6	1,195.0
Deferred tax assets	9	36.9	40.0
Intangible assets	14	27.6	23.1
Total non-current assets		3,054.2	2,894.2
Inventories	15	86.7	97.8
Accounts receivable	16	1,348.8	1,450.4
Cash and cash equivalents		286.7	278.6
Prepaid expenses and accrued income		87.7	89.9
Total current assets		1,809.9	1,916.7
Total assets		4,864.1	4,810.9

Liabilities and shareholders' equity

CHF (million)	Note	31.12.2004	31.12.2003
Share capital	17	132.0	132.0
Additional paid-in capital		35.0	35.0
Retained earnings		2,213.3	2,038.3
Own shares		-105.5	-6.2
Total shareholders' equity		2,274.8	2,199.1
Minority interests		15.0	20.9
Deferred tax liabilities	9	481.1	467.1
Long-term provisions	18	1,307.5	1,289.8
Long-term debts	19	200.0	200.0
Other long-term liabilities	20	141.2	121.8
Total long-term liabilities		2,129.8	2,078.7
Other short-term liabilities	21	365.6	413.9
Liabilities from income taxes		30.7	46.7
Accrued expenses and deferred income		48.2	51.6
Total short-term liabilities		444.5	512.2
Total liabilities		2,574.3	2,590.9
Total liabilities and shareholders' equity		4,864.1	4,810.9

**Consolidated Financial Statements
of BKW Group
Change in Consolidated Equity**

CHF (million)	Share capital	Additional paid-in capital	Retained earnings Accumulated profit	Retained earnings Translation adjustments	Own shares	Total
Equity at 31.12.2002	132.0	35.0	1,817.6	-1.0	-39.1	1,944.5
Profit for the year			252.8			252.8
Dividends			-34.8			-34.8
Purchase/sale of own shares			2.1		32.9	35.0
Translation adjustments				1.6		1.6
Equity at 31.12.2003	132.0	35.0	2,037.7	0.6	-6.2	2,199.1
Profit for the year			251.7			251.7
Dividends			-78.5			-78.5
Purchase/sale of own shares			1.9		-99.3	-97.4
Translation adjustments				-0.1		-0.1
Equity at 31.12.2004	132.0	35.0	2,212.8	0.5	-105.5	2,274.8

Consolidated Financial Statements of BKW Group

Consolidated Cash Flow Statement

CHF (million)	Note	2004	2003
Result before income taxes and minority interests		317.4	323.2
Adjustment for			
Depreciation and amortisation	7	84.0	84.5
Income from associated companies	12	-16.4	-16.0
Financial result	8	-18.4	-21.7
Gains/losses from the sale of non-current assets		0.0	-2.9
Change in long-term provisions (excl. interest)		-42.2	-21.5
Change in assigned rights of use		-6.0	-5.6
Other non-cash positions		2.5	-0.9
Change in net current assets (excl. financial claims/ liabilities)		55.9	-84.1
Other financial items paid/received		-2.8	5.6
Income taxes paid		-63.2	-43.3
Cash flow provided by operating activities		310.8	217.3
Purchase of property, plant and equipment	11	-132.7	-78.3
Proceeds from sale of property, plant and equipment		5.4	7.2
Acquisition of minority interests	26	-5.7	0.0
Investments in associated companies	12	-2.7	-4.0
Investments in financial claims and non-current financial assets		-148.9	-318.2
Disposal of financial claims and non-current financial assets		49.4	157.3
Purchase of intangible assets	14	-5.9	-0.5
Interest received		53.8	54.9
Dividends received		17.1	13.4
Cash flow used for investing activities		-170.2	-168.2
Purchase/sale of own shares		-100.8	-7.2
Increase in other long-term liabilities		38.8	8.4
Decrease in other long-term liabilities		-13.4	-13.9
Increase in short-term financial liabilities		30.0	0.0
Interest paid		-6.8	-10.6
Dividends paid (incl. to minorities)		-78.7	-35.0
Cash flow used for financing activities		-130.9	-58.3
Translation adjustments on cash and cash equivalents		-1.6	9.2
Net change in cash and cash equivalents		8.1	0.0
Cash and cash equivalents at start of reporting period		278.6	278.6
Cash and cash equivalents at end of reporting period		286.7	278.6

Consolidated Financial Statements of BKW Group

Notes to the Consolidated Financial Statements

1 Description of business

BKW FMB Energy Ltd (BKW), Berne/Switzerland, and its subsidiaries are a leading energy provider in Switzerland, and deliver a wide range of products and services to private and business customers. BKW covers the entire value chain, from the production, transmission and distribution of energy to trading in energy.

2 Accounting principles

2.1 General principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). They provide a true and fair view of the financial position, the results of operations and the cash flows of the BKW Group. All standards and interpretations have been adopted for the Group year-end statements. The consolidated 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 quoted in Swiss francs (CHF).

The consolidated financial statements were prepared on the basis of historical acquisition costs, with the exception of available-for-sale financial assets carried at fair value. Preparation of the consolidated financial statements in accordance with the applicable accounting standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The consolidated financial statements were approved by the Board of Directors on 24 March 2005.

2.2 Scope of consolidation

The consolidated financial statements cover the annual statements of BKW and all companies in which BKW is able to determine the financial and business policies. All major participations, together with additional details, are listed under Participations on pages 58 and 59.

There were no changes in the scope of consolidation in the year under review. Changes in participations are listed under Participations.

2.3 Basis of consolidation

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.

Group companies are defined as those where BKW holds 50% or more of the voting rights with no restrictions (as is the case, for instance, with joint ventures). Assets and liabilities as well as income and expenditures are included in their entirety. Minority interests in shareholders' equity and net income of the Group company are disclosed separately in the balance sheet or income statement. Intercompany income and expenditures as well as intercompany assets and liabilities are eliminated on consolidation. Intermediate profits on intercompany transactions and balances not yet realised from sales to third parties are eliminated on consolidation.

Investments in companies in which BKW is able to exercise significant influence (generally ownership between 20% and 50%) are classified as associated compa-

nies and accounted for using the equity method. This method is also used for partner companies (joint ventures) where the shareholding is less than 20% or above 50%. In both cases BKW may be able to exercise significant influence but does not have control, by reason of contracts existing with shareholders. The BKW Group's share of assets and liabilities as well as expenses and income of partner companies is disclosed in Note 12 on page 47.

Participations with no significant influence (as a rule below 20%) which do not constitute joint ventures are accounted for at market values. If the market value cannot be determined, they are accounted for at cost less appropriate allowances for permanent diminutions in value.

2.4 Acquisition and sale of participations

Companies acquired by the BKW Group during the year are consolidated as from the effective date of acquisition. Purchased net assets are accounted for at market value and consolidated using the purchase method. Differences between the higher purchase price and the fair value of net assets are classified as goodwill from acquisitions. Up to the 2004 financial year, goodwill in respect of acquisitions made prior to 31 March 2004, was amortised on a straight-line basis over the estimated useful life of 20 years at most. Following the entry into force of the new IFRS 3 (Business Combinations) in relation to the revised IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill in respect of acquisitions made on or after 31 March 2004 has no longer been amortised but is subjected to annual impairment tests and ad hoc testing whenever an impairment is indicated, and adjusted accordingly. Since 31 March 2004, negative goodwill (excess of acquired net assets over purchase price) has been recognised immediately 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 (taking into account any positive or negative goodwill as well as accumulated foreign currency translation differences and value fluctuations for financial instruments not charged to income) are charged to income on the effective date.

2.5 Foreign currency translation

The BKW Group records transactions in foreign currencies at the current exchange rates on the date of transaction. Exchange gains and losses arising from such transactions as well as the translation of foreign currency balances on the balance sheet date are taken to income.

Foreign-currency financial statements of Group companies outside Switzerland are converted to Swiss francs according to the following principles:

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

Differences arising from the translation of the financial statements of foreign subsidiaries are directly accounted for in consolidated shareholders' equity.

Currency exchange rates

CHF	31.12.04	31.12.03
EUR		
Year-end	1.54	1.56
EUR		
Annual average	1.56	1.52

2.6 Segment reporting

As a vertically integrated power supply company, the BKW Group is primarily active in the energy business. As such, it essentially produces and sells one product: electricity. Segment reporting is not prepared since activities unrelated to the energy business account for less than 10% of revenues, assets and results. Reports by business segment are therefore not required. Geographical segmentation is based on the location of assets (origin of sales). Since all significant IT systems and the management of all significant business are located in Berne, significant risks and revenues are assigned to Switzerland. The remaining revenues are below 10% and therefore no geographical segmentation is required.

2.7 Net sales

Sales are presented on the basis of effectively billed sales of energy during the period under review. Standard forward contracts are processed and billed in the same way as traditional energy contracts, i.e. the revenues are booked to net sales and expenses to energy procurement.

2.8 Relationship with significant shareholders

As the main shareholder of BKW, the canton of Berne has a determining influence in all decisions made at the General Shareholders' Meeting, including election of members of the Board of Directors and the distribution of profit.

Relationships with the canton of Berne, its authorities, public-law institutions and private-law companies under cantonal control are varied. BKW delivers energy and other services, purchases material and services, and pays statutory financial charges and taxes. All these businesses are based on normal customer/supplier relationships and are performed at the same market conditions as with independent third parties or in accordance with statutory requirements. Transactions with

the canton of Berne, including its official authorities, institutions and controlled companies, are not subject to the duty to disclose for related parties.

E.ON Energie AG has a 20% share in BKW and BKW delivers and buys energy from E.ON Energie AG. All these trading transactions are performed under market conditions and have no significant influence on the results.

2.9 Intercompany relationships

Intercompany transactions are conducted at market prices or contractually agreed prices. Energy produced by partner companies is billed to shareholders on the basis of existing agreements – irrespective of the current market prices – at actual cost.

3 Principles of accounting and valuation

3.1 Financial instruments

Financial instruments constitute all contractual agreements that give rise to financial assets of an entity and financial liabilities of another entity. In accordance with IAS 39, financial assets and liabilities are categorised as follows:

- Financial assets or liabilities held for trading;
- Held-to-maturity investments;
- Loans and receivables originated by the entity;
- Available-for-sale financial assets.

Financial assets and liabilities are subjected to a standard valuation procedure according to category. When initially recognised, they are measured at the acquisition cost, including transaction costs, on the trade date. After initial recognition, financial assets and liabilities held for trading and available-for-sale financial assets are measured at fair value, and associated gains or losses are included in

the income statement. Held-to-maturity investments as well as loans granted by and receivables due to the BKW Group are carried at amortised cost using the effective interest method less impairments. An impairment is recognised if there is considered to be a risk of value loss. Impairments in respect of nominal or acquisition cost are charged to income. Financial assets are derecognised when the rights are realised or have expired, or when the BKW Group hands over control. Financial liabilities are derecognised when they are discharged.

BKW operates a significant trade in forwards, futures, swaps and options (OTC) for underlying energy. These commodity derivatives are not treated as financial instruments as defined by IAS 39 since they are accompanied by ongoing billing and charging for contractually agreed electricity deliveries and purchases.

To hedge against interest rate and currency fluctuations, derivatives financial instruments are used as and when required, in compliance with existing hedging and credit risk policy guidelines. They are measured at fair value. Realised and unrealised changes in the value of financial instruments that serve to hedge against exchange rate and interest rate risks arising from ongoing business activities are charged to income as financial income/expenses.

3.2 Property, plant and equipment

Property, plant and equipment are recorded at purchase or manufacturing cost less accumulated depreciation. Depreciation is calculated using the straight-line method and systematically based on the useful lives of the objects. The useful lives are regularly reviewed.

Cash values of estimated dismantling and decommissioning costs are charged to the balance sheet together with acquisition or

manufacturing costs (IAS 16 and 37, see also under Provisions). For long-term investment projects, the borrowing interest is charged to the balance sheet during the set-up phase. Land is valued at acquisition value. Depreciation is recorded only in the event of a lower market value.

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).

The useful life of property, plant and equipment is estimated as follows:

Land and sites	only if value under construction diminishes
Buildings	50 years
Power plants	40 to 80 years
Transmission and distribution plants	20 to 40 years
IT systems	10 to 30 years
Operating facilities and vehicles	3 to 20 years

Depreciation on property, plant and equipment under licence is calculated up to the expiry of the licence.

3.3 Non-current financial assets

Non-current assets cover participations/securities, loans, receivables from state funds, time deposits and pension surplus. The principles of accounting and valuation described under Note 3.1 apply.

Loans to associated companies and third parties as well as long-term financial claims on financial institutions are accounted for at acquisition cost less reductions in value.

Participations and securities which are recorded under available-for-sale financial assets and have a market value are measured at market value. Changes in value

are charged or credited to the financial result. Other securities are recorded in the balance sheet at acquisition value less required value adjustments.

Long-term receivables with respect to state funds (federal decommissioning and disposal funds) are valued at the cash value of anticipated future reimbursements from the state funds. Future reimbursements from the funds are estimated by calculating the provision and the cash outflow to the state funds. (see Provisions and Contingencies)

3.4 Intangible assets

Intangible assets cover rights of use and goodwill.

Rights of use are contractually agreed upon non-recurrent 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 are written down over the period of use, or at most the contract period, using the straight-line method. Up to the 2004 financial year, goodwill in respect of acquisitions made prior to 31 March 2004, was amortised on a straight-line basis over the estimated useful life of 20 years at most. Goodwill in respect of acquisitions made on or after 31 March 2004 is no longer amortised but subjected to ad hoc testing only if an impairment is indicated (see Note 2.4).

3.5 Inventories

Inventories are recorded at the lower of acquisition/manufacturing cost or net realisable value. Nuclear fuel produced specifically for BKW is valued at acquisition cost, and wear and tear (burn-off) is charged to expense items under nuclear fuel and disposal expenses.

3.6 Accounts receivable /

Prepaid expenses and deferred income

With the exception of financial assets held for trading, accounts receivable and other current assets are stated at acquisition cost less operationally necessary adjustments for losses. Prepaid expenses and deferred income cover the periodical adjustment of expenses and income.

3.7 Production contracts

Production contracts are valued according to the percentage of completion or POC method. The stage of completion is determined on the basis of individual progress reports or cost estimates. The pro rata income is recorded in the income statement as revenue. Orders and order groups whose pro-rata income cannot be reliably estimated are capitalised. Anticipated losses are immediately adjusted in their entirety. Work in progress – after taking into account customer payments – is stated under accounts receivable, as net assets from production contracts.

3.8 Cash and cash equivalents

Cash and cash equivalents are stated at face value and cover cash in hand, bank account balances and cash invested with financial institutions for a maximum period of 90 days. This definition of cash also applies to the cash flow statement.

3.9 Impairment of assets

Assets not stated at market value (in particular property, plant and equipment) are continually reviewed for impairment losses. Assets whose book value exceeds the recoverable amount are written down or value adjusted. For assets for which the amount still payable exceeds the value, the amount exceeding the value of the asset is provisioned for under contractual risks. The recoverable value is defined as the higher of the net selling price or value in use (present value of estimated future cash flows). Wherever possible, the recoverable value is separately deter-

mined for each asset. A value impairment recorded in previous years for an asset value is reversed if no impairment or only a reduced impairment now exists. The reverse booking is also charged to income. Overvaluation of partner companies' production plants is accounted for under onerous contracts for energy procurement, due to the contractual obligation to pay energy production costs.

3.10 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 measured with sufficient reliability. If an outflow of resources is not probable or determinable, a provision is charged to contingent liabilities. Provided the cash outflow is anticipated in the medium to long term, the amount of the provision is calculated at present value.

As the operator of the Mühleberg nuclear power plant, BKW is required by law to decommission the plant after the operating phase and dispose of the nuclear waste.

The net present value of estimated dismantling and decommissioning costs is carried together with the acquisition/manufacturing costs of the plant. The same amount has been simultaneously provisioned and is adjusted annually subject to interest.

The costs of nuclear disposal are estimated and the net present value calculated. The net present value of costs for the annual volume of waste to be additionally disposed of is provisioned according to the period. The provision is adjusted annually subject to interest.

Nuclear power plant operators are required by law to make annual payments to the state funds (decommissioning and waste disposal funds). Future bills for decommissioning and disposal are paid by these funds according to the statutory requirements. These payments are regarded as reimbursements under the terms of IAS 37. The net present value of anticipated future reimbursements is recorded as a receivable vis-à-vis the state funds under non-current financial assets.

Provisions and reimbursements from the state funds are calculated based on the following assumptions (unchanged from the previous year):

- An operating period of 40 years,
- An average inflation rate of 3% and
- An average interest rate of 5%

3.11 *Deferred taxes*

Deferred taxes account for income tax effects between internal and local tax evaluation guidelines for assets and liabilities, according to the comprehensive liability method, and based on actual tax rates or tax rates expected to apply when this difference is adjusted.

Deferred tax liabilities are always recognised in the balance sheet but are carried as assets only if it appears probable that these deferred tax assets will be of use to the Group on the basis of future anticipated profits.

Changes in deferred taxes are recorded in the income statement except when the origin of temporary differences is recognised as not affecting profit. In this case deferred taxes are also charged to equity without affecting profit.

3.12 *Financial risk management*

Risk management within the Group is practised according to the principles and guidelines set down by senior management. These principles and guidelines govern the hedging of market, currency, interest and credit risks. Principles are also defined for the management of cash and short and long-term financing. Monitoring and controlling of these risks are performed by designated individuals within BKW.

Market risks

Market risks arise from price and exchange rate fluctuations on incompletely secured positions of the energy business. Unsecured positions in the energy business affect the Group's earnings position. The risk policy enables the existence of monitored, open positions which, combined with the use of financial instruments, should contribute to optimising the earnings potential.

Currency risks

Energy trading is now largely conducted in euros. Exchange rate fluctuations have an impact on the assets and earnings position stated in Swiss francs. To the extent considered necessary, euro positions are secured using currency swaps and futures.

Interest rate risk

The production of power and the operation of transmission and distribution networks are capital-intensive. Interest rate fluctuations give rise to changes in interest expenses. These are financed over the long term with phased maturity dates 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 to minimise the impact of interest rate changes and price fluctuations.

Credit risk

Credit risk includes the risk that a counterparty will be unable or unwilling to discharge its obligation and cause a financial loss. Active risk management with defined limits per counterparty is practised with respect to trade accounts receivable and the investment of funds.

3.13 *Contingencies*

Measurement of the provision for nuclear waste disposal is essential for assessment of the balance sheet of BKW. The industry calculates shared, detailed costs for decommissioning and the disposal of nuclear waste. These cost calculations are examined by the Swiss government, which manages finances arising from the provision for nuclear waste disposal. The estimates of BKW are applied for plant-specific obligations. Payment to the funds managed by the Swiss government is stated as a receivable at net present value. In accordance with the ordinance governing the state funds, operators must make up any future shortfalls or are entitled to reimbursement of future surplus funds. These receivables or obligations are stated as contingent liabilities in the case of a shortfall, or contingent assets in the case of a surplus. The value of such shortfalls or surpluses can only be determined in the future.

Errors in cost calculations and changes in policy requirements for decommissioning and nuclear waste disposal, as well as sustained, long-term discrepancies between the financial income from state funds and the calculated net present value, may affect the Group's earnings situation.

3.14 Pension plan

The Group operates various pension plans in accordance with legal requirements. The vast 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 relating to 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. The pension cost is calculated on the basis of a yearly valuation performed by an independent actuary. Until such recalculation is performed, current service costs are charged on the basis of the selected parameters. A pension surplus is capitalised only if these service costs are available to the BKW Group without limitation, in the form of future contribution repayments or reductions (e.g. in the form of employer reserves). Annual service costs related to employment during the period under review 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 or 10% of the defined benefit obligation.

Contributions to defined contribution schemes are periodically recognised in the income statement.

4 Net sales

CHF (million)	2004	2003
Electricity sales Switzerland	886.5	888.1
Electricity sales International	266.1	294.1
Electricity trading	1,520.7	1,475.6
Other electricity business	124.7	121.2
Gas business	25.1	63.1
Engineering services and electrical installation business	50.9	47.1
Changes in work in progress	-1.6	-0.3
Total	2,872.4	2,888.9

5 Energy procurement

CHF (million)	2004	2003
Electricity procurement, third parties	1,697.9	1,646.3
Electricity procurement, joint ventures	280.4	285.4
Net use of provisions for onerous contracts	-44.8	-40.5
Other expenses for electricity procurement	93.5	124.9
Gas procurement, third parties	24.9	61.9
Total	2,051.9	2,078.0

6 Personnel expenses

CHF (million)	2004	2003
Salaries and wages	189.2	181.0
Social security contributions and other personnel expenses	39.6	35.7
Total	228.8	216.7

Number of employees on balance sheet date (full-time equivalent)

	31.12.2004	31.12.2003
Employees	2,015	1,970
Trainees	115	104
Total	2,130	2,074

7 Depreciation and amortisation

CHF (million)	2004	2003
Property, plant and equipment	82.6	82.5
Intangible fixed assets	1.4	2.0
Total	84.0	84.5

8 Financial result

CHF (million)	2004	2003
Interest income	28.7	31.9
Interest on receivables from state funds	23.3	21.4
Dividends	4.3	1.4
Available-for-sale financial assets:		
value adjustments	34.6	24.8
gains from disposals	1.2	0.0
Other financial income	0.6	0.5
Currency translation adjustments	0.0	14.8
Financial income	92.7	94.8
Interest expenses	-9.8	-10.5
Interest on provisions	-60.0	-60.9
Available-for-sale financial assets:		
value adjustments	0.0	-0.1
loss from disposals	-0.2	0.0
Other financial expenses	-2.1	-1.6
Currency translation adjustments	-2.2	0.0
Financial expenses	-74.3	-73.1
Total	18.4	21.7

9 Taxes

CHF (million)	2004	2003
Current income taxes	48.0	56.1
Deferred taxes	17.1	12.8
Total income tax	65.1	68.9

Current income taxes include tax refunds of CHF 4.9 million in respect of previous financial years (2003: CHF 0.0 million)

Reconciliation with reported income tax:

CHF (million)	2004	2003
Result before income taxes and minority interests	317.4	323.2
Tax expenses at anticipated rate of 21.7 % (2003: 21.8 %)	68.9	70.5
Influence of non-taxable income and non-deductible expenses	-2.8	-1.6
Influence of participation reduction and tax rate difference	3.1	-0.1
Other items	0.8	0.1
Taxes in respect of previous years	-4.9	0.0
Total income taxes	65.1	68.9
Effective tax rate	20.5%	21.3%

Deferred tax assets/liabilities by origin of temporary differences

CHF (million)	31.12.2004	31.12.2003
- Non-current assets	152.9	144.3
- Current assets	18.1	18.0
- Provisions and other long-term liabilities	260.3	249.8
- Short-term liabilities	12.9	15.0
Total deferred tax assets/liabilities	444.2	427.1
Of which taxes disclosed in the balance sheet:		
as deferred tax liabilities	481.1	467.1
as deferred tax assets	-36.9	-40.0
Net deferred tax liabilities	444.2	427.1

10 Earnings per share

	2004	2003
Total shares issued at par CHF 25	5,280,000	5,280,000
Less own shares held at 31.12.	-201,568	-55,122
Total shares owned by third parties 31.12.	5,078,432	5,224,878
Net profit for the year of the BKW Group in CHF (million)	251.7	252.8
Average total shares held by third parties	5,227,696	5,192,855
Average earnings per share in CHF	48.15	48.68
Ordinary dividend per share in CHF	18.0	10.0
Extraordinary dividend per share in CHF	0.0	5.0

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

11 Property, plant and equipment

CHF (million)	Power plants	Transmission & distribution plants	Buildings & land	Other property plant & equipment	Construction in progress	Total
Gross values 31.12.2002	1,210.6	1,876.7	151.7	234.1	88.8	3,561.9
Additions	3.7	1.1	0.3	1.2	72.0	78.3
Disposals	-3.8	-3.6		-1.2	-0.3	-8.9
Reclassifications	5.5	63.7	1.6	22.9	-93.7	0.0
Translation adjustments						0.0
Gross values 31.12.2003	1,216.0	1,937.9	153.6	257.0	66.8	3,631.3
Additions	3.4	2.1	1.4	1.4	124.4	132.7
Disposals	-2.8	-5.3		-3.8		-11.9
Reclassifications	9.0	45.5	3.4	15.7	-73.6	0.0
Translation adjustments						0.0
Gross values 31.12.2004	1,225.6	1,980.2	158.4	270.3	117.6	3,752.1
Accum. depreciation 31.12.2002	1,094.3	993.6	67.8	133.3	0.0	2,289.0
Depreciation charge	7.9	56.3	2.9	15.4		82.5
Depreciation on disposals		-3.5		-1.2		-4.7
Translation adjustments						0.0
Accum. depreciation 31.12.2003	1,102.2	1,046.4	70.7	147.5	0.0	2,366.8
Depreciation charge	5.8	57.8	3.1	15.9		82.6
Depreciation on disposals	-0.4	-2.5		-3.6		-6.5
Translation adjustments						0.0
Accum. depreciation 31.12.2004	1,107.6	1,101.7	73.8	159.8	0.0	2,442.9
Net values 31.12.2002	116.3	883.1	83.9	100.8	88.8	1,272.9
Net values 31.12.2003	113.8	891.5	82.9	109.5	66.8	1,264.5
Net values 31.12.2004	118.0	878.5	84.6	110.5	117.6	1,309.2

The fire insurance values at 31 December 2004 amounted to CHF 2,633.6 million (2003: CHF 2,656.1 million). An examination of the value of the property, plant and equipment (impairment) in the year under review resulted in no additional write-downs.

12 Investments in associated companies

CHF (million)	Joint ventures	Others	Total
Book values 31.12.2003	342.2	29.4	371.6
Investments	2.1	0.6	2.7
Dividends	-12.3	-0.5	-12.8
Share of net income	12.4	4.0	16.4
Book values 31.12.2004	344.4	33.5	377.9

Financial values of joint ventures: CHF (million)	Gross values 31.12.2004	Gross values 31.12.2003	Share 31.12.2004	Share 31.12.2003
Non-current assets	8,158.4	8,370.5	1,456.0	1,483.4
Current assets	441.0	505.9	83.1	100.6
Long-term liabilities	5,928.2	5,821.3	1,026.1	988.2
Short-term liabilities	777.5	1,162.7	168.6	253.6
Income	1,643.8	1,779.8	314.8	347.6
Expenses	1,577.7	1,712.0	302.4	334.5
Profit	66.1	67.8	12.4	13.1

Due to existing joint venture contracts, the shareholders of joint ventures are obliged to pay the annual costs due on their share (including interest and repayment of the borrowed funds). On the balance sheet date the share of unpaid share capital amounted to CHF 24.9 million (2003: CHF 24.9 million).

13 Non-current financial assets

CHF (million)	Available for sale investments	Loans	Receivables from state funds	Time deposits	Pension surplus	Total
Gross values 31.12.2003	249.2	36.8	465.2	415.1	28.9	1,195.2
Additions	26.6	0.5	38.4	487.9	0.2	553.6
Disposals	-32.3	-1.8				-34.1
Reclassification of financial claims		-11.5		-435.0		-446.5
Value adjustments	34.6					34.6
Gross values 31.12.2004	278.1	24.0	503.6	468.0	29.1	1,302.8
Accum. depreciation 31.12.2003	0.0	0.2	0.0	0.0	0.0	0.2
Depreciation charge						0.0
Depreciation on disposals						0.0
Accum. depreciation 31.12.2004	0.0	0.2	0.0	0.0	0.0	0.2
Net values 31.12.2003	249.2	36.6	465.2	415.1	28.9	1,195.0
Net values 31.12.2004	278.1	23.8	503.6	468.0	29.1	1,302.6

Loans to associated companies amount to CHF 8.1 million (2003: CHF 19.9 million). Time deposits have a weighted average residual term to maturity of 2.1 years (2003: 2.2 years) and a weighted average interest rate of 1.6% (2003: 2.2%).

CHF (million)	31.12.2004	31.12.2003
Participations and securities at market value	269.9	241.0
Participations, securities and long-term financial receivables at acquisition value	1,032.7	954.0
Total	1,302.6	1,195.0

14 Intangible assets

CHF (million)	Rights of use	Goodwill	Total
Gross values 31.12.2003	58.1	1.7	59.8
Additions	5.9		5.9
Disposals			0.0
Gross values 31.12.2004	64.0	1.7	65.7
Accum. amortisation 31.12.2003	35.4	1.3	36.7
Amortisation charge	1.0	0.4	1.4
Amortisation on disposals			0.0
Accum. amortisation 31.12.2004	36.4	1.7	38.1
Net values 31.12.2003	22.7	0.4	23.1
Net values 31.12.2004	27.6	0.0	27.6

15 Inventories

CHF (million)	31.12.2004	31.12.2003
Nuclear fuel	77.6	89.5
Material inventories	9.1	8.3
Total	86.7	97.8

16 Accounts receivable

CHF (million)	31.12.2004	31.12.2003
Trade accounts receivable		
third parties	347.2	459.2
associated companies	19.1	12.8
Financial claims		
third parties	861.4	856.7
associated companies	31.5	10.0
Other receivables		
third parties	84.9	103.8
associated companies	0.4	2.0
Work in progress	4.3	5.9
Total	1,348.8	1,450.4

Financial claims cover time deposits of CHF 859.3 million (2003: CHF 849.2 million) with a weighted average residual term to maturity of 6.1 months (2003: 4.8 months) and a weighted average interest rate of 1.2% (2003: 1.6%).

Work in progress includes orders realised on the balance sheet date including the proportionate profit of CHF 1.3 million (2003: CHF 1.4 million). This incorporates payments amounting to CHF 3.8 million (2003: CHF 5.5 million).

17 Share capital

Significant shareholders and their direct participation:

	31.12.2004	31.12.2003
Canton Berne	52.9%	52.9%
E.ON Energy Ltd	20.0%	20.0%

Own share transactions:

	Number	Book value CHF mill.	Cash-relevant proportion CHF mill.
31.12.2002	163,473	39.1	
Purchases	175,014	64.6	64.6
Sales / allotment	-283,365	-97.5	-57.4
31.12.2003	55,122	6.2	
Purchases	157,676	103.7	103.7
Sales / allotment	-11,230	-4.4	-2.9
31.12.2004	201,568	105.5	

In December 2004, BKW acquired own shares from the canton of Jura, equivalent to a 3% holding, for a total purchase price of some CHF 103 million.

18 Provisions

CHF (million)	Nuclear waste disposal	Onerous contracts for energy procurement	Onerous contracts for energy sales	Restructuring	Other provisions	Total
Status at 31.12.2002	838.6	299.3	19.6	44.1	69.2	1,270.8
Provisions made	53.8	31.0	21.8	0.3	15.0	121.9
Provisions used	-27.0	-40.4	-5.2	-4.5	-3.3	-80.4
Provisions reversed			-1.8		-0.9	-2.7
Translation adjustments						0.0
Status at 31.12.2003	865.4	289.9	34.4	39.9	80.0	1,309.6
Provisions made	55.7	29.3	2.8	1.5	22.5	111.8
Provisions used	-16.3	-44.8	-15.0	-0.7	-5.4	-82.2
Provisions reversed			-3.8		-2.6	-6.4
Translation adjustments						0.0
Status at 31.12.2004	904.8	274.4	18.4	40.7	94.5	1,332.8
Less short-term provisions			-5.8	-4.8	-14.7	-25.3
Total long-term provisions	904.8	274.4	12.6	35.9	79.8	1,307.5

The provision for nuclear waste disposal is reserved for the disposal of spent fuel elements and radioactive waste as well as for the decommissioning of nuclear power plants. Annual payments must be made to the state funds for decommissioning and nuclear waste disposal. These funds pay the costs of disposal on behalf of operators following the decommissioning of plants. According to current assumptions, decommissioning and disposal work will continue until 2093. The majority of payments will be made following the assumed decommissioning of the nuclear power plant in 2012. However, some payments for the disposal of spent fuel elements and radioactive waste fall due before this date. Anticipated reimbursements are reported under non-current financial assets.

The provision for onerous energy procurement contracts covers the excess cash outflows for purchasing energy from production plants.

The provision for onerous energy sales contracts covers future cash inflow shortfalls from the sale of energy from these contracts.

The provision for restructuring covers future expenses for defined restructuring measures.

Other provisions include obligations in the personnel area as well as other operating obligations. Interest is charged on provisions calculated at net present value under financial expenses. The increase under financial expenses amounts to CHF 60.0 million. (2003: CHF 60.9 million)

19 Long-term debts

Fixed-interest bonds outstanding on the balance sheet date:

CHF (million)	31.12.2004	31.12.2003
3¾ % debenture bond 1997–2007		
BKW FMB Energy Ltd	100.0	100.0
4½ % debenture bond 1996–2006		
BKW FMB Beteiligungen AG	100.0	100.0
Total	200.0	200.0

The weighted average interest on the balance sheet date based on the nominal value amounted to 4.125%.

20 Other long-term liabilities

CHF (million)	31.12.2004	31.12.2003
Assigned rights of use	108.5	103.7
Other long-term liabilities		
third parties	32.7	4.8
associated companies	0.0	13.3
Total	141.2	121.8
The following obligations at year-end fall due as follows:		
In 5 years	24.6	16.3
More than 5 years	116.6	105.5
Total	141.2	121.8

21 Other short-term liabilities

CHF (million)	31.12.2004	31.12.2003
Trade accounts payable		
third parties	200.3	312.4
associated companies	15.5	8.9
Staff pension plans	44.7	5.8
thereof financial liabilities CHF 30.0 million (2003: CHF 0.0 million)		
Provisions (short-term part)	25.3	19.8
Other obligations		
third parties	77.4	64.4
associated companies	0.8	0.7
Customer prepayments	1.6	1.9
Total	365.6	413.9

22 Pension obligations

The status of companies in the BKW Group which are members of the Pensionskasse BKW is as follows:

CHF (million)	31.12.2004	31.12.2003
Fair value of pension plan assets portion	1,083.3	1,053.9
Present value of funded obligation	-991.6	-939.6
Plan assets in excess of benefit obligation	91.7	114.3
Unrecorded actuarial (gains) / losses	-2.4	-2.4
Excess coverage portion not available for use	-60.1	-83.0
Capitalised plan assets in excess of benefit obligation	29.2	28.9
Periodic pension cost		
Current service cost	25.3	27.4
Interest cost	37.6	36.3
Expected return on plan assets	-47.4	-38.0
Employee contributions	-8.0	-7.9
Recorded actuarial (gains) / losses	27.5	-75.4
Change in excess coverage portion not available for use	-22.9	66.4
Net periodic pension cost	12.1	8.8
Details of change in capitalised plan assets in excess of benefit obligation		
Status at 1.1.	28.9	26.5
Net periodic pension cost	-12.1	-8.8
Employer contributions paid	12.4	11.2
Status at 31.12.	29.2	28.9
Effective rate of return on plan assets	4.7%	13.0%
Calculation principles:		
Discount rate	3.5%	4.0%
Expected rate of return on plan assets	4.5%	4.5%
Rate of increase in future compensation levels	2.0%	2.5%
Rate of increase in future pension levels	1.0%	1.5%

23 Financial instruments

BKW enex AG, as a securities trader, is subject to the banking law. Energy derivatives are traded on behalf of customers and on the company's own behalf. On the balance sheet date the list of open contracts was as follows:

CHF (million)	Replacement costs		Contract value
	positive	negative	
Futures	0.0	0.0	83.3

The use of derivatives outside BKW enex AG is insignificant for the BKW Group. These have therefore not been presented.

24 Contingencies

On 31 December 2004 there was CHF 33.4 million (2003: CHF 53.6 million) outstanding in Group guarantees in favour of third parties.

At 31 December 2004 the proportionate market value of the state funds was approximately CHF 29 million (2003: CHF 21 million) below the reimbursements expected from the funds (government funds for decommissioning and disposal). In view of the long-term maturity profile for BKW reimbursements, this contingent liability is regarded as temporary rather than permanent. The anticipated amount of reimbursements is also dependent on inflation. Nuclear power plant operators are under a limited obligation to make supplementary contributions to the decommissioning fund in the event that an individual contributor is unable to pay. With the entry into force of the new Nuclear Energy Law on 1 February 2005, this limited obligation to make supplementary contributions also applies to the disposal fund.

The BKW Group is involved in various legal disputes arising from normal business activities. Appropriate provisions, in our opinion, have been set aside for such eventualities.

Apart from Notes 12 and 18 there are no other contingencies requiring disclosure.

25 Related parties

The following transactions were conducted with E.ON Group companies at the same conditions as with third parties:

CHF (million)	2004	2003
Energy sales	59.0	100.9
Energy procurement	75.7	156.0

Compensation paid to the BKW Board of Directors in the year under review amounted to CHF 0.9 million (2003: CHF 0.8 million). Members of the Board of Directors also purchased 520 registered shares at a preferential price (no shares were assigned in 2003). Compensation paid to the Executive Board (including the Extended Executive Board) amounted to CHF 3.1 million (2003: CHF 2.9 million), and 232 registered shares were assigned (2003: 272 registered shares). In addition, 310 registered shares were purchased at a preferential price. Individual members of the Board of Directors perform additional services on behalf of BKW outside their Board mandate. These services are insignificant in financial terms and are remunerated at market-standard fees.

BKW purchased own shares from the canton of Jura for the price of around CHF 103 million.

26 Acquisition of subsidiaries

In the course of the financial year BKW acquired shares worth CHF 5.7 million, equivalent to a 35.5% holding, in Elektrizitätswerk Grindelwald AG, resulting in a new participation level of 91.1%. The resultant negative difference of CHF 0.7 million was directly charged to income in the year under review.

27 Events after the balance sheet date

No events requiring specific disclosure have occurred since the balance sheet date.

Report of the Group Auditors

To the General Shareholders' Meeting
BKW FMB Energy Ltd, Berne

Berne, 25 March 2005

Report of the Group Auditors

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of shareholders' equity and notes, pages 32 to 56) of BKW FMB Energy Ltd for the year ended 31 December 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations, the changes in equity and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Ernst & Young Ltd

Marcel Gehrig
Certified Accountant
(in charge of the audit)

Roland Ruprecht
Certified Accountant

Participations

	Energy production	Energy trading	Energy distribution	Networks	Engineering services and electrical installation	Other	Domicile	BKW FMB Energy Ltd participations	Share/basic capital in millions	Currency	% holding	Closing date
Subsidiaries												
BKW Energie GmbH							Kelkheim (D)	*	1.0	EUR	100.0	31.12.
BKW enex AG ¹							Berne	*	7.0	CHF	100.0	31.12.
BKW FMB Beteiligungen AG							Berne	*	50.0	CHF	100.0	31.12.
BKW FMB Energie Österreich GmbH							Vienna (A)	*	0.05	EUR	100.0	31.12.
BKW Handel AG ²							Berne	*	2.5	CHF	100.0	31.12.
BKW ISP AG							Berne	*	0.9	CHF	100.0	31.12.
BKW Übertragungsnetz AG							Berne	*	40.0	CHF	100.0	31.12.
Electra Italia S.p.A.							Milan (I)	*	1.0	EUR	80.1	31.12.
Elektrizitätswerk Grindelwald AG ³							Grindelwald		0.55	CHF	91.1	31.12.
EWR Energie AG							Schattenhalb	*	2.0	CHF	100.0	31.12.
inelectro sa (formerly Inelcom SA)							Porrentruy	*	0.5	CHF	100.0	31.12.
Simmentaler Kraftwerke AG							Erlenbach		7.31	CHF	83.4	31.12.
Société des Forces Electriques de la Goule SA							Saint-Imier		3.5	CHF	80.8	31.12.
Associated companies												
AEK Energie AG							Solothurn		6.0	CHF	35.5	31.12.
Arnold AG							Selzach	*	0.5	CHF	34.0	31.12.
Bielensee Kraftwerke AG							Bienne		20.0	CHF	50.0	31.12.
Officine idroelettriche di Blenio SA							Olivone		60.0	CHF	12.0	30.9.
Electra Massa							Naters		40.0	CHF	16.1	31.12.
Electricité de la Lienne SA ⁴							Sion		24.0	CHF	33.3	30.9.
em electrocontrol ag ⁵							Berne	*	0.25	CHF	44.0	31.12.
Energie Biberist AG							Biberist		5.0	CHF	25.0	31.12.
Energie du Jura SA ⁶							Delémont	*	7.43	CHF	41.0	30.9.
Engadiner Kraftwerke AG							Zernez		140.0	CHF	30.0	30.9.
Etrans Ltd							Laufenburg		7.5	CHF	11.5	31.12.
Gommerkraftwerke AG							Lax		30.0	CHF	40.0	31.12.
Grande Dixence SA							Sion		300.0	CHF	13.3	31.12.
Juvent SA							Berne		0.1	CHF	65.0	31.12.
Kernkraftwerk Leibstadt AG							Leibstadt		450.0	CHF	9.5	31.12.
Kernkraftwerk-Beteiligungs-gesellschaft AG							Berne	*	150.0	CHF	33.3	31.12.
Kraftwerk Sanetsch AG							Gsteig		8.0	CHF	50.0	30.9.
Kraftwerke Hinterrhein AG							Thusis		100.0	CHF	7.7	30.9.
Kraftwerke Mattmark AG							Saas Grund		90.0	CHF	11.1	30.9.
Force motrice de Mauvoisin SA							Sion		100.0	CHF	19.5	30.9.
Kraftwerke Oberhasli AG							Innertkirchen		120.0	CHF	50.0	31.12.
Officine idroelettriche della Maggia SA							Locarno		100.0	CHF	10.0	30.9.
Kraftwerk Aegina AG							Ulrichen		12.0	CHF	5.0	30.9.
NIS AG							Lucerne	*	1.0	CHF	25.0	31.12.
Youtility AG ⁷							Berne	*	5.5	CHF	41.3	31.12.
Zwilag Zwischenlager Würenlingen AG							Würenlingen		5.0	CHF	10.7	31.12.

	Energy production	Energy trading	Energy distribution	Networks	Engineering services and electrical installation	Other	Domicile	BKW FMB Energy Ltd participations	Share/basic capital in millions	Currency	% holding	Closing date
Other												
Aarewerke AG							Klingnau		16.8	CHF	10.1	30.6.
d Holding							Zurich	*	9.5	CHF	5.0	31.10.
Electricité Neuchâteloise SA							Corcelles		35.0	CHF	4.3	31.12.
Freiburgische Elektrizitätswerke (FEW)							Freiburg	*	60.0	CHF	10.0	31.12.
Frisa engineering SA							Epalinges	*	0.5	CHF	6.6	31.12.
RTC Real-Time Center AG							Köniz	*	30.0	CHF	3.1	31.12.
Société Electrique des Forces de l'Aubonne							Aubonne		5.0	CHF	10.0	31.12.

¹ The share capital was increased from CHF 5.0 million to CHF 7.0 million in the year under review.

² The share capital was increased from CHF 2.0 million to CHF 2.5 million in the year under review.

³ The participation was increased from 55.6% to 91.1% in the year under review.

⁴ The participation was increased from 26.7% to 33.3% in the year under review.

⁵ The participation was reduced from 45.0% to 44.0% in the year under review.

⁶ The participation was increased from 34.8% to 41.0% in the year under review.

⁷ The participation was reduced from 54.5% to 41.3% and the share capital increased from CHF 4.0 million to CHF 5.5 million in the year under review.

The Genossenschaft für nukleare Entsorgung Wellenberg was liquidated in the year under review.

Principles of consolidation and valuation

Subsidiaries	Full consolidation
Associated companies	Equity accounting
Other	Fair value

Financial Statements of BKW

Income Statement

in CHF thousands	2004	2003
Net sales	2,651,304	2,602,271
Changes for work in progress	-1,453	-495
Own capitalised cost	9,961	13,596
Other operating income	52,941	47,429
Total operating revenue	2,712,753	2,662,801
Energy procurement	-1,906,500	-1,900,371
Material and third-party services	-248,235	-240,776
Personnel expenses	-200,542	-200,647
Depreciation and amortisation	-75,147	-74,516
Other operating expenses	-136,028	-126,727
Total operating expenses	-2,566,452	-2,543,037
Earnings before interest and income taxes (EBIT)	146,301	119,764
Financial income	104,777	127,499
Financial expenses	-25,793	-10,796
Income taxes	-41,877	-51,127
Profit before extraordinary items and taxes	183,408	185,340
Gain on disposal of non-current assets	3,141	582
Net profit for the year	186,549	185,922

Financial Statements of BKW

Balance Sheet

Assets

in CHF thousands	Note	31.12.2004	31.12.2003
Property, plant and equipment	2	562,772	529,472
Participations		244,705	242,363
Non-current receivables and other financial assets	3	1,434,674	1,240,531
Intangible assets		7,624	2,528
Total non-current assets		2,249,775	2,014,894
Nuclear fuel and other reserves		51,484	62,795
Trade accounts receivable	4	335,842	419,338
Other accounts receivable	5	1,020,112	1,032,184
Prepaid expenses and accrued income		55,291	58,614
Cash and cash equivalents		272,986	254,036
Total current assets		1,735,715	1,826,967
Total assets		3,985,490	3,841,861

Liabilities and shareholders' equity

in CHF thousands	Note	31.12.2004	31.12.2003
Share capital	6	132,000	132,000
General legal reserves		72,560	65,300
Reserves for own shares	7	105,509	6,168
Free reserves		287,391	286,732
Unappropriated retained earnings		187,821	187,699
Total shareholders' equity		785,281	677,899
Provisions		2,454,931	2,409,670
Bond issue	8	100,000	100,000
Third-party rights of use		114,451	107,497
Other long-term liabilities		35,676	18,012
Total long-term liabilities		2,705,058	2,635,179
Trade accounts payable	9	188,112	273,575
Other short-term liabilities	10	205,571	152,158
Accrued expenses and deferred income		101,468	103,050
Total short-term liabilities		495,151	528,783
Total liabilities		3,200,209	3,163,962
Total liabilities and shareholders' equity		3,985,490	3,841,861

Financial Statements of BKW

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 (SCO). The fully consolidated companies and companies consolidated at equity (hereafter referred to as associated companies) as well as their subsidiaries, listed on page 58, are regarded as participations under the terms of SCO Art. 663a and 663b.

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 31.12.2004 amounted to CHF 2,452.2 million (2003: CHF 2,451.7 million).

The 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

Non-current receivables and other financial assets cover financial loans, receivables from state funds and long-term financial claims on banks and securities.

in CHF thousands	31.12.2004	31.12.2003
Financial assets		
to third parties	1,152,186	1,057,242
associated companies	5,988	17,789
Group companies	276,500	165,500
Total	1,434,674	1,240,531

4 Trade accounts receivable

in CHF thousands	31.12.2004	31.12.2003
Trade accounts receivable		
Third parties	261,978	360,632
associated companies	19,102	12,757
Group companies	53,904	43,638
Work in progress	858	2,311
Total	335,842	419,338

5 Other accounts receivable

Other accounts receivable from third parties primarily cover receivables from financial institutions with a residual term to maturity between 3 and 12 months (2004 = CHF 852.0 million) as well as credit balance from settlements with various tax offices and social plans.

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

in CHF thousands	31.12.2004	31.12.2003
Other accounts receivable		
third parties	904,392	912,534
associated companies	31,878	12,094
Group companies	83,842	107,556
Total	1,020,112	1,032,184

6 Share capital

The share capital is divided into 5,280,000 registered shares at a par value of CHF 25. BKW FMB Energy Ltd shares have been traded on the SWX Swiss Exchange since May 2003.

Significant shareholders and their direct participation:

in %	31.12.2004	31.12.2003
Canton of Berne	52.9	52.9
E.ON Energie AG	20.0	20.0

7 Own shares

BKW FMB Beteiligungen AG (100% subsidiary) EW Grindelwald AG and Société des forces électriques de la Goule SA (majority holdings of BKW FMB Beteiligungen AG) together hold 170,799 shares in BKW FMB Energy Ltd at a par value of CHF 25, with a total value of CHF 85,943,933 (at 31.12.2003: 43,163 shares at a par value of CHF 25 with a total value of CHF 1,970,090). In several transactions spread over the year under review, BKW FMB Beteiligungen AG acquired 127,676 shares at a par value of CHF 25 for CHF 83,999,718 and sold 40 shares at a par value of CHF 25 for CHF 25,875. In addition, in several transactions BKW FMB Energy Ltd acquired 30,000 own shares for a total of CHF 19,744,800 and sold 11,190 shares for a total of CHF 4,377,247. At 31.12.2004, BKW FMB Energy Ltd held 30,769 of its own shares. The total at 31.12.2004 of 201,568 shares or CHF 105,509,016 is disclosed as reserves for own shares.

8 Bond issue

in CHF thousands	31.12.2004	31.12.2003
3¾% 1997–2007	100,000	100,000

9 Trade accounts payable

in CHF thousands	31.12.2004	31.12.2003
Trade accounts payable		
third parties	161,331	253,242
associated companies	15,115	8,939
Group companies	11,666	11,394
Total	188,112	273,575

10 Other short-term liabilities

in CHF thousands	31.12.2004	31.12.2003
Other short-term liabilities		
third parties	78,228	99,172
associated companies	2,495	2,428
Group companies	56,520	25,689
Pensionskasse BKW	44,668	5,737
Short-term provision	23,660	19,132
Total	205,571	152,158

11 Contingent liabilities

Shareholders of the 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, hydro and nuclear power plants as well as towards nuclear waste disposal companies in which it participates via BKW FMB Energy Ltd and BKW FMB Beteiligungen AG.

In the case of another company, BKW FMB Energy Ltd guarantees repayment and interest on borrowed funds in proportion to the BKW FMB Energy Ltd/BKW FMB Beteiligungen AG holding in this company.

Nuclear power plant operators are under a limited obligation to make supplementary contributions to the decommissioning fund in the event that an individual contributor is unable to pay. With the entry into force of the new Nuclear Energy Law on 1 February 2005, this limited obligation to make supplementary contributions also applies to the disposal fund.

in CHF thousands	31.12.2004	31.12.2003
Group guarantees in favour of third parties	33,364	53,595

Appropriation of retained earnings

Proposal to the General Shareholders' Meeting

in CHF	
Retained profit	1,271,691
Profit for the current year	186,549,040
Unappropriated retained earnings	187,820,731

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

Dividend of CHF 18 per share	95,040,000
Allocation to free reserves	90,000,000
Balance carried forward	2,780,731
Total	187,820,731

Since general legal reserves have reached 50% of share capital, no additional allocation has been made.

On the balance sheet date BKW FMB Energy Ltd held 30,769 of its own shares. These shares are not entitled to a dividend. The number of shares may change before the dividend payout date.

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

Dividend per share	18.00
Minus 35% withholding tax	-6.30
Net dividend	11.70

Berne, 24 March 2005

On behalf of the Board of Directors
 Chairman
 Dr Fritz Kilchenmann

The Executive Board
 Kurt Rohrbach Heinz Raaflaub Patrick Braun Hermann Ineichen

Report of the Statutory Auditors

To the General Shareholders' Meeting of
BKW FMB Energy Ltd, Berne

Berne, 25 March 2005

Report of the Statutory Auditors

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes from page 60 to 65) of BKW FMB Energy Ltd for the year ended 31 December 2004.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements as well as the notes on the appropriation of available earnings comply with Swiss law and the Company's Articles of Incorporation.

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

Ernst & Young Ltd

Marcel Gehrig
Certified Accountant
(in charge of the audit)

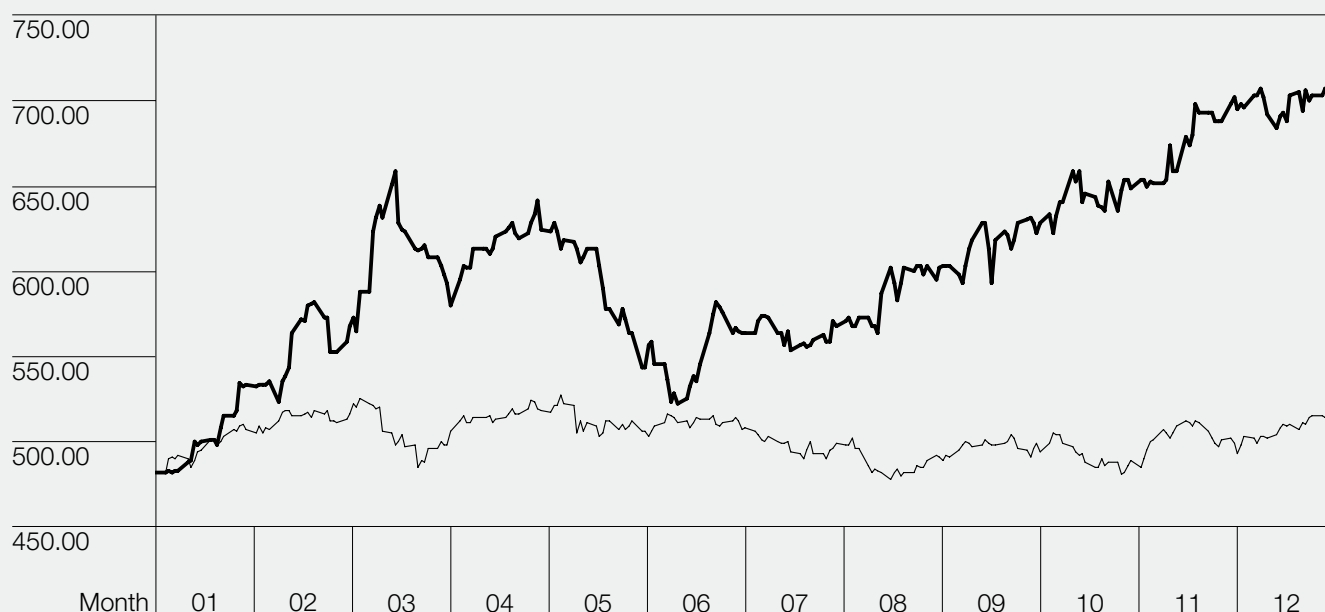
Roland Ruprecht
Certified Accountant

Investor information

Key facts about the BKW share

BKW FMB Energy Ltd share capital of CHF 132 million is divided into 5,280,000 registered shares at a par value of CHF 25 each. In the period under review the share price rose by 45.1%.

BKW Share Performance 1.1.2004–31.12.2004 (in CHF)



— BKW registered share
— Swiss Performance Index (indexed)

Listing

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

Ticker symbol for SWX and BX:	BKWN
Share Number:	1,430,710
ISIN code	CH0014307109

Appropriation of Retained Earnings

The Board of Directors proposes to the General Shareholders' Meeting a dividend of CHF 18 per share for the 2004 financial year. The dividend will be paid out on 1 June 2005.

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 to each other 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

	at 31.12.04	at 31.12.03
Canton of Berne	52.91%	52.91%
E.ON Energie AG	20.0%	20.0%

The proportion of shares held by the public (free float) is approximately 27 percent. The BKW share is listed on the Swiss Performance Index (SPI).

Key figures per share

	at 31.12.04	at 31.12.03
Earnings per share (in CHF)	48.15	48.68
Equity per share (in CHF)	447.93	420.89
Dividend per share (in CHF)	18.00	15.00
Dividend yield in %	2.6	3.1
Price/earnings ratio (1)	14.4	9.8
Year-end price (CHF)	695.00	479.00
Year high (CHF)	704.00	479.00
Year low (CHF)	479.00	300.00

¹ Based on year-end price

Financial Calendar

General Shareholders' Meeting	26 May 2005
Presentation of Half-Yearly Report	13 September 2005

Contact: investor.relations@bkw-fmb.ch