Dear shareholders,

Despite tough conditions, 2014 was a strong year for BKW in every respect. The financial results are excellent, and we firmed up our strategy and continued to implement it.

Although we’re well into 2015 now, allow me to take a quick look back at 2014:

- With slight revenue growth, BKW posted operating profit – EBIT – of 347 million Swiss francs. That equates to an increase of 9.5 per cent versus 2013.

- Operating cash flow grew to 538 million Swiss francs, thereby reaching its highest level for five years. To put these figures into perspective for you: the dismantling of the Mühleberg nuclear power plant will cost 800 million Swiss francs, so the equivalent of one-and-a-half years’ cash flow for BKW based on 2014 figures.

- On the subject of Mühleberg: we have made the necessary financial provisions. The decommissioning of the Mühleberg nuclear power plant is on track. The necessary funds have been almost entirely paid into the relevant funds or set aside. You can find all the details in the Financial Report.

- On account of these good figures, we have paid back 320 million Swiss francs of debts, reducing our net debt by 40 per cent.
• The equity ratio, in other words the relationship between equity and the balance sheet total, is just under 32 per cent.

We achieved these financial results despite falling electricity prices and the set-up costs associated with implementation of our strategy. This was possible for several reasons.

The main ones were:

• 20 per cent growth of our service business.
• Efficiency enhancements and therefore lower costs – including in the operation of our production facilities.
• Good management of our electricity portfolio allowed us to absorb the fall in electricity prices to some degree.

[Folie 3 – Herausforderungen 2015]

[Herausforderndes 2015]

In 2015, we are navigating stormy seas. Electricity prices continue to fall and on top of that we have to contend with an extremely unfavourable Euro-Swiss franc exchange rate.

Electricity is an export product. And a large portion of the electricity consumed in Switzerland is bought and sold in Euros. We are therefore a heavily export-oriented company, whether we like it or not. Electricity produced in Switzerland has become more expensive compared to electricity generated abroad. But unlike export-oriented companies, we cannot easily relocate our production facilities, i.e. our power plants, overseas.

The aim of our strategy is therefore to make BKW as robust as possible: it is currently too dependent on electricity prices.

[Folie 4 – Die BKW wird robust]

We want to

• Strengthen energy
• Develop networks
• Expand services

Implementation of the new strategy is bringing about a transformation that is taking place in an increasingly difficult environment with very challenging conditions. BKW is like a tanker that has to turn around in a storm. In the process we have to make sure that we keep our crew and passengers – in
other words employees and customers – as well as all of you as owners on board.

Ladies and gentlemen, it’s all about being robust and stable in an environment that is set to be turbulent for years to come. This is the key to becoming Switzerland’s leading energy and infrastructure services provider.

As I said before, our strategy is based on three fields of business:

- Strengthening energy
- Developing networks
- Expanding services

[FFolie 5 – Energie stärken]

The energy business includes:

- Production on the free market, for example our large-scale hydropower. The falling electricity prices mean this type of production is set to become unprofitable in the coming years.
- The focus in production is therefore on reducing costs and making intelligent maintenance investments to maintain the value of our facilities and ensure security of supply.

What does “strengthening energy” mean?

A key part of the energy business is developing the production of new renewables. This means developing wind capacities and small-scale hydropower plants. These businesses benefit from regulated feed-in tariffs and subsidies. These regulations are attractive enough to BKW to justify investments. Compared to the risk involved, they offer reliable and safe returns. The investments not only tally with BKW’s corporate strategy, but also with European energy policy.

In order to strengthen the energy business, we also need to bolster trading and energy sales.

Trading is our internal electricity hub at BKW. Its main task nowadays is to protect BKW to some extent from the major risks of electricity production in this volatile and difficult environment.
So you see, ladies and gentlemen, the current energy business poses high risks but also offers opportunities.

BKW owns Switzerland’s largest distribution grid. The opportunities and risks of the network business are of a completely different nature to those of the energy business.

What does “developing networks” mean?

The network business involves guaranteeing security of supply and quality of supply in an efficient and intelligent way. This means gradually reducing operating costs and investing as effectively as possible. It also means making sure the distribution grid is in a fit state to handle the major technological requirements of decentralised electricity production.

BKW understands and is proficient in this business. It has therefore successfully achieved the specified return on capital for the network. This stable return is an important support for BKW as it navigates a tough environment. This is also why we will maintain a high level of investment in our networks.

Even if we do all our homework in the new energy business and our network business is stable: in the current market environment this is not enough to keep our business robust, profitable and sustainable in the medium term.

As the Chairman of the Board of Directors already said, we could of course just wait for electricity prices to rise again. But this would mean gambling with the future of BKW. This is not a gamble we are willing to take. **We are therefore taking the future into our own hands** and further developing the company.

We are developing new fields of business. New fields of business that are not dependent on electricity prices. Fields of business where you don’t have to wait over 20, 40 or 80 years to reap the returns of your investment, but sooner. In five or at the most ten years.

We see interesting opportunities for BKW in the development of a strong energy and infrastructure services business.

What does this mean exactly?
We already generate revenues of around 300 million Swiss francs from services. Our group companies, Arnold in network installations and ISP in the field of electronic and photovoltaic installations, play an instrumental role here.

The service business should be considered as complementary to what we are doing already and is a major opportunity for us. Specifically, we are focusing on four areas within the energy and infrastructure services field of business.

- **Asset management**: We operate facilities for third parties, to whom we can offer comprehensive service packages. For example wind parks for investors, in which we often also hold a stake.

- **Infrastructure and network services**: Through acquisitions we have further strengthened this area. In this way, Arnold and ISP were able to grow their customer bases and expand their regional presence. We see significant growth in this area.

- **Building technology**: The heating, ventilation and air conditioning market segment (HVAC) is the ideal complement to our service business. Building technology, building infrastructure, internal consumption and energy supply all go hand in hand. These are areas in which we are strong. As energy and infrastructure service providers in particular, we can offer our customers complete packages and therefore optimise energy efficiency better than others. In this way, we are helping achieve the efficiency targets set by the government.

- **Power plant engineering**: This is an exciting field in which we have extensive expertise that we demonstrate in Switzerland and abroad. This includes our many years of experience in hydro engineering and in the safe operation of power plants. We make specialist know-how, for example related to non-destructive material testing, accessible to the industry.

Expansion of the service business is the main reason why BKW will continue to grow – under its own steam and through acquisitions. By 2018, 5,500 people will be working at BKW.

[Folie 9 – Lernen, vom Kunden her zu denken]

[Kulturwandel]
We will achieve our goal of generating a third of our profit from services within a few years if we manage to change our culture.

You might well be asking yourselves what this cultural shift involves. Cultural shift is a broad and extensive topic. It is difficult to measure and yet it is the decisive success factor.

Culture is the thousands of small and medium-sized decisions that are made every day at BKW. It is the way we behave with customers and colleagues, the way we approach problems and the way we seize opportunities.

Culture cannot be prescribed, but has to be lived. The culture of BKW is undergoing a transformation: towards customer focus, pragmatism, thinking in terms of integrated solutions and cross-divisional collaboration. It is time for us to learn to think about our products and services from customers’ point of view.

In this process we will be guided by our values. We need additional skills and a new, joined-up way of thinking. We are setting standards and making a major contribution to our society. We are a reliable partner for our customers, employees and business partners. We assume responsibility and implement tasks with motivation and commitment. Because, after all, results count.

I would like to thank you, BKW shareholders and employees, for your loyalty to our company. Your long-term thinking is a huge support for the Executive Board in the implementation of our strategy, because we too have to think long term. The outstanding 2014 annual results spur us on to keep working towards our goal of becoming Switzerland’s leading energy and infrastructure services provider. But we won’t let ourselves be blinded by this goal, instead we will continue to devote all our energy to tackling the tasks ahead.

Thank you!