

## Facts & Figures

### Financials

	1 <sup>st</sup> half year 2005	1 <sup>st</sup> half year 2004	2004
	CHF million	CHF million restated	CHF million restated
Total operating revenue	952.3	897.4	1,770.2
Operating income before depreciation and amortisation	205.0	214.7	385.1
Net profit	143.6	121.3	217.7
Cash flow provided by operating activities	226.3	263.8	310.8
Purchase of property, plant and equipment	58.3	56.6	133.8
Balance sheet total	5,196.6	4,927.3	4,874.7
Shareholders' equity	2,559.2	2,346.9	2,363.5
as % of balance sheet total	49.2	47.6	48.5

### Electricity business

	GWh	GWh	GWh
Electricity sales Switzerland	3,585	3,497	6,962
Electricity sales International	2,012	1,849	3,672
Electricity trading	3,601	3,435	6,829
Pump/substitution energy	247	183	541
Transmission losses and own consumption	214	192	305
Total sales	9,659	9,156	18,309
Volume generated by hydroelectric plants	1,750	1,585	3,572
Volume generated by nuclear power plants incl. purchase contracts	2,756	3,052	5,828
Volume generated by decentral plants	7	7	13
Trade (purchases) and energy buy-backs	5,146	4,512	8,896
Total purchases	9,659	9,156	18,309
<b>Employees (Full Time Equivalent/FTE)</b>	<b>2,122</b>	<b>2,101</b>	<b>2,130</b>

### Information on shares (prior to June 2005 converted to par value of CHF 2.50)

	CHF	CHF	CHF
Par value	2.50	2.50	2.50
Share price			
Period end	80.25	56.00	69.50
Period high	81.10	65.50	70.35
Period low	67.40	47.90	47.90
Earnings (share of BKW shareholders)	2.78	2.31	4.15
Equity (share of BKW shareholders)	48.22	44.52	46.24
Stock exchange capitalisation in CHF million	4,232.6	2,931.3	3,529.5

# Security of supply thanks to vertical integration

### **Favourable half-year result**

The BKW Group closed the first half of 2005 on an encouraging note, increasing the half-year result despite various negative effects. Generator damage in Leibstadt nuclear power plant as well as the second series of price adjustments negatively affected the result, while positive factors included the opening of the Bernina line and increases in sales and income from trading activities. BKW consistently ensured maximum security of supply for its customers.

In the first half of 2005 BKW recorded net profit of CHF 143.6 million, an increase of 18.4 percent over the first half of 2004. At CHF 952.3 million, revenue rose year-on-year by CHF 54.9 million or 6.1 percent, primarily due to growth in trading and sales. Operating income before depreciation and amortisation (EBITDA) fell by 4.5 percent to CHF 205.0 million. Changes in the accounting principles, adopted on 1 January 2005 in line with new and revised IASB standards and interpretations, have materially affected presentation of the BKW Group's income situation. The previous-year figures were also adjusted. Detailed explanations are given in the Notes to the consolidated financial statements.

### **Attractive partnerships**

With completion of the ItoI energy range, the Youtility organisation of sales partners gained additional importance and attractiveness. In recent months the number of partners has grown to 76, making Youtility AG the most successful

partnership concept in the Swiss energy sector. In May 2005 BKW and the EEF. ENSA Group established a joint customer service company in Murten with the aim of improving customer services. The new company, cc energie s.a., will also allow both BKW and EEF. ENSA to reduce their customer service centre operating costs. Preparations are in full swing, and cc energie s.a. is scheduled to commence operations on 1 January 2006.

### **Decisive phase in shaping boundary conditions**

The European electricity market will be fully deregulated on schedule in July 2007. Against the backdrop of this inexorable trend, Switzerland is increasingly under pressure to follow suit. It is BKW's belief that a go-it-alone energy policy is not a viable option. Switzerland needs a well-organised Euro-compatible legal framework that will boost its status as a centre of business and facilitate integration in the European energy market. This autumn, parliament will debate a new draft law that lays down the provisions for liberalisation of the electricity market. It is to be hoped that rapid progress in this regard will secure Switzerland's advantageous position as a European energy hub, and continue to guarantee a secure supply of electricity.

### **Commitment to new renewable energies**

BKW remained strongly committed to new renewable energies in the first half of 2005, pursuing innovation and partnership as the basis for success in this area. On 6 May 2005, the world's largest in-stadium solar power plant was inaugurated in the Stade de Suisse, the new stadium in Wankdorf/Berne. Thanks to the power plant's dimensions and the use of state-of-the-art solar technology, BKW now produces the cheapest unsubsidised solar power in Switzerland. Sold under the "Ito1 energy sun star" brand, the product is proving highly popular.

### **Shareholder-friendly policy**

The 2005 General Shareholders' Meeting continued on its shareholder-friendly course by approving a 1:10 share split, a shorter deadline for registration in the shareholder ledger, and introduction of an independent proxy. The aim of these measures is to increase the liquidity of the BKW share and facilitate the exercising of shareholders' rights

### **Outlook**

BKW remains committed to achieving a comparable or even better result than the past two years, despite the price reductions already approved and despite generator damage in the Leibstadt nuclear power plant. A diversified production programme coupled with adroit leverage of international market developments will largely allow BKW to offset these negative factors. The floods of August 2005 also resulted in damage to BKW plants. According to current estimates, however, the damage incurred will not materially affect the 2005 result.

BKW aims to continue actively shaping the market's boundary conditions and to step up vertical integration through the requisite measures in production, network and sales, in order to sustain the current high security of supply into the future.

## Operating Business

### High electricity sales, rising prices

#### **Trend towards rising trading prices**

The trend observed in 2004 towards a consolidation of prices was not continued into the first half of 2005. A cold spell in February 2005 resulted in a general rise in spot prices throughout Europe. While warmer temperatures in early March caused a short-term lull, prices rose again at the start of the second quarter, reaching new record highs in June.

The reasons for this trend are varied. On the international markets for energy and raw resources, a steady rise in oil prices prompted a sharp increase in the general price for energy and intensified volatility. An additional factor that will sustainably impact future energy prices is the introduction at the beginning of 2005 of the CO<sub>2</sub> emission certificate. Finally, the heat wave in southern Europe also made its mark on energy prices, with demand for electricity soaring and reaching new record highs in Italy. At the same time, scheduled overhauls at several French and German nuclear power plants led to a shortfall in production which also drove prices up. Reduced run-of-river production as a result of the heat wave further exacerbated the situation.

#### **Rise in BKW electricity sales**

In the first half of 2005, electricity sales rose by 5.5 percent compared with the previous-year period to 9,659 GWh. Despite new restrictions on capacity at the German border, electricity trading volumes grew by 4.8 percent from 3,435 to 3,601 GWh. International sales of electricity also rose by 8.8 percent to 2,012 GWh in the first half of 2005. BKW subsidiaries in Italy and Germany further expanded their operations following last year's consolidation phase. Sales in Switzerland rose year-on-year by 2.5 percent to 3,585 GWh due to new customer acquisitions and a rise in demand from existing customers. In the first half of 2005 electricity production declined year-on-year from 4,644 to 4,513 GWh, largely due to loss of capacity at Leibstadt nuclear power plant, which has been out of action since 28 March due to an earth leakage in the generator. The plant is scheduled to return to normal operation at the beginning of September. Production at Mühleberg nuclear power plant was problem-free and reached a volume of 1,547 GWh. The loss of capacity at Leibstadt was partially offset by a year-on-year increase in hydroelectricity production from 1,585 GWh to 1,750 GWh, largely thanks to BKW's partner Kraftwerke Oberhasli KWO, which posted higher production volumes following a drop in the previous year due to a scheduled overhaul. Production at BKW's own hydroelectric plants, which are largely run-of-river, was on a par with the first half of 2004.

## Financial Result

### Price- and volume-related rise in total operating revenue

#### Revenue and profit up

The BKW Group has closed the first half of 2005 on a positive note, posting total operating revenue of CHF 952.3 million and a net profit of CHF 143.6 million. This result exceeds the Group's expectations, since the first half-year was negatively impacted by the second series of price reductions totalling CHF 20 million and by generator damage at Leibstadt nuclear power plant.

#### Changes in presentation according to IFRS

The consolidated financial statements of the BKW Group for the period ending 30 June 2005 were presented in accordance with IAS 34 (Interim Financial Reporting) of the International Financial Reporting Standards (IFRS). There were no significant changes in the scope of consolidation in the period under review. However, changes in the accounting principles, adopted on 1 January 2005 in line with new and revised IASB standards and interpretations, have materially impacted presentation of the BKW Group's income situation. The previous-year's figures were adjusted.

BKW has revised its business model for energy trading based on a detailed risk policy. Trading transactions conducted with the aim of achieving a trading margin without involving assets (e.g. power plants) are treated as financial instruments. Items open for trading on the balance sheet date are measured and accounted for. Income from trading in energy derivatives is recorded net in the income statement.

As a result of this change in presentation, published net sales of CHF 1,528.6 million for the first half of 2004 (also adjusted to allow for comparability) were reduced to CHF 874.0 million (restated). The effect of this restatement is insignificant (CHF 1.3 million lower in the first half of 2004).

Shares in the state funds for future decommissioning and disposal of nuclear power plants and nuclear waste are now measured at the fair values of the funds instead of at the acquisition cost of contributions. This increases the volatility of the BKW Group's financial result since stock exchange movements are directly reflected in the measurement.

Fuel elements are now recorded under property, plant and equipment rather than inventories. This has resulted in a shift in the income statement for the first half year of around CHF 9.0 million between operating income before depreciation and amortisation (EBITDA) and operating income (EBIT), since the disposal of fuel elements is now recorded under depreciation rather than operating expenses.

According to IAS 39 (revised), value adjustments to available-for-sale financial instruments are recorded directly under equity rather than in the income statement. Since this change was adopted retroactively to 1 January 2004, the result for the first half of 2004 was eliminated by the revaluation surplus of CHF 3.6 million (net taxes). CHF 16.7 million in gains and losses from financial assets was charged to equity in the first half of 2005.

A detailed presentation of the changes in accounting principles is provided in the Notes to the consolidated half-year financial statements on pages 12 to 14. The key financials for 2004, listed under Facts & Figures on page 2, are presented in accordance with the new accounting principles.

### **Total turnover and operating revenue up thanks to trading growth**

In the period under review, the total operating revenue of the BKW Group increased by 6.1 percent from CHF 897.4 million to CHF 952.3 million as a result of price- and volume-related growth in trading and international sales. Revenue was positively impacted by favourable market conditions as well as the opening of the Bernina line at the end of January 2005, which has doubled transmission capacity to Italy. Revenue from electricity trading rose by 20.7 percent to CHF 227 million. The financial statements include for the first time figures on energy derivative trading, where revenue increased from CHF 1 million to CHF 11.9 million due to volatility in market prices. International sales recorded a 14.1 percent increase in revenue to CHF 150.7 million, while revenue from sales in Switzerland posted a slight drop of 2.7 percent to CHF 442.8 million due to implementation of the scheduled price reduction measures. However, the decline was less than expected thanks to a higher volume of sales.

### **Increased profit due to higher financial result**

Higher sales from energy trading led to an increase in energy procurement from third parties. Operating income before depreciation and amortisation (EBITDA) fell by CHF 9.7 million to CHF 205 million. Given the CHF 20 million in price reduction measures and higher energy procurement costs due to the loss of pro-

duction capacity at Leibstadt nuclear power plant, this figure is higher than expected. Since depreciation expenses fell year-on-year by CHF 3.7 million, operating income (EBIT) declined by only CHF 6 million to CHF 157.1 million.

In the period under review the financial result rose by CHF 36.8 million from minus CHF 20.0 million to plus CHF 16.8 million. This sharp rise is mainly a result of exchange rate gains on securities related to the decommissioning/disposal funds measured at fair value, and gains on securities held by BKW. Income tax expenses rose by CHF 10.8 million to CHF 40.6 million. The lower previous-year figure of CHF 29.8 million includes a refund of around CHF 5 million in income taxes from previous years and is based on the pre-tax earnings for the first half of 2004, which are CHF 33.1 million lower.

Despite negative effects arising from price measures and the loss of capacity at Leibstadt nuclear power plant, the BKW Group recorded an increase of 18.4 percent in the half-year result – after deducting taxes – to CHF 143.6 million.

### **Higher balance sheet total and equity ratio**

In the period under review, the balance sheet total grew by another 6.6 percent to CHF 5,196.6 million. While non-current assets remained stable, showing an increase of 1.0 percent, current assets rose by 15.3 percent due to an increase in short-term financial assets. On the liabilities side, shareholders' equity rose by 8.3 percent to CHF 2,559.2 million compared to the end of 2004, with equity ratio increasing slightly from 48.5 percent to 49.2 percent. The higher figures for shareholder's equity and non-current assets are chiefly attributable to the sale of 170,000 BKW own shares to institutional investors at the end of April. Provisions for nuclear waste disposal as well as for energy procurement and sales contracts were used according to plan in the year

under review. No significant changes were recorded in other provisions.

### **Lower cash flow provided by operating activities**

At CHF 226.3 million, cash flow provided by operating activities was approximately CHF 37.5 million below the prior-year figure. This reduction is largely due to a slight decrease in net current assets. Cash flow used for investing activities fell year-on-year due to lower net investments in short and long-term financial assets. In the first half of 2005, a positive cash flow was provided by financing activities due to the above-mentioned sale of 170,000 BKW shares. The higher figure for interest paid and dividends is a result of an increase in dividend from CHF 15.0 to CHF 18.0 per share.

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Income Statement

CHF (million)	Note	1 <sup>st</sup> half year 2005	1 <sup>st</sup> half year 2004 restated
Net sales	3	925.8	874.0
Own capitalised cost		10.4	8.9
Other operating income		16.1	14.5
<b>Total operating revenue</b>		<b>952.3</b>	<b>897.4</b>
Energy procurement	4	-511.9	-447.4
Material and third-party services		-53.2	-52.5
Personnel expenses		-111.5	-112.6
Other operating expenses		-70.7	-70.2
<b>Total operating expenses</b>		<b>-747.3</b>	<b>-682.7</b>
<b>Operating income before depreciation and amortisation</b>		<b>205.0</b>	<b>214.7</b>
Depreciation and amortisation		-47.9	-51.6
<b>Operating income</b>		<b>157.1</b>	<b>163.1</b>
Financial result	5	16.8	-20.0
Income from equity-valued companies		10.3	8.0
<b>Result before income taxes</b>		<b>184.2</b>	<b>151.1</b>
Income taxes		-40.6	-29.8
<b>Net profit</b>		<b>143.6</b>	<b>121.3</b>
Share of profit, minority interests		0.4	0.4
Share of profit, BKW shareholders		143.2	120.9
<b>Earnings per share in CHF</b>	6	<b>2.78</b>	<b>2.31</b>

# Interim Consolidated Financial Statements of the BKW Group

## Consolidated Balance Sheet

### Assets

CHF (million)	Note	30.06.2005	31.12.2004 restated
Property, plant and equipment	7	1,400.8	1,387.9
Investments in equity-valued companies		397.5	397.4
Non-current financial assets		1,151.3	1,131.9
Intangible assets		27.1	27.5
Deferred tax assets		28.6	30.1
<b>Total non-current assets</b>		<b>3,005.3</b>	<b>2,974.8</b>
Inventories		10.3	9.1
Accounts receivable		355.7	457.2
Derivatives	9	109.3	24.6
Short-term financial assets		1,147.4	1,034.7
Prepaid expenses and accrued income		116.0	87.7
Cash and cash equivalents		452.6	286.6
<b>Total current assets</b>		<b>2,191.3</b>	<b>1,899.9</b>
<b>Total assets</b>		<b>5,196.6</b>	<b>4,874.7</b>

### Liabilities and shareholders' equity

CHF (million)	Note	30.06.2005	31.12.2004 restated
Share capital		132.0	132.0
Additional paid-in capital		35.0	35.0
Retained earnings		2,378.3	2,286.6
Own shares		-1.8	-105.5
Minority interests		15.7	15.4
<b>Total shareholders' equity</b>		<b>2,559.2</b>	<b>2,363.5</b>
Deferred tax liabilities		382.1	385.5
Long-term provisions	8	1,323.4	1,315.1
Long-term debts		200.0	200.0
Other long-term liabilities		148.9	141.2
<b>Total long-term liabilities</b>		<b>2,054.4</b>	<b>2,041.8</b>
Other short-term liabilities		303.1	365.6
Derivatives	9	109.6	21.9
Liabilities from income taxes		47.1	30.7
Accrued expenses and deferred income		123.2	51.2
<b>Total short-term liabilities</b>		<b>583.0</b>	<b>469.4</b>
<b>Total liabilities</b>		<b>2,637.4</b>	<b>2,511.2</b>
<b>Total liabilities and shareholders' equity</b>		<b>5,196.6</b>	<b>4,874.7</b>

## Interim Consolidated Financial Statements of the BKW Group

### Changes in Consolidated Equity

CHF (million)	Share capital	Additional paid-in capital	Accumulated profit	Translation adjustments	Revaluation reserve	Own shares	Share of BKW share-holders	Share of minority interests	Total
Equity at 31.12.2003	132.0	35.0	2,037.7	0.6	0.0	-6.2	2,199.1	20.9	2,220.0
Effect of change in valuation principles and correction of previous-year error (see Note 2)			80.6				80.6	0.4	81.0
<i>Equity at 01.01.2004</i>	<i>132.0</i>	<i>35.0</i>	<i>2,118.3</i>	<i>0.6</i>	<i>0.0</i>	<i>-6.2</i>	<i>2,279.7</i>	<i>21.3</i>	<i>2,301.0</i>
Net profit			120.9				120.9	0.4	121.3
Translation adjustments				-0.3			-0.3		-0.3
Value adjustment to financial assets					3.4		3.4		3.4
<i>Total income and expenses recorded for the period</i>	<i>0.0</i>	<i>0.0</i>	<i>120.9</i>	<i>-0.3</i>	<i>3.4</i>	<i>0.0</i>	<i>124.0</i>	<i>0.4</i>	<i>124.4</i>
Dividends			-78.5				-78.5	-0.2	-78.7
Purchase/sale of shares			1.8			3.5	5.3		5.3
Purchase of minority interests							0.0	-5.1	-5.1
Equity at 30.06.2004	132.0	35.0	2,162.5	0.3	3.4	-2.7	2,330.5	16.4	2,346.9
Equity at 31.12.2004 (restated)	132.0	35.0	2,258.6	0.5	27.5	-105.5	2,348.1	15.4	2,363.5
Effect of change in valuation principles (see Note 2.2)			1.0				1.0		1.0
<i>Equity at 01.01.2005</i>	<i>132.0</i>	<i>35.0</i>	<i>2,259.6</i>	<i>0.5</i>	<i>27.5</i>	<i>-105.5</i>	<i>2,349.1</i>	<i>15.4</i>	<i>2,364.5</i>
Profit			143.2				143.2	0.4	143.6
Translation adjustments				0.1			0.1		0.1
Financial assets									
– value adjustment					18.3		18.3		18.3
– realisation in income statement					-1.6		-1.6		-1.6
<i>Total income and expenses recorded for the period</i>	<i>0.0</i>	<i>0.0</i>	<i>143.2</i>	<i>0.1</i>	<i>16.7</i>	<i>0.0</i>	<i>160.0</i>	<i>0.4</i>	<i>160.4</i>
Dividends			-94.9				-94.9	-0.1	-95.0
Purchase/sale of own shares			25.6			103.7	129.3		129.3
Equity at 30.06.2005	132.0	35.0	2,333.5	0.6	44.2	-1.8	2,543.5	15.7	2,559.2

## Interim Consolidated Financial Statements of the BKW Group

### Consolidated Cash Flow Statement (condensed)

CHF (million)	1 <sup>st</sup> half year 2005	1 <sup>st</sup> half year 2004 restated
Cash flow provided by operating activities	226.3	263.8
Net investments in:		
Property, plant and equipment and intangible assets	-57.1	-54.2
Participations, short-term and long-term financial assets	-70.5	-187.9
Interest and dividends received	27.8	44.3
Cash flow used for investing activities	-99.8	-197.8
Purchase/sale of own shares	125.2	-0.1
Change in long-term liabilities	10.5	23.7
Interest and dividends paid	-95.7	-79.3
Cash flow provided by/used for financing activities	40.0	-55.7
Transaction adjustments on cash and cash equivalents	-0.5	-4.2
Net change in cash and cash equivalents	166.0	6.1
Cash and cash equivalents at start of reporting period	286.6	278.6
Cash and cash equivalents at end of reporting period	452.6	284.7

# Interim Consolidated Financial Statements of the BKW Group

## Notes to the Financial Statements

### 1 Business activity

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

### 2 Accounting principles

#### 2.1 General principles

The unaudited consolidated financial statements for the half-year ended 30 June 2005 have been prepared in accordance with the International Accounting Standard on Interim Financial Reporting (IAS 34). With the exception of the following changes, the BKW Group financial statements have been drawn up in accordance with the accounting principles described in the 2004 Annual Report (pages 36–41). The entry into force of several revised or new standards and interpretations on 1 January 2005, has a significant impact on the BKW Group's accounting policies. The effect on presentation of the asset, financial and earnings situation is explained in Note 2.2. Provided no deviating requirements were defined in the transitional provisions governing the changed standards, changes in the principles or corrections of errors which resulted in adjustments to the measurement of financial years prior to 2004 were recorded in the opening balance for 1 January 2004 without affecting income. Where changes in presentation or classification have occurred, the previous year was adjusted to allow for comparability. Effects resulting from changes in the consolidated income statement for the first half of 2004 are summarised in Note 2.5.

There were no significant changes in the scope of the BKW Group consolidation.

#### 2.2 Significant changes in accounting principles

##### Valuation and disclosure of energy trading transactions

BKW has revised the business model for energy trading based on a detailed risk policy. Moreover, the revised IAS 32 and IAS 39 standards which came into force on 1 January 2005, have laid down a clearer definition of forward contracts which must be treated as financial instruments. As a result, energy trading transactions conducted with the aim of generating a trading margin must now be treated as financial instruments. Trading transactions are recorded according to the underlying transaction motive: Transactions conducted with the intention of achieving a financial trading margin are assigned to the trading book, while energy trading transactions aimed at the physical coverage of energy purchase and supply contracts are assigned to the physical book. Trading book contracts are now measured at fair value, and the income realised or unrealised from these transactions is reported under net sales as income from energy derivative trading. Physical book contracts continue to be recorded as sales (electricity trading) and as energy procurement at the time of delivery.

The effect of initial measurement of these energy trading transactions as financial instruments was calculated on 1 January 2004 with retained earnings, resulting in a CHF 4.4 million increase in equity. Positive replacement values of CHF 42.8 million and negative replacement values of CHF 43.7 million as well as a reduction of CHF 17.6 million in the provision for onerous energy sales contracts were recorded in the consolidated balance sheet. The income statement for the half year ending 30 June 2004 is negatively impacted in the amount of CHF 1.3 million

after deferred taxes, and reported sales decreased by CHF 654.6 million. Replacement values and contract volumes for energy trading transactions held for trading on the balance sheet date are listed in the table in Note 9.

#### **Decommissioning and disposal**

IFRIC Interpretation 5 on Decommissioning, Restoration and Environmental Rehabilitation Funds published by the IASB was applied early to the decommissioning and disposal of nuclear power plants and operations.

The IFRIC applies to accounting in the financial statements of shares in funds related to the decommissioning and recycling or disposal of nuclear power plants and materials. As a nuclear power plant operator, BKW is obliged to pay contributions to state funds. The right to receive reimbursement from the funds is capitalised in accordance with IAS 37. Claims are recognised at the lower of the carrying value of the provision and the fair value of the net assets of the funds. Changes in fund valuations are made in the financial result for the period in question. This initial adoption of IFRIC 5 is treated as a change in the accounting method and was applied retroactively to 1 January 2004, in line with the transitional provisions of the Interpretation. This resulted in a reduction of CHF 21.3 million in receivables from the decommissioning and disposal fund at 1 January 2004. After deducting deferred taxes, equity was charged with CHF 16.6 million. The income statement for the 2004 half year contains a negative effect, after deferred taxes, of CHF 3.8 million.

In conjunction with the initial adoption of IFRIC 5, the existing practice of recording fuel elements under current assets in the consolidated balance sheet was reviewed. Since fuel elements are in use over several years (generally 4 to 7 years)

and only special-purpose fuel elements can be used for the power plant, it was decided that reclassification from inventories to property, plant and equipment would provide more reliable information on the asset situation, and increase transparency. Fuel elements were accordingly reclassified as property, plant and equipment. The obligation to dispose of fuel elements appropriately was recorded in accordance with IAS 16, i.e. the present value of the estimated costs for disposal of fuel elements was capitalised as an element of acquisition costs, and a corresponding provision for disposal was set up. The estimated costs for decommissioning and disposal have not changed as a result of the change in accounting method. Nor have the assumptions underlying the calculation of fair values of provisions or the planning horizon for operational life changed. In accordance with IAS 8, fuel elements were reclassified for the first time retroactively to 1 January 2004 as a change in accounting methods, resulting in an increase of CHF 89.3 million in property, plant and equipment at 1 January 2004. Provisions for nuclear waste disposal, onerous contracts, energy procurement and restructuring increased on 1 January 2004 by CHF 8.4 million. After deferred taxes, equity was reduced by CHF 6.7 million. The effects reduce the result for 30 June 2004, after deferred taxes, by CHF 1.4 million.

#### **Investments in equity-valued companies**

To date, most of the associated companies and joint ventures which the BKW Group accounts for in the consolidated financial statements using the equity method, in compliance with IAS 28 and IAS 31, have prepared their financial statements according to Swiss GAAP FER. Now that companies which apply accounting policies other than IFRS standards can no longer be included in consolidated financial statements, these

companies are converting their accounts to comply with IFRS. In line with the IFRS provisions, this change in accounting methods was performed retroactively to 1 January 2004, resulting in a CHF 1.1 million increase in investments in equity-valued companies, and a reduction of CHF 0.5 million in the share of profit of these companies for the first half year 2004.

#### **Financial assets**

To date, value adjustments for financial instruments available for sale have been recognised in the income statement and reported under non-current financial assets. Since 1 January 2005, value adjustments of this type have been recorded under shareholders' equity. Impairments of financial assets continue to be charged to the income statement. If these financial instruments are sold or otherwise derecognised, the accumulated value adjustments in shareholders' equity are reposted to the income statement for the current period. The CHF 3.6 million in value adjustments (net taxes) incurred during the first half of 2004 was retroactively posted to shareholders' equity, resulting in a corresponding correction to the reported financial result and income taxes.

Securities included in a portfolio of financial instruments, jointly managed and realisable in the short term, were reclassified from non-current to current assets. The previous-year balance sheet was retroactively adjusted. At 31 December 2004, the carrying amount of reclassified securities was CHF 141.8 million.

#### **Business combinations (IFRS 3)**

Since 1 January 2005 (or following 31 March 2004, in the case of new acquisitions), a positive difference between the purchase price and the fair value of net assets acquired (goodwill) is no longer amortised on a regular basis but only if

events or changes in circumstances indicate that it might be impaired. A negative difference is recorded in the income statement of the current period. In compliance with the transitional provisions of IFRS 3, a negative difference of CHF 1.0 million at 31 December 2004 in respect of an acquisition made before 31 March 2004 was eliminated on 1 January 2005 with a corresponding adjustment to the opening balance of retained earnings.

#### **Treatment of minority interests (IAS 27)**

Third-party minority interests in Group companies are now presented in the consolidated balance sheet as part of shareholders' equity, and no longer as a separate item between liabilities and shareholders' equity. The reported result for the period now includes the share of minority interests in the profits or losses of Group companies. Earnings per share, on the other hand, continue to be reported as the share of BKW shareholders in the consolidated profit.

#### *2.3 Correction of previous-year errors*

When implementing the IFRS changes in the accounting principles of the BKW Group, an in-depth review of all material items was conducted. This resulted in the following corrections:

The tax rate used to date to calculate deferred taxes was too high and had to be reduced. On 1 January 2004, deferred tax assets declined by CHF 7.4 million and deferred tax liabilities by CHF 85.9 million. Since Group companies with minority shareholders were also affected by the change in tax rate, the share of minority interests in equity rose by CHF 0.4 million. These adjustments were made via shareholders' equity on 1 January 2004 without affecting income. Deferred tax expenses for the first half of 2004 were reduced by CHF 0.6 million.

An incorrect measurement criterion applied to investments in equity-valued companies in earlier financial years resulted in too low value for investments. The correction increased the carrying amount of investments at 1 January 2004 by CHF 20.3 million. The half-year result for 2004 was not affected.

The restructuring provision at 31 December 2004 included obligations of CHF 30 million in respect of personnel which will become due when an operational site is closed down. The costs of decommissioning, however, are regarded as part of the decommissioning provision. The present value of the obligation was therefore reclassified as a provision for nuclear waste disposal. The effect of the discounting is negligible. The reclassification has no effect on the income statement.

The calculation model for deferred holiday and overtime balance at 30 June 2004 contained a too high accrual for holiday entitlement. A correction of CHF 4.2 million in this respect was made to the income statement for the first half of 2004 but has no effect on the 2004 year-end statement.

#### *2.4 Effect of changes in estimates*

##### **Property, plant and equipment**

IAS 16 (revised) requires useful lives to be reviewed annually. Analyses conducted at the beginning of 2005 resulted in an extension of the useful life of high-voltage installations from 40 to 50 years. This adjustment and other minor adjustments to useful lives resulted in a reduction of around CHF 4 million in depreciation for the first half of 2005.

## 2.5 Reconciliation of restatement for first half of 2004

CHF (million)	1 <sup>st</sup> half year 2004 published	Impact of changes in accounting principles				Impact of errors	1 <sup>st</sup> half year 2004 restated
		IAS 32/39 Energy trading	IAS 32/39 Financial assets AfS	IAS 28/31 Equity- valued companies	IFRIC 5 Decommiss- ioning and disposal		
Net sales	1,528.6	-654.6					874.0
Own capitalised cost	8.9						8.9
Other operating income	14.5						14.5
Total operating revenue	1,552.0	-654.6	0.0	0.0	0.0	0.0	897.4
Energy procurement	-1,094.1	653.3			-6.6		-447.4
Nuclear fuel and disposal	-16.3				16.3		0.0
Material and third-party services	-52.5						-52.5
Personnel expenses	-116.8					4.2	-112.6
Other operating expenses	-70.2						-70.2
Total operating expenses	-1,349.9	653.3	0.0	0.0	9.7	4.2	-682.7
Operating income before depreciation and amortisation	202.1	-1.3	0.0	0.0	9.7	4.2	214.7
Depreciation and amortisation	-42.3				-9.3		-51.6
Operating income	159.8	-1.3	0.0	0.0	0.4	4.2	163.1
Financial result	-8.7	-0.4	-4.0		-6.9		-20.0
Income from equity-valued companies	8.5			-0.5			8.0
Result before income taxes	159.6	-1.7	-4.0	-0.5	-6.5	4.2	151.1
Income taxes	-31.6	0.4	0.4		1.3	-0.3	-29.8
Net profit	128.0	-1.3	-3.6	-0.5	-5.2	3.9	121.3
Share of profit, minority interests	0.4						0.4
Share of profit, BKW shareholders	127.6	-1.3	-3.6	-0.5	-5.2	3.9	120.9

### 3 Net sales

CHF (million)	1 <sup>st</sup> half year	1 <sup>st</sup> half year
	2005	2004
		restated
Electricity sales Switzerland	442.8	455.2
Electricity sales International	150.7	132.1
Electricity trading	227.0	188.1
Income from energy derivatives trading	11.9	1.0
Other electricity business	64.4	63.5
Gas business	7.1	11.2
Engineering services and electrical installation business	23.3	21.0
Changes in work in progress	-1.4	1.9
Total	925.8	874.0

### 4 Energy procurement

CHF (million)	1 <sup>st</sup> half year	1 <sup>st</sup> half year
	2005	2004
		restated
Electricity procurement, third parties	333.7	273.2
Electricity procurement, joint ventures	136.0	127.9
Net use of provisions for onerous contracts	-18.4	-15.8
Other expenses for electricity procurement	53.8	51.1
Gas procurement, third parties	6.8	11.0
Total	511.9	447.4

## 5 Financial result

CHF (million)	1 <sup>st</sup> half year 2005	1 <sup>st</sup> half year 2004 restated
Interest income	12.8	14.3
Dividends	1.9	2.1
Value adjustment on state funds	34.5	6.7
Gains from disposal of financial assets	2.3	0.8
Value adjustment on securities held for trading	6.0	0.0
Other financial income	0.1	0.4
<b>Financial income</b>	<b>57.6</b>	<b>24.3</b>
Interest expenses	-4.9	-5.1
Interest on provisions	-32.1	-32.1
Value adjustment on securities held for trading	0.0	-0.6
Other financial expenses	-0.8	-0.8
Currency translation adjustments	-3.0	-5.7
<b>Financial expenses</b>	<b>-40.8</b>	<b>-44.3</b>
<b>Total</b>	<b>16.8</b>	<b>-20.0</b>

## 6 Earnings per share

	1 <sup>st</sup> half year 2005	1 <sup>st</sup> half year 2004 restated
Total shares issued at par value of CHF 2.50	52,800,000	52,800,000
Average total shares held by third parties	51,469,787	52,412,761
Share of profit, BKW shareholders (in CHF million)	143.2	120.9
<b>Average earnings per share in CHF</b>	<b>2.78</b>	<b>2.31</b>

In accordance with a decision by the General Shareholders' Meeting on 26 May 2005, a 1:10 share split was carried out. To allow for comparability, the previous-year number of shares was adjusted and share information accordingly restated.

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.

Changes in the accounting principles as well as corrections to errors resulted in an adjustment in earnings per share for the previous period (see Note 2). The earnings per share published in the report on the half year ending 30 June 2004 amounted to CHF 2.44.

## 7 Property, plant and equipment

CHF (million)	Power plants	Transmission & distribution plants	Buildings and land	Nuclear fuels	Other property, plant & equipment	Construction in progress	Total
Gross values at 31.12.2003	1,216.0	1,937.9	153.6	0.0	257.0	66.8	3,631.3
Restatement	11.8			586.1			597.9
Gross values at 01.01.2004	1,227.8	1,937.9	153.6	586.1	257.0	66.8	4,229.2
Additions	1.7	0.6	0.5	3.6	0.7	51.8	58.9
Disposals	-0.6	-3.0			-3.1		-6.7
Reclassifications	6.9	8.8	2.3		1.5	-19.5	0.0
Translation adjustments							0.0
Gross values at 30.06.2004	1,235.8	1,944.3	156.4	589.7	256.1	99.1	4,281.4
Gross values at 31.12.2004 (restated)	1,225.6	1,980.2	158.4	592.3	270.3	117.6	4,344.4
Additions	1.8	1.3		7.2	0.5	50.1	60.9
Disposals	-0.6	-1.4	-0.4		-2.0		-4.4
Reclassifications	0.8	7.8	3.7		3.0	-15.3	0.0
Translation adjustments							0.0
Gross values at 30.06.2005	1,227.6	1,987.9	161.7	599.5	271.8	152.4	4,400.9
Accum. depreciation at 31.12.2003	1,102.2	1,046.4	70.7	0.0	147.5	0.0	2,366.8
Restatement	11.8			496.8			508.6
Accum. depreciation at 01.01.2004	1,114.0	1,046.4	70.7	496.8	147.5	0.0	2,875.4
Additions	3.6	28.8	1.5	9.3	8.0		51.2
Disposals	-0.2	-1.2			-3.1		-4.5
Translation adjustments							0.0
Accum. depreciation at 30.06.2004	1,117.4	1,074.0	72.2	506.1	152.4	0.0	2,922.1
Accum. depreciation at 31.12.2004 (restated)	1,107.6	1,101.7	73.8	513.6	159.8	0.0	2,956.5
Additions	3.3	23.6	1.6	9.1	9.5		47.1
Disposals		-1.2	-0.3		-2.0		-3.5
Translation adjustments							0.0
Accum. depreciation at 30.06.2005	1,110.9	1,124.1	75.1	522.7	167.3	0.0	3,000.1
Net values at 30.06.2004	118.4	870.3	84.2	83.6	103.7	99.1	1,359.3
Net values at 31.12.2004	118.0	878.5	84.6	78.7	110.5	117.6	1,387.9
Net values at 30.06.2005	116.7	863.8	86.6	76.8	104.5	152.4	1,400.8

## 8 Provisions

CHF (million)	Nuclear waste disposal	Onerous contracts for energy procurement	Onerous contracts for energy sales	Restruct- uring	Other provisions	Total
Status at 31.12.2003	865.4	289.9	34.4	39.9	80.0	1,309.6
Restatement	99.5	-61.1	-17.6	-30.0		-9.2
Status at 01.01.2004	964.9	228.8	16.8	9.9	80.0	1,300.4
Provisions made	2.6		1.8	2.0	0.1	6.5
Interest	24.1	8.0				32.1
Provisions used	-11.7	-15.8	-1.9	-1.9	-1.7	-33.0
Provisions reversed			-1.2		-1.6	-2.8
Translation adjustments						0.0
Status at 30.06.2004	979.9	221.0	15.5	10.0	76.8	1,303.2
Less short-term provisions			-5.6	-4.4	-5.2	-15.2
Total long-term provisions	979.9	221.0	9.9	5.6	71.6	1,288.0
Status at 31.12.2004 (restated)	1,002.0	220.1	13.1	10.7	94.5	1,340.4
Elimination of negative difference					-1.0	-1.0
Status at 01.01.2005	1,002.0	220.1	13.1	10.7	93.5	1,339.4
Provisions made	2.5	4.1	0.8		0.1	7.5
Interest	25.0	7.1				32.1
Provisions used	-7.6	-18.4	-3.4	-2.8	-1.7	-33.9
Provisions reversed		-6.0			-0.1	-6.1
Translation adjustments						0.0
Status at 30.06.05	1,021.9	206.9	10.5	7.9	91.8	1,339.0
Less short-term provisions			-4.1	-4.3	-7.2	-15.6
Total long-term provisions	1,021.9	206.9	6.4	3.6	84.6	1,323.4

## 9 Derivative financial instruments

BKW trades in forwards, futures, swaps and options (OTC) in the underlying commodity of energy. Such energy transactions concluded for trading purposes and open on the balance sheet date are measured as derivative financial instruments at fair value, and separately reported in the consolidated balance sheet.

In addition to energy transactions for trading purposes, forward exchange transactions are also conducted in order to hedge against exchange rate fluctuations. These are measured in accordance with IAS 39 and also accounted for at fair value. They primarily consist of hedging transactions in the Euro zone.

The following table provides information on replacement values and contract volumes for all derivative financial instruments open on the balance sheet date. The replacement value corresponds to the fair value of open derivative financial instruments. Positive replacement values represent receivables and hence an asset. Negative replacement values represent obligations and hence a liability. The contract volume corresponds to the underlying commodity or underlying contract amount.

CHF (million)	Replacement costs		Contract volume
	Positive	Negative	
	31.12.2004	31.12.2004	31.12.2004
Futures (energy trading)	0.0	0.0	172.2
Forward contracts	24.6	21.9	397.4
Currency hedging	0.0	0.0	0.0
Total	24.6	21.9	569.6
	30.06.2005	30.06.2005	30.06.2005
Futures (energy trading)	0.0	0.0	265.4
Forward contracts	109.3	107.5	984.1
Currency hedging	0.0	2.1	64.7
Total	109.3	109.6	1,314.2

## Investor Information and Important Dates

### Performance of the BKW share

#### Key facts about the BKW share

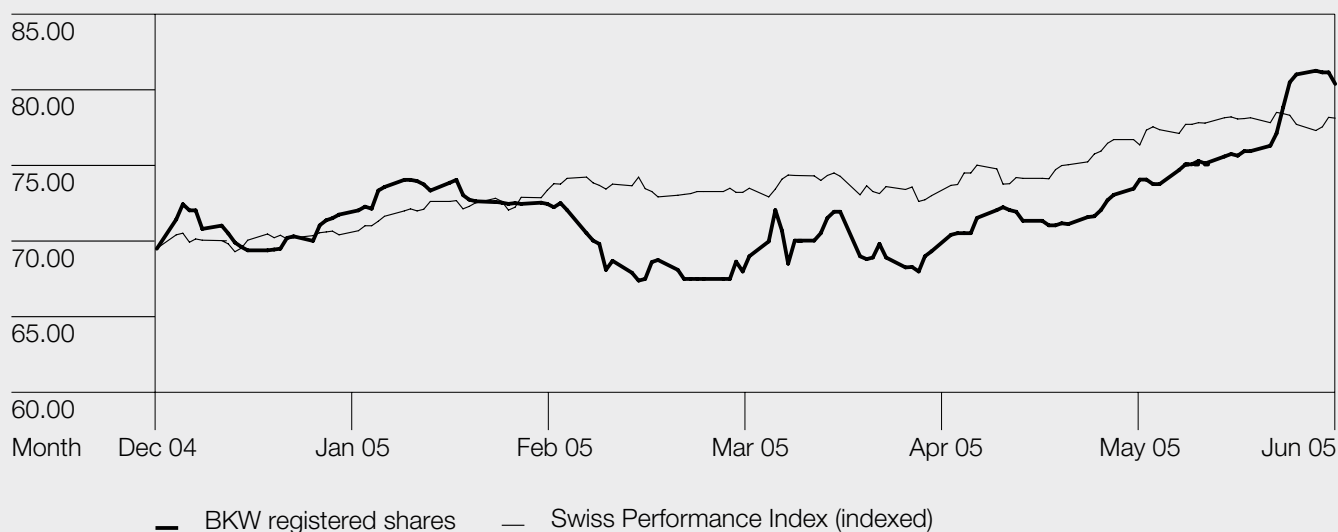
BKW FMB Energy Ltd share capital of CHF 132 million is divided into 52,800,000 registered shares at a par value of CHF 2.50 each. In the period under review the share price rose by 15.47 percent.

The General Shareholders' Meeting of 26 May 2005 voted in favour of a proposal by the Board of Directors to split the 5,280,000 existing registered shares at a par value of CHF 25 each in a 1:10 ratio to create 52,800,000 new registered shares at a par value of CHF 2.50 each. The date of the split was 6 June 2005.

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

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

#### BKW share performance 31.12.2004–30.06.2005 (in CHF)



Significant shareholders	at 30.06.2005	at 31.12.2004
Canton of Berne	52.91%	52.91%
E.ON Energie AG	20.00%	20.00%

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).

#### Financial Calendar

Annual Press Conference 6 April 2006  
General Shareholders' Meeting 19 May 2006  
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