

Annual Report 2015



"We transport electricity. Essential for Switzerland. Indispensable for Europe. A driving force that provides quality of life for millions of people. Today and tomorrow."

Contents

6 EDITORIAL

MANAGEMENT REPORT

- 13 Regulatory business model
- 15 Business performance
- 16 Risk assessment
- 18 Future prospects

FINANCIAL STATEMENTS SWISS GAAP FER

- 21 Income statement
- 22 Balance sheet
- 24 Cash flow statement
- 26 Statement of changes in equity
- 27 Notes
- 62 Report of the independent auditor

STATUTORY FINANCIAL STATEMENTS

- 65 Income statement
- 66 Balance sheet
- 68 Cash flow statement
- 70 Notes
- 85 Proposed appropriation of available earnings
- 86 Report of the statutory auditor

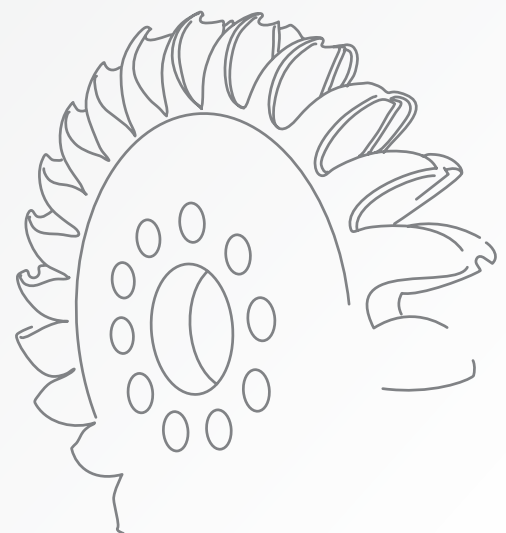
91 CORPORATE GOVERNANCE

For more information on the cooperation between Nant de Drance and Swissgrid, go to:
<http://ar2015.swissgrid.ch>



“Together with Swissgrid, we can provide an invaluable service for Switzerland and Europe to ensure security of supply.”

Eric Wuilloud, Director Nant de Drance SA



Well-prepared for the energy future

DEAR READERS,

A good ten years after founding Swissgrid, we can report that the national grid company has changed significantly and is now in a solid position to overcome the challenges faced as a result of the energy reform. Initially only responsible for operating the transmission grid, Swissgrid has since taken over almost all systems and secured their re-financing.

Pierre-Alain Graf, who, as CEO, was responsible for the takeover of the grids and the company's realignment, left the company at his own request in September. Under his leadership, Swissgrid laid the foundation for successful development and achieved substantial cost savings. Yves Zumwald, Head of Grid Operations and member of the Executive Board, has initially been appointed CEO ad interim until a decision is made on a successor.

Swissgrid continued its commitment to higher efficiency in 2015. The consolidation measures introduced promise annual cost reductions in the tens of millions of francs by 2018. These savings are necessary, as the investments and capital costs to upgrade the grid will rise in the future.

HIGH SECURITY OF SUPPLY DESPITE INCREASING DEMANDS

In February, Swissgrid celebrated the inauguration of the second control centre in Prilly, near Lausanne. In future, two locations will be able to coordinate electricity transport in Switzerland independently or in tandem. This makes an important contribution to an even more secure supply of electricity.



Yves Zumwald, Adrian Bult

The growing share of renewable energies is a great challenge for operators in the control centres. Swissgrid therefore continued to invest in their ongoing education in 2015. In future, our new Training & Simulation Centre, the only one of its kind in Switzerland, will offer drills for management staff of grid control rooms and power plants. Swissgrid has also worked together with the School of Engineering and Architecture of Fribourg to develop a professional training course for system operators.

As shown by assessments performed by the European Network of Transmission System Operators, Swissgrid's investments in grid operations management are paying off. In 2015, Switzerland once again achieved the best control quality in Europe. At the same time, the secure operation of the grid during special events remained one of the greatest challenges.

The solar eclipse in March led to significant oscillations in electricity generation. However, thanks to the extensive precautions taken in the European Network, supply was not interrupted. In autumn, it became clear that Switzerland would be faced with a strained energy and grid situation for the winter due to low energy reserves. We communicated our forecasts transparently and searched for solutions with our partners. The measures implemented in cooperation with the energy sector in Switzerland and the European transmission grid operators, as well as the relatively mild temperatures, contributed significantly to easing the situation.

NECESSARY GRID UPGRADE

After extensive preparations, Swissgrid presented the "Strategic Grid 2025" report to the general public in the spring of 2015. This report specifies the grid expansion projects that are necessary in order to guarantee security of supply in the long term. Overall, we expect to invest around 2.5 billion francs over the next ten years.

Swissgrid continued to upgrade its grid with line projects in Aargau, Valais and Ticino. The construction of the line to the Nant de Drance power plant and the new Laufenburg substation started in 2015. The grid connection for the Limmern power plant and the Winkeln outdoor switching substation also commenced operation.

Swissgrid has intensified its efforts to communicate with citizens affected by construction projects. We provided transparent information at numerous meetings, information events, topping-out ceremonies and trade fairs. However, time delays in the approval and tender phase of grid construction projects remain a hurdle that must be overcome in the interests of the urgently required renovation of the infrastructure.

PROGRESSIVE CHANGE IN THE POWER MARKET

Mid-December marked the start of the consultation process for a new design for the Swiss and European power markets, which Swissgrid developed together with its partners. This active participation has ensured that our national interests are reflected in the design of a changing market.

Swissgrid was also represented in additional committees, such as in the Board of Directors of the Holding des Gestionnaires de Réseau de Transport d'Electricité (HGRT) and of the European power exchange EPEX SPOT. Together with other transmission grid operators from Central and Western Europe, this has allowed us to make a contribution to ensuring the balance between the power market and security of supply.

In 2015, existing partnerships with the German, Austrian and Dutch transmission grid operators were merged. The result is the largest uniform ancillary service market in Europe. This promises additional cost reductions in the procurement of such services in the medium term.

FOCUS ON SECURITY AND EFFICIENCY

To guarantee security of supply and increase flexibility and efficiency, Swissgrid needs to increasingly automate its operations. For this reason, the company is working intensively on the introduction of a modern control system. This will provide central control for the grid operation and the country's 140 switching substations. At the same time, Swissgrid is developing its safety management, especially personnel and occupational safety and system protection.

The successful achievements of the past year would not have been possible without the valuable commitment of our employees and partners. On behalf of the Board of Directors and the Executive Board, we would like to extend our thanks to everyone whose daily dedication and commitment helped us achieve our goals.

Adrian Bult
Chairman of the
Board of Directors

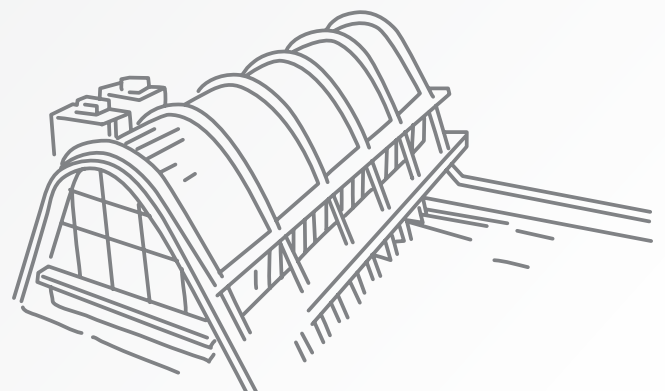
Yves Zumwald
CEO

For more information on the cooperation between AET and Swissgrid, go to:
<http://ar2015.swissgrid.ch>



“Ticino is hugely important for Switzerland – as a portal for transport as well as for electricity. This means that good cooperation with Swissgrid is absolutely critical.”

Roberto Pronini, CEO AET



Financial Report

- MANAGEMENT REPORT
- FINANCIAL STATEMENTS SWISS GAAP FER
- STATUTORY FINANCIAL STATEMENTS

Management Report

This Management Report covers both the requirements pursuant to Art. 961c CO (Code of Obligations) in connection with the statutory financial statements as well as the provisions on the «Annual Report» relating to the financial statements in accordance with the Swiss GAAP FER (Swiss GAAP FER framework concept, paragraphs 7 and 34).

Regulatory Business Model

LEGAL AND REGULATORY ENVIRONMENT

The electricity industry's value chain can basically be divided into the following areas: electricity generation -> electricity transmission -> electricity distribution -> electricity consumption. As owner and operator of the Swiss extra-high-voltage grid, Swissgrid is responsible for the transmission of electricity.

The high investments for the construction of the transmission system, rising economies of scale (in view of falling marginal costs) and high irreversible costs result in a natural monopoly in the area of the transmission of electricity. This has been structured as a legal monopoly by the legislator based on the Electricity Supply Act (StromVG) and the Electricity Supply Ordinance (StromVV).

The Federal Electricity Commission (ElCom) is supervising compliance with the Electricity Supply Act and the Electricity Supply Ordinance. It is the independent, governmental regulatory authority in the electricity industry and is allowed to issue rulings where necessary, against which there is a right of appeal to the Federal Administrative Court with the possibility of appeal to the Federal Court.

Given the public interest in the secure national supply of electricity, the resulting legislation and the relevant supervision by the regulator, Swissgrid's business activities are overwhelmingly subject to strict regulation.

BUSINESS ACTIVITY

As the National Grid Company, Swissgrid is responsible for the non-discriminatory, reliable and efficient operation of the transmission grid as well as its sustainable and efficient maintenance. The renovation and demand-driven expansion of the Swiss extra-high-voltage grid are also considered amongst the company's most important tasks.

Swissgrid also provides additional services, such as balance group and congestion management or the ancillary services (AS) as part of the European and Swiss grid operation. Together with representing national and international interests, Swissgrid makes an important contribution to ensuring the secure supply of electricity for Switzerland.

COST-PLUS REGULATION

Swissgrid's legal mandate and business activities expose the company to costs that can be passed on to the lower grid levels and end consumers in the form of tariff revenues, if the regulator deems the costs to be allowable in accordance with the electricity supply legislation. ElCom performs an ex post review of the chargeability of the costs for Swissgrid.

Chargeable costs include the operating and capital costs of a secure and efficient grid. Allowable costs also include an adequate operating profit. As a result, this is referred to as a «Cost Plus» regulation: «Cost» stands for the cost recovery principle and «Plus» stands for the operating profit.

CHARGEABLE OPERATING AND CAPITAL COSTS

Chargeable operating costs include the costs for services directly related to the operation. Examples include costs for maintaining the grid, costs for providing the ancillary services, personnel expenses, costs for materials and third-party supplies as well as direct taxes.

Chargeable capital costs include imputed depreciation and imputed interest. Capital costs are directly dependent on the assets required to operate the transmission system (regulated asset base, RAB) and the applicable regulatory interest rate (WACC).

In particular, the RAB consists of the transmission grid assets (incl. construction in progress), intangible assets, the net current assets determined on a monthly basis and the volume- and tariff-related timing differences.

VOLUME- AND TARIFF-RELATED TIMING DIFFERENCES

Swissgrid calculates the required tariff revenues ex ante based on budgeted costs (operating and capital costs). Costs and volume differences between the «actual» situation for a year and the «budgeted» situation for the same year regularly lead to differences between the actual costs and actual income for a year. These differences are referred to as volume- and tariff-related timing differences and are rectified over the coming years.

If effective costs exceed the tariff revenues for the same year, this results in a deficit. This deficit can be eliminated over subsequent years by increasing the tariff. By contrast, if tariff revenues exceed effective costs for the same year, this results in a surplus, which must be used to reduce tariffs over subsequent years.

As part of the investing operating assets, volume- and tariff-related timing differences are also subject to interest at the WACC and so influence the capital costs. Deficits increase capital costs, while these are reduced by surpluses.

PROFIT REGULATION

The legal framework in place for Swissgrid means that the EBI (earnings before interest) of the regulated business area is essentially a multiplication of the regulated asset base (RAB) and the capital cost rate (WACC).

Additional, comparatively immaterial profit contributions may arise from Swissgrid's unregulated business area.

The EBI is then used to compensate Swissgrid's stakeholders via interest on borrowed capital and return on equity (dividends and/or profit retention). Cost-Plus regulation therefore leads to a return in the amount of the capital cost rate (WACC).

IMPUTED CAPITAL COST RATE (WACC)

The WACC is an imputed interest rate defined annually based on the electricity supply legislation, which applies equally for all grid operators (Swissgrid and distribution grid operators).

The WACC is calculated methodically taking account of the current Best Practice guidelines provided by the Federal Department of Environment, Transport, Energy and Communication (UVEK). The methodology was developed specifically for the regulation of electricity grid operators and intends to ensure security of investment for these operators. With regard to the financing structure, the WACC calculation assumes an equity share of 40% and a borrowed capital share of 60%. Specific thresholds apply for the individual capital cost parameters.

As the WACC represents an imputed interest rate for the entire sector, Swissgrid's actual capital costs are not included in the tariff calculation. On the other hand, this means that Swissgrid is responsible for determining how the imputed interest received via the tariffs is distributed to shareholders and lenders.

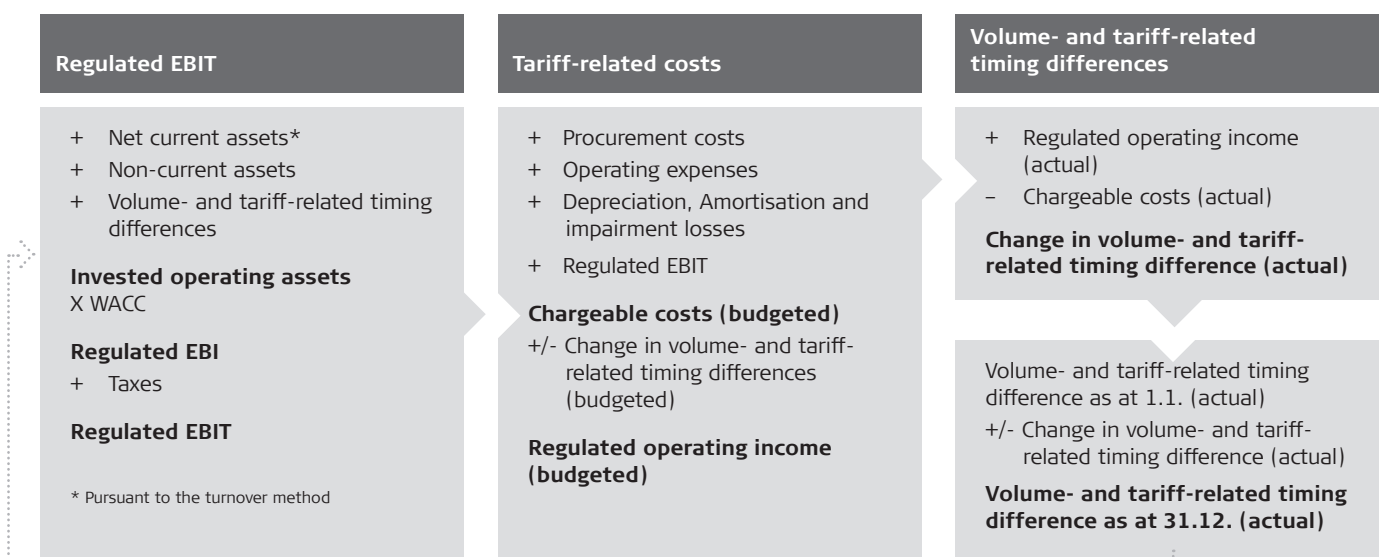


Illustration of the regulatory business model

Business Performance

(values pursuant to Swiss GAAP FER)

PROCUREMENT COSTS

Procurement costs of CHF 295,2 million are below the previous year's value of CHF 356,1 million. In the grid utilisation segment, procurement costs fell significantly to CHF 48,3 million (previous year: CHF 95,8 million). The reduction is due to the takeover of the ewz extra-high-voltage grid on 5 January 2015 as well as due to the lower follow-up compensation of grid costs to former transmission grid owners. Procurement costs in the general ancillary services segment declined by CHF 16,4 million. This is primarily due to lower costs for power provision. The individual ancillary services (active power loss and reactive energy) reported a slight rise in procurement costs by CHF 4,4 million compared to the previous year. This is primarily due to the large procurement volume of active power losses.

OPERATING EXPENSES

Overall operating expenses of CHF 209,2 million are 10% lower than the previous year's value of CHF 231,0 million. The effects in the individual expense categories differ but, as a whole, reflect the implemented consolidation and optimisation of activities in order to sustainably reduce the cost level based on the defined path.

Personnel expenses of CHF 93,6 million are higher compared to the previous year (CHF 87,9 million), but contain the restructuring provision of CHF 7,5 million recorded in connection with the programme to increase efficiency and reduce costs. The annual average number of full-time positions amounts to 441,9 (previous year: 451,6 FTE) to operate the core business and 33.1 (previous year: 27,8 FTE) to handle the orders in accordance with the energy act. In total in 2015, Swissgrid employed 475,0 full-time positions (previous year: 479,4 FTE) on an annual average.

Cost of materials and third-party suppliers as well as other operating expenses were able to be reduced by CHF 27,5 million to CHF 115,6 million. Significant savings were achieved by the public tendering of maintenance activities. Conversely, the pro-rata costs to be borne for mixed-use assets rose significantly due to the grid systems acquired on 5 January 2015. Expenses were also burdened with a dismantling provision of CHF 6,1 million.

Depreciation on property, plant and equipment and intangible assets amount to CHF 119,3 million, are significant higher than the previous year's value of CHF 104,7 million, due to the increase in non-current assets. The increase in non-current assets is the result of the grid takeover on 5 January 2015, investments during the reporting year as well as the fact that, at CHF 31,8 million, fewer congestion proceeds were used to finance grid investments in 2015 than in 2014 (CHF 118,7 million). Impairment losses of CHF 4,9 million were recognised in the reporting year.

REVENUE AND VOLUME- AND TARIFF-RELATED TIMING DIFFERENCES

Net turnover increased moderately by CHF 25,7 million compared to previous year and amounts to CHF 837,7 million. However, there were opposite effects within the segments. Net turnover in the grid utilisation segment amounted to CHF 430,2 million in 2015, after CHF 370,2 million was reported the previous year. Net turnover in the general ancillary services segment declined by CHF 61,0 million to CHF 320,6 million in the reporting year.

The net amounts of the volume- and tariff-related timing differences decreased significantly by CHF 79,8 million in the reporting year (cumulative deficits less cumulative surpluses). A similar picture to net turnover is painted within the individual segments: in the grid utilisation segment, deficits continued to increase compared to the previous year, while deficits in the general ancillary services segment have been completely eliminated and the segment recently reported a slight surplus of CHF 21,0 million.

EBIT, FINANCIAL INCOME AND NET INCOME

Swissgrid's EBIT is legally defined as the multiplication of the invested operating assets (regulated asset base, RAB) by the capital cost rate (WACC) plus taxes.

The EBIT of CHF 153,4 million was above the previous year's value of CHF 141,4 million. The increase is predominantly due to the grid systems that were taken over on 5 January 2015, as these lead to a significant rise in the RAB compared to the previous year.

Risk assessment

The financing of these takeovers led to a CHF 3,0 million rise in the financial expense compared to the previous year, with a total of CHF 44,0 million. In consideration of a marginal financial income of CHF 0,2 million (previous year: CHF 0,0 million) and after deducting income taxes of CHF 21,6 million (previous year: CHF 19,9 million), this results in net income of CHF 88,0 million (previous year: CHF 80,5 million).

BALANCE SHEET AND CASH FLOW STATEMENT

Total assets (excluding fiduciary positions) increased by CHF 284,2 million compared to the previous year to CHF 2,955 billion. The change is predominantly due to the transmission grid assets acquired at the beginning of 2015 (CHF 341,5 million on 5 January 2015).

As was the case the previous year, the equity base was further strengthened by the net income as well as the takeover of additional parts of the transmission grid in return for consideration in the form of 30% of Swissgrid shares.

Adjusted for the balance sheet items held on a fiduciary basis and volume- and tariff-related timing differences, the equity ratio on 31 december 2015 amounts to 32,3%, compared with 28,8% the previous year. Besides the above-mentioned strengthening of the equity base, the reduction of the volume- and tariff-related timing differences (CHF 79,8 million) also had a positive influence on the equity ratio in the reporting year.

In particular, the high positive free cash-flow (FCF) of CHF 241,7 million (previous year: positive FCF of CHF 61,0 million) enabled short-term financial liabilities to be significantly reduced by CHF 203,1 million. Short-term loans of CHF 25,0 million exist on 31 december 2015.

Risk management is an integral part of effective and prudent corporate management for Swissgrid. Swissgrid's risk management includes the entire organisation, is based on established standards (ISO 31000 and COSO ERM) and satisfies the internal requirements of corporate governance as well as the requirements under Swiss law.

OBJECTIVES

Risk Management assists management in consciously dealing with risks, in expedient and transparent reporting, in managing and documenting an appropriate Risk Management system as well as in developing and maintaining a corporate culture that fosters the deliberate and forward-looking management of risks.

ORGANISATION

The Board of Directors delegates the realisation of Risk Management to the CEO of Swissgrid. The Board of Directors has delegated this activity to the central Risk Management organisational unit, which reports directly to the CFO. It manages the Risk Management process and a virtual team of specialists in all Swissgrid business units.

PROCESS

The comprehensive annual risk assessment is an integral part of the strategy process. The key risks are identified and assessed as part of this multi-stage, structured process. Target/threshold values and strategies for managing these risks are also identified. Risk monitoring, including the effectiveness and level of implementation of the measures taken, is performed as part of regular risk updates. The results of the risk assessment and the risk updates are reported to the Executive Board quarterly and to the Board of Directors semi-annually.

RISK SITUATION

Risk drivers can be found in the national as well as in the European political and regulatory environment, in the challenging economic conditions in the sector and the developments in the area of market structure, production and distribution. Examples of significant risks are:

Strategic risks

- Isolation of the Swiss electricity system and insufficient assertion of interests: Swissgrid's role is being challenged at a national and international level. In Europe, the trend towards centralisation and restricted access to important committees are threatening our scope of action. Due to the lack of an electricity agreement between the EU and Switzerland, there is the potential risk that Switzerland's electricity system may become isolated (the EU has already inserted a third country clause into the initial Network Code). Nationally, there is the risk that the interests of Swissgrid, derived from its mandate, cannot be adequately advanced in relation to the industry.
- Implementation of the strategic grid: the adopted and communicated strategic grid cannot be completed on time for procedural reasons or due to the activities of stakeholders. This may restrict the removal of energy production, the import or transit of energy, which may lead to economic losses or a power shortage.
- Loss of reputation: a loss of reputation can lead to restrictions in the capacity to act at a domestic and international level. A connection with negative topics, increased visibility due to the grid takeover and the fact that Swissgrid is a listed company increases the attractiveness of attacks on reputation.
- Threat to financial stability: liquidity and financing problems due to negative procedural rulings, reduced internal financing capability (e.g. due to the reduction of the WACC from 2017), non-chargeable costs, etc., with a corresponding impact on KPIs such as the equity ratio, interest cover ratio and rating.

Operational risks

- Operating/infrastructure faults: in extreme situations, insufficient control reserves, the unavailability of reserve power in Switzerland and the failure of multiple central functions may lead to a loss of controllability. For example, infrastructure faults may be triggered by the failure of equipment caused by overloading, force majeure or accidents, etc. An equipment or infrastructure fault may also be caused by a security incident. Attacks on physical or ICT infrastructure (e.g. cyber-attack) may lead to the failure of important systems and processes.
- Power shortage: the occurrence of several adverse factors (e.g. low water levels in rivers and reservoirs, additional failure of base load energy from nuclear power) may lead to the overloading and failure of critical grid elements. A cascade of such failures may lead to load shedding and, in extreme cases, to a blackout.
- Market failure: speculative behaviour by market participants may place the status of the grid at risk, which may be exacerbated by large quantities of unsettled trading positions and a lack of compatibility with EU principles (Network Codes).
- Inadequate competence/skills portfolio: constant change in the sector means that other competencies will be necessary in order to meet future challenges in the short and medium term.

Future Prospects

Financial risks: Swissgrid's business activities mean that it is exposed to various financial risks. These include liquidity, foreign currency, interest rate and counterparty risks:

- Liquidity risk: liquidity is ensured by the continuous planning and monitoring of the funding requirements as well as committed bank credit facilities.
- Foreign currency risk: foreign currency risk is primarily reduced by natural hedging (exposure netting). As this measure only partially reduces the risk, spot and forward exchange transactions are also employed.
- Interest rate risk: the risk of interest rate changes is reduced by staggering the maturities and a balanced financing matrix. In addition, Swissgrid essentially targets long-term financing with fixed interest rates in line with its business model.
- Counterparty risk: financial transactions are exclusively concluded with counterparties with at least an external rating of A-. Individual thresholds are also defined for each counterparty.

The risks mentioned are monitored periodically and are assessed by a separate risk committee at least quarterly. Additional measures are implemented where necessary.

STRATEGIC OUTLOOK

Strengthening security of supply: Last spring, Swissgrid presented the necessary measures to ensure a high security of supply in the «Strategic Grid 2025». This comprehensive plan considers the medium- and long-term influencing factors on grid development. It is important that the planned grid expansion projects can now be promptly implemented. Delays in their approval and tendering phase remain one of the hurdles that Swissgrid must overcome together with the sector, politics and the Federal Government.

Increased level of automation in grid operations: In order for Swissgrid to fulfil its legal mandate in the long-term, investment in the transmission grid must be joined by a higher level of automation in grid operations. Swissgrid is therefore focussed on introducing a modern control system, the central software that will be used to operate the grid. This is expected to be implemented together with the direct control of Switzerland's 140 switching substations. These innovations will allow Swissgrid to achieve higher operating flexibility and efficiency.

Secure grid operation: Apart from efficiency, a secure grid operation is one of the key concerns. As a result, in the coming years, the focus will be on the ongoing development of security management, specifically personnel and occupational safety as well as the physical protection of the systems. The aim is to establish a comprehensive safety culture at Swissgrid and to ensure even better protection for systems and employees.

Development of the market design: Swissgrid aims to initiate changes within the company as well as to actively help form the environment. Together with numerous industry partners, it developed proposals for a new market design for the European and Swiss power market. This gives Swissgrid the opportunity to position Switzerland's interests in a changing European power market.

FINANCIAL OUTLOOK

Grid investments: An increase in the investment volume is expected with a view towards a sustainable energy future and the grid optimisation, grid enhancement and grid expansion measures defined in the «Strategic Grid 2025» report. Swissgrid plans to invest CHF 180 million in the Swiss transmission grid every year.

Operating costs: For the operating costs, the focus is on the multi-year programme to increase efficiency and reduce costs, whose scheduled implementation was determined by the Board of Directors in March 2015. The target level for 2018 is ambitious, but the results achieved to date are positive and reaffirm the targeted cost reduction path. In 2016, Swissgrid will build on the results achieved and experience gained, and will continue to implement the defined measures.

EBIT and net income: Based on the regulatory business model, EBIT is directly dependent on the RAB as well as the WACC. The reduction of the WACC from 4,70% to 3,83% ruled by the Federal Department of Environment, Transport, Energy and Communication (UVEK) for the year 2017 has a negative impact on EBIT and net income.

In accordance with the dividend policy approved by the Board of Directors, the income generated will be retained on a pro rata basis depending on the equity ratio. This enables a continuous increase in the equity ratio to ensure Swissgrid's long-term financial stability.

Grid acquisitions: The first valuation adjustment of the grid systems acquired on 4 January 2016 will take place in autumn 2016, similar to previous annual grid acquisitions. However, this year, any effects on Swissgrid's balance sheet (increase in non-current assets, equity and borrowed capital) are expected to be marginal. The provisional value of the transferred assets amounts to CHF 27,0 million.

The issue of the amount of the assessed transaction value of the transmission grid (final remuneration value of all previously acquired grid systems) will be clarified by ElCom as part of the respective administrative procedure in place since November 2013. The financial consequences of this procedure are difficult to estimate, but have no direct influence on Swissgrid's income.

Financial statements

Swiss GAAP FER

Income statement

In millions of CHF	Notes	2015	2014
Net turnover	4, 5	837.7	812.0
Other operating income	4, 6	17.4	17.3
Change in volume- and tariff-related timing differences	4, 15	- 87.4	- 8.0
Capitalised self-constructed assets		14.3	11.9
Total operating income		782.0	833.2
Procurement costs	4, 5	295.2	356.1
Gross profit		486.8	477.1
Cost of materials and third-party supplies	7	93.8	121.6
Personnel expenses	8	93.6	87.9
Other operating expenses	9	21.8	21.5
Earnings before interest, income taxes, depreciation and amortisation		277.6	246.1
Depreciation on property, plant and equipment	13	100.5	81.3
Amortisation on intangible assets	13	18.8	23.4
Impairment losses	13	4.9	-
Earnings before interest and income taxes (EBIT)	4	153.4	141.4
Financial income	10	0.2	-
Financial expenses	11	44.0	41.0
Earnings before income taxes		109.6	100.4
Income taxes	12	21.6	19.9
Net income		88.0	80.5

EARNINGS PER SHARE

CHF	2015	2014
Net income	87,965,212	80,528,378
Weighted average number of shares outstanding	312,393,906	275,874,354
Non-diluted earnings per share	0.28	0.29
Dilution from the conversion of the convertible loans	- 0.08	- 0.10
Diluted earnings per share	0.20	0.19

The dilution arises from the potential conversion of the convertible loans to equity. For an assumed conversion on 1 January 2015, the interest expense would have been reduced by CHF 27.9 million (previous year: CHF 27.5 million). Given that taxes are chargeable in Swissgrid's regulated business model, the conversion would have increased net income by CHF 27.9 million (previous year: CHF 27.5 million). At the same time, the average number of shares outstanding would have increased by 267 329 092 units (previous year: 292 704 743 units). This leads to a potential dilution of CHF -0,08 per share (previous year: CHF -0,10 per share).

Balance sheet - assets

In millions of CHF	Notes	31.12.2015	31.12.2014
Property, plant and equipment	13	2,072.2	1,671.2
Intangible assets	13	167.0	236.8
Financial assets	14	10.0	4.8
Long-term deficits arising from volume- and tariff-related timing differences	15	272.7	438.8
Non-current assets		2,521.9	2,351.6
Assets held on fiduciary basis	16	346.0	290.7
Short-term deficits arising from volume- and tariff-related timing differences	15	190.6	85.4
Inventory		2.9	1.7
Trade accounts receivable	17	158.6	163.8
Other receivables	18	3.4	3.4
Prepaid expenses and accrued income	19	50.0	54.4
Cash and cash equivalents		27.9	10.8
Current assets		779.4	610.2
Assets		3,301.3	2,961.8

Balance sheet - equity and liabilities

In millions of CHF	Notes	31.12.2015	31.12.2014
Share capital		313.4	276.4
Capital reserves		395.0	329.6
Retained earnings		233.3	158.3
Total equity		941.7	764.3
Non-current financial liabilities	20	1,696.2	1,426.2
Non-current provisions	21	48.5	39.4
Non-current surpluses arising from volume-and tariff-related timing differences	15	18.5	10.6
Non-current liabilities		1,763.2	1,476.2
Liabilities held on fiduciary basis	16	346.0	290.7
Current financial liabilities	20	25.0	228.1
Trade accounts payable	22	73.1	87.8
Other liabilities	23	15.1	7.1
Accrued expenses and deferred income	24	112.0	92.7
Current provisions	21	4.2	4.9
Current surpluses arising from volume-and tariff-related timing differences	15	21.0	10.0
Current liabilities		596.4	721.3
Total liabilities		2,359.6	2,197.5
Equity and liabilities		3,301.3	2,961.8

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2015	2014
Net income		88.0	80.5
Financial expenses	11	44.0	41.0
Financial income	10	- 0.2	-
Current income taxes	12	22.2	20.4
Depreciation and amortisation	13	119.2	104.6
Impairment losses	13	4.9	-
Loss on disposal of non-current assets	13	0.1	0.1
Change in employer contribution reserves	14	- 0.2	- 0.3
Change in provisions	21	8.4	- 0.2
Change in inventory		0.4	-
Change in trade accounts receivable		5.3	- 49.6
Change in other receivables		-	4.5
Change in prepaid expenses and accrued income		4.4	- 4.6
Change in volume- and tariff-related timing differences	4, 15	87.4	8.0
Change in trade accounts payable		- 14.8	7.3
Change in other current liabilities		8.0	2.6
Change in accrued expenses and deferred income		13.2	- 83.2
Income taxes paid		- 20.3	- 15.8
Cash flow from operating activities		370.0	115.3
Gross investments in property, plant and equipment		- 115.8	- 137.4
Congestion proceeds received for grid investments		31.0	118.7
Net investments in property, plant and equipment	13	- 84.8	- 18.7
Gross investments in intangible assets		- 39.3	- 35.4
Congestion proceeds received for grid investments		0.8	-
Net investments in intangible assets	13	- 38.5	- 35.4
Investments in financial assets		- 5.2	- 0.2
Divestment in financial assets		0.2	-
Cash flow from investing activities		- 128.3	- 54.3
Change in current financial liabilities		- 319.6	- 40.0
Issuing of bonds	20	150.0	-
Interest paid		- 41.9	- 38.8
Dividends paid		- 13.0	-
Equity transaction cost		- 0.1	- 0.1
Cash flow from financing activities		- 224.6	- 78.9
Change in cash and cash equivalents		17.1	- 17.9
Composition			
Cash and cash equivalents at beginning of period		10.8	28.7
Cash and cash equivalents at end of period		27.9	10.8
Change in cash and cash equivalents		17.1	- 17.9

INVESTMENT AND FINANCING ACTIVITIES NOT AFFECTING CASH

On 5 January 2015, Swissgrid took over ewz Übertragungsnetz AG as well as installations of 16 companies. The purchase consideration was settled 30 % in Swissgrid shares and 70 % in loans. On 24 June 2015, ewz Übertragungsnetz AG was retroactively merged with Swissgrid with effect from 5 January 2015.

The following assets, liabilities and shareholder's equity were recorded in the balance sheet:

In millions of CHF	Values as per 5.1.2015	Of which, from third parties	Of which, from related parties
Property, plant and equipment	329.7	55.5	274.2
Intangible assets	2.5	0.6	1.9
Deficits arising from volume- and tariff-related timing differences	7.6	-	7.6
Trade accounts receivable	0.1	-	0.1
Inventory	1.6	-	1.6
Total assets	341.5	56.1	285.4
Financial liabilities	236.5	39.3	197.2
Trade accounts payable	0.1	-	0.1
Accrued expenses and deferred income	2.4	-	2.4
Total liabilities and shareholder's equity	239.0	39.3	199.7
Capital increases¹	102.5		
Share capital	37.0		
Capital reserves	65.5		

¹ The amount of the capital increases corresponds to the value before recognising the equity transaction costs (CHF 0.1 million) as a reduction in the capital reserves.

Statement of changes in equity

In millions of CHF	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 31.12.2013	271.2	322.1	77.8	671.1
Allocation	-	-	-	-
Dividends paid	-	-	-	-
Capital increases (minus transaction costs)	5.2	7.5	-	12.7
Net income 2014	-	-	80.5	80.5
Balance at 31.12.2014	276.4	329.6	158.3	764.3
Allocation	-	-	-	-
Dividends paid	-	-	- 13.0	- 13.0
Capital increases (minus transaction costs)	37.0	65.4	-	102.4
Net income 2015	-	-	88.0	88.0
Balance at 31.12.2015	313.4	395.0	233.3	941.7

The share capital consists of 313 398 719 (previous year: 276 350 637) fully paid-up registered shares with a par value of CHF 1 per share.

As of 31 December 2015, Swissgrid has conditional share capital of a maximum of CHF 128 660 249, divided into 128 660 249 registered shares with a par value of CHF 1 per share (previous year: CHF 129 364 956, divided into 129 364 956 registered shares with a par value of CHF 1).

Capital increase based on contributions in kind

The share capital increased by CHF 35.7 million to enable the takeover of additional parts of the transmission system as of 5 January 2015. The issue price amounted to CHF 88.4 million.

Capital increase from conditional capital

The change to the Articles of Association to create conditional share capital of CHF 130 million was registered in the commercial register as of 5 January 2015. The conditional capital was created to exercise conversion rights to be assigned to creditors of convertible loans. A conditional share capital increase with a par value of CHF 1.3 million took place between 23 and 28 October 2015 (so-called valuation adjustment 1). The issue price amounted to CHF 14.1 million.

The amount of the capital increase corresponds to the value after recognising the equity transaction costs (CHF 0.1 million) as a reduction in the capital reserves.

Notes

1. ACCOUNTING PRINCIPLES

GENERAL INFORMATION

The 2015 financial statements of Swissgrid Ltd (Swissgrid) have been prepared in accordance with Swiss GAAP FER. The financial statements provide a true and fair view of the of the company's assets, financial position and results of operations.

The accounting principles remained unchanged from those applied in the prior year.

CONVERSION OF FOREIGN CURRENCY POSITIONS

The accounting records are maintained in local currency (Swiss francs, CHF). All monetary assets and liabilities recognised in foreign currencies are converted at the exchange rate as of the balance sheet date. Transactions in foreign currencies are converted at the exchange rate on the day the transaction took place. Foreign exchange gains and losses resulting from transactions in foreign currencies are recognised in income statement and are presented in the same line item as the underlying transaction.

CASH FLOW STATEMENT

Cash and cash equivalents form the basis for the presentation of the cash flow statement. The cash flow from operating activities is calculated using the indirect method.

REVENUE RECOGNITION

Revenue is recognised in the income statement upon performance of Swissgrid's obligations. For activities regulated under the Federal Electricity Supply Act (StromVG), the measurement of performance is based mainly on energy data directly metered on the transmission system or reported from downstream grid levels.

For certain revenue and procurement positions, initial settlement values are available six weeks after delivery at the earliest, thereby rendering accruals necessary based on historical and statistical data as well as on estimates.

ACTIVITIES ACCORDING TO STROMVG

Volume- and tariff-related timing differences (surpluses and deficits): according to Art. 14 StromVG, grid utilisation costs must be allocated to users on a user-pays basis. The tariffs for a financial year are determined based on planned costs. Due to price and volume deviations, actual expense and income vary from the tariff calculation on both the revenue and procurement side. This results in surpluses or deficits, i.e. the tariff revenues from a financial year are higher or lower than the actual expense incurred during the same period. These volume- and tariff-related timing differences are transferred to the balance sheet and taken into account in cost calculations for future tariff periods. The expected reduction of the volume- and tariff-related timing differences within 12 months after the balance sheet date are recognised as short-term surpluses or deficits arising from volume- and tariff-related timing differences in the balance sheet.

EBIT regulated under StromVG: Earnings before interest and taxes (EBIT) from StromVG-regulated activities are defined in Article 13 of the Electricity Supply Ordinance (StromVV) and are equivalent to the interest applied to the assets required to operate the transmission system plus taxes. Accordingly, operating assets consist of net current assets and non-current assets as of the end of the financial year determined on a monthly basis. The weighted average cost of capital rate (WACC) is based on the current international practice of the WACC capital cost concept with reference to the Capital Asset Pricing Model (CAPM). Besides considering the findings of financial market theory, the regulatory framework conditions in Switzerland and the current situation in the money and capital market are also taken into account. In 2015, the applied WACC based on this calculation amounts to 4.70%.

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by ElCom, which takes place ex post. In case of an ex post cost adjustment, an appeal can be lodged with the Federal Administrative Court. A cost adjustment impacting Swissgrid's operating result is applied whenever no appeal is lodged, or whenever an appeal's prospects for success are judged to be less than 50% on the basis of a reappraisal, or whenever a legally binding ruling is issued.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at acquisition or production cost, less accumulated depreciation and amortisation and any impairment losses. Significant spare parts, which are likely to be used for a longer period and whose use only takes place in connection with a non-current asset item, are recognised in non-current assets and depreciated over the remaining useful life of the relevant system.

Depreciation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets. The useful life is determined as follows:

- Lines: 15 to 60 years
- Substations: 10 to 35 years
- Buildings and expansions: 5 to 50 years
- Other property, plant and equipment: 3 to 8 years
- Construction in progress and properties: applicable only in the case of impairment

INTANGIBLE ASSETS

Intangible assets are recognised at acquisition or production cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets.

The useful life is determined as follows:

- Rights of use and easements: Contract term
- Software and technical regulations: 3 to 5 years
- Intangible assets under development: Only applicable in the case of impairment

IMPAIRMENTS

The value of property, plant and equipment and intangible assets is reviewed annually. If there is an impairment indication, the carrying value is reduced to the realisable value and an impairment loss is charged to the results of the period.

CONSTRUCTION IN PROGRESS / INTANGIBLE ASSETS UNDER DEVELOPMENT

Construction in progress and intangible assets under development are assets that are not yet completed or not yet operational. All items of property, plant and equipment and intangible assets, including self-constructed assets, are classified as non-current assets. As of each balance sheet date, a review is performed to determine whether any assets under construction in or intangible assets under development have to be impaired. These are recognised as impairment losses in the year of identification. Ordinary depreciation or amortisation of these assets begins once they are completed or ready for operation.

FINANCIAL ASSETS

Financial assets are measured at acquisition costs less any adjustments for impairment, if required. These include investments that are controlled by Swissgrid, but which do not have a significant impact on the financial statements, as well as investments with a capital share of less than 20 %. Employer contribution reserves without conditional renounced use are also recognised in financial assets.

INVENTORY

Inventory includes waste material for maintaining the grid systems. Inventory is measured at the lower of acquisition cost or market price.

ACCOUNTS RECEIVABLE

Accounts receivable are reported at their nominal value less any impairment losses required for business reasons.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, cash at banks and deposits at banks maturing in 90 days or less. They are recognised at their nominal values.

BONDS

Bonds issued on the capital market are recognised at their nominal value. Deviations from the nominal value in the case of below- or above-par issues are recognised as accruals and are reversed on a straight-line basis over the term of the bond.

LIABILITIES

Liabilities include current and non-current debts and are recognised at their nominal value.

PROVISIONS

Provisions are recognised if there is an obligation based on an event that took place prior to the balance sheet date, the amount and/or due date of which is uncertain but capable of being estimated.

CONTINGENT LIABILITIES

Contingent liabilities are measured as at the balance sheet date. A provision is set aside if a cash outflow without a utilisable inflow of funds is probable and capable of being estimated. Otherwise, contingent liabilities are disclosed in the notes to the financial statements.

INTEREST ON BORROWED CAPITAL

Interest on borrowed capital is recognised as an expense in the period in which it arises.

EMPLOYEE PENSION PLAN

Swissgrid is a member of an industry-wide retirement benefit plan (PKE, Pensionskasse Energie). This is a legally independent pension fund. All permanent employees of the company are included in this pension fund as of 1 January of the year in which they turn 18. They are insured for disability and death. From 1 January of the year in which they turn 25, employees are also covered by retirement insurance.

Economic benefits arising from a pension fund surplus (e.g. in the form of a positive impact on future cash flows) are not capitalised, since the prerequisites for this are not met and the company does not intend to use such benefits to reduce employer contributions. Any benefits arising from freely available employer contribution reserves are recognised as an asset.

An economic obligation (e.g. in the form of negative effects on future cash flows due to a pension fund deficit) is recognised if the prerequisites for the creation of a provision are met. Accrued contributions for the period, the difference between the annually calculated economic benefit from pension fund surpluses and obligations, as well as the change in the employer contribution reserves are recognised in the income statement as personnel expenses.

TRANSACTIONS WITH RELATED PARTIES

Related parties are organisations and persons that are able to exercise significant influence, either directly or indirectly, on Swissgrid's financial or operational decisions. Shareholders holding at least 20 % of the voting rights in Swissgrid, either alone or together with others, are considered to be related parties. As regards shareholders, other criteria in addition to the proportion of voting rights held are also taken into account (including representation in committees, possibility of exerting influence due to the shareholder structure, etc.). Subsidiaries of related shareholders as well as partner plant companies whose shares are 100% owned by related shareholders, or which are controlled by a related shareholder, are also considered to be related parties. Members of the Board of Directors and the Executive Board are also considered to be related parties. Provided they exist and are significant, relations with related parties are disclosed in the notes to the financial statements. All transactions are conducted at arm's length.

SEGMENT INFORMATION

Segmentation is based on tariff groups as defined in the Electricity Supply Act and is aligned to Swissgrid's internal reporting structure.

INCOME TAXES

Current income taxes are calculated based on the taxable results on an accruals basis.

The annual accrual of deferred taxes is based on a balance sheet perspective (balance sheet method) and considers all future income tax effects (comprehensive method).

2. ESTIMATION UNCERTAINTY

Financial-statement reporting requires estimates and assumptions to be made that may have a significant impact on Swissgrid's financial statements. With respect to assets and liabilities recognised in the balance sheet, accruals and deferrals (prepaid expenses and accrued income/ accrued expenses and deferred income) and volume- and tariff-related timing differences in particular are based on various assumptions and estimates that may necessitate significant adjustments. This is due to specific volumes not being available for certain revenue and procurement positions when the financial statements are prepared, as well as regulatory uncertainties. The volume- and tariff-related timing differences are also influenced by estimates in the allocation of operating expenses to the segments.

For more information on this, the reader is referred to the notes in the sections on «Revenue recognition» and «Activities according to StromVG» in Note 1 as well as the comments in the following section.

3. LEGAL PROCEEDINGS

The following list includes rulings and proceedings in which Swissgrid is the appellant or a directly involved party. Various other appeals by third parties against these and other rulings and proceedings of ECom are pending before courts but are not listed in this section. The financial impact of the appeals by third parties are included in Swissgrid's financial statements if the Swiss GAAP FER criteria for recognition have been met. However, they have no direct impact on Swissgrid's results as they are included in the volume- and tariff-related timing differences.

	Rulings/proceedings by ECom	Date	31.12.2015*	31.12.2014*
1	Proceedings concerning 2011 volume- and tariff-related timing differences	05.02.2013	a	a
2	Proceedings concerning 2012 volume- and tariff-related timing differences	18.06.2013	a	a
3	Proceedings concerning 2013 volume- and tariff-related timing differences	-	a	a
4	Proceedings concerning 2014 volume- and tariff-related timing difference	-	a	a
5	Proceedings concerning 2015 volume- and tariff-related timing difference	-	a	-

* As defined in the following legend, the letter indicates the status of the legal proceedings:

Character	Procedural steps/stage of appeal
a	Opening of proceedings adjourned or not yet taken place
b	Opening of proceedings by ECom
c	Examination report submitted and right of fair hearing exercised
d	Notification of the decision by ECom
e	Appeal to the Federal Administrative Court
f	Judgement pronounced by the Federal Administrative Court
g	Appeal to the Federal Court
h	Legally binding judgement pronounced

NOTES ON THE PROCEEDINGS

Point 1: On 5 February 2013, ECom launched proceedings to examine the 2011 volume- and tariff-related timing differences. The proceedings were suspended until the legally binding conclusion of the 2009 to 2012 tariff proceedings. Should it ultimately be ruled that the costs included in the volume- and tariff-related timing differences are to be reduced, Swissgrid would be compelled to initiate legal proceedings.

The 2011 operating and capital costs are CHF 7.2 million higher than the comparable 2010 cost basis approved by ECom.

Point 2: On 18 June 2013, ElCom initiated proceedings relating to 2012 volume- and tariff-related timing differences and subsequently suspended these proceedings until the legally binding conclusion of the 2009 to 2012 tariff proceedings as well as the proceedings relating to the 2011 volume- and tariff-related timing differences. Should it ultimately be ruled that the costs included in the volume- and tariff-related timing differences are to be reduced, Swissgrid would once again be compelled to initiate legal proceedings.

The 2012 operating and capital costs are CHF 11.4 million higher than the comparable 2010 cost basis approved by ElCom.

Points 3, 4 and 5: If ElCom rules that the costs included in the volume- and tariff-related timing differences be reduced for the not-yet initiated proceedings on the 2013, 2014 and 2015 volume- and tariff-related timing differences, Swissgrid would also be compelled to initiate legal proceedings.

The operating and capital costs for 2013 are CHF 23.7 million higher than the comparable 2010 cost basis approved by ElCom, while the operating and capital costs for 2014 and 2015 are CHF 48.7 million and CHF 30.3 million higher respectively.

Moreover, in its ruling in 2013, regarding the obligation to bear the costs for the ITC shortfalls, ElCom decided that no ITC shortfalls could be charged to the LTC holders. As a result, Swissgrid reversed all revenues with LTC holders and adjusted the outstanding receivables in 2013. Swissgrid included the reversals and value adjustments totalling CHF 42.7 million in the 2013 volume- and tariff-related timing differences, although ElCom did not address the issue of the chargeability of the tariffs in the ruling mentioned above. Swissgrid would be compelled to initiate legal proceedings if the tariffs were ruled to be non-chargeable.

Summary of proceedings - points 1 to 5: From Swissgrid's perspective, the cumulative risk for non-chargeable costs as of 31 December 2015 is CHF 164.0 million (CHF 7.2 million for 2011, CHF 11.4 million for 2012, CHF 66.4 million for 2013, CHF 48.7 million for 2014 and CHF 30.3 million for 2015). In the previous year, the cumulative risk as at 31 December 2014 amounted to CHF 133.7 million.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2015 were incurred within the framework of Swissgrid's legal mandate and should therefore qualify as chargeable. Based on this assessment, Swissgrid has treated all operating and capital costs as chargeable and consequently recognised them in full in the volume- and tariff-related timing differences.

A legally binding court ruling in the court of final appeal on the aforementioned proceedings is not likely to be made before 2018. If, contrary to Swissgrid's assessment, the costs claimed are ruled to be non-chargeable, this would be reflected no earlier than in the 2018 financial statements. Even if the maximum risk of CHF 164.0 million materialises, Swissgrid's equity situation is not jeopardised due to the capital increase in connection with the grid acquisitions in 2013, 2014 and 2015 as well as the net incomes achieved since then.

4. SEGMENT REPORTING

SEGMENT REPORT 2015

In millions of CHF	Total	Grid utilisation
Net turnover	837.7	430.2
Other operating income	17.4	-
Volume- and tariff-related timing differences	- 87.4	35.8
Total operating income	767.7	466.0
Procurement costs	- 295.2	- 48.3
Gross profit	472.5	417.7
Operating expenses	- 194.9	- 154.6
Depreciation/amortisation and impairment losses	- 124.2	- 118.8
Earnings before interest and income tax (EBIT)	153.4	144.3

For segment reporting, the costs of self-constructed assets are deducted from operating expenses and are therefore not included in total operating income.

Volume- and tariff-related timing differences: Negative figures represent surpluses, and positive figures deficits.

Eliminations: Active power losses are a separate internal balance group. As a result, internal transactions occur between the general ancillary services/balance energy and active power losses segments.

CHANGE IN VOLUME- AND TARIFF-RELATED TIMING DIFFERENCES PER SEGMENT

In millions of CHF	Total	Grid utilisation
Net turnover	837.7	430.2
Other operating income	17.4	-
Procurement costs	- 295.2	- 48.3
Operating expenses	- 194.9	- 154.6
Depreciation/amortisation and impairment losses	- 124.2	- 118.8
Return on operating assets (EBIT)	- 153.4	- 144.3
Volume- and tariff-related timing differences	87.4	- 35.8

Volume- and tariff-related timing differences: Positive figures represent surpluses, and negative figures deficits.

General ancillary services/balance energy	Active power losses (Individual ancillary services)	Reactive energy (Individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
320.6	49.3	42.2	- 4.6	837.7	-
-	-	-	-	-	17.4
- 126.5	2.1	1.2	-	- 87.4	-
194.1	51.4	43.4	- 4.6	750.3	17.4
- 162.5	- 50.3	- 38.7	4.6	- 295.2	-
31.6	1.1	4.7	-	455.1	17.4
- 21.6	- 2.1	- 1.6	-	- 179.9	- 15.0
- 3.0	- 0.3	- 0.2	-	- 122.3	- 1.9
7.0	- 1.3	2.9	-	152.9	0.5

General ancillary services/balance energy	Active power losses (Individual ancillary services)	Reactive energy (Individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
320.6	49.3	42.2	- 4.6	837.7	-
-	-	-	-	-	17.4
- 162.5	- 50.3	- 38.7	4.6	- 295.2	-
- 21.6	- 2.1	- 1.6	-	- 179.9	- 15.0
- 3.0	- 0.3	- 0.2	-	- 122.3	- 1.9
- 7.0	1.3	- 2.9	-	- 152.9	- 0.5
126.5	- 2.1	- 1.2	-	87.4	-

SEGMENT REPORT 2014

In millions of CHF	Total	Grid utilisation
Net turnover	812.0	370.2
Other operating income	17.3	-
Volume- and tariff-related timing differences	- 8.0	123.9
Total operating income	821.3	494.1
Procurement costs	- 356.1	- 95.8
Gross profit	465.2	398.3
Operating expenses	- 219.1	- 177.8
Depreciation/amortisation and impairment losses	- 104.7	- 98.6
Earnings before interest and income tax (EBIT)	141.4	121.9

For segment reporting, the costs of self-constructed assets are deducted from operating expenses and are therefore not included in total operating income.

Volume- and tariff-related timing differences: Negative figures represent surpluses, and positive figures deficits.

Eliminations: Active power losses are a separate internal balance group. As a result, internal transactions occur between the general ancillary services/balance energy and active power losses segments.

CHANGE IN VOLUME- AND TARIFF-RELATED TIMING DIFFERENCES PER SEGMENT

In millions of CHF	Total	Grid utilisation
Net turnover	812.0	370.2
Other operating income	17.3	-
Procurement costs	- 356.1	- 95.8
Operating expenses	- 219.1	- 177.8
Depreciation/amortisation and impairment losses	- 104.7	- 98.6
Return on operating assets (EBIT)	- 141.4	- 121.9
Volume- and tariff-related timing differences	8.0	- 123.9

Volume- and tariff-related timing differences: Positive figures represent surpluses, and negative figures deficits.

General ancillary services/balance energy	Active power losses (Individual ancillary services)	Reactive energy (Individual ancillary services)	Balance groups responsible parties	Eliminations	Total activities according to StromVG	Further activities
381.6	35.1	28.3	-	- 3.2	812.0	-
-	-	-	-	-	-	17.3
- 171.9	15.5	13.8	10.7	-	- 8.0	-
209.7	50.6	42.1	10.7	- 3.2	804.0	17.3
- 178.9	- 46.4	- 38.2	-	3.2	- 356.1	-
30.8	4.2	3.9	10.7	-	447.9	17.3
- 13.9	- 3.0	- 1.4	- 7.6	-	- 203.7	- 15.4
- 2.5	- 0.5	- 0.3	- 1.1	-	- 103.0	- 1.7
14.4	0.7	2.2	2.0	-	141.2	0.2

General ancillary services/balance energy	Active power losses (Individual ancillary services)	Reactive energy (Individual ancillary services)	Balance groups responsible party	Eliminations	Total activities according to StromVG	Further activities
381.6	35.1	28.3	-	- 3.2	812.0	-
-	-	-	-	-	-	17.3
- 178.9	- 46.4	- 38.2	-	3.2	- 356.1	-
- 13.9	- 3.0	- 1.4	- 7.6	-	- 203.7	- 15.4
- 2.5	- 0.5	- 0.3	- 1.1	-	- 103.0	- 1.7
- 14.4	- 0.7	- 2.2	- 2.0	-	- 141.2	- 0.2
171.9	- 15.5	- 13.8	- 10.7	-	8.0	-

Earnings before interest and tax (EBIT) per segment within the StromVG-regulated activities correspond to the capital costs on the invested operating assets plus taxes (cf. Note 1).

As of 2015 the costs of balance group management are included in the general ancillary services/balance energy segment and no longer as a separate segment. The individual expense and income positions assigned to the four segments within the StromVG-regulated activities are listed in Note 5.

Grid utilisation: The grid utilisation segment is predominantly financed by various charges for use of the grid. This segment also includes a part of the compensation for international transit flows (ITC); the other part flows to the active power losses segment. As was the case in the two previous years, no income generated by the auctioning of bottleneck capacities at the national borders was used to reduce the grid costs in 2015.

The trend of higher grid usage tariffs continued in 2015, which led to a considerable increase in net turnover. Lower additional remuneration for operating and capital costs to former transmission grid owners reduced the cost of procurement compared to the previous year.

The acquisition of ewz Übertragungsnetz AG as well as other transmission grid installations as at 5 January 2015 led to a rise in capital costs and EBIT, which resulted in a deficit of CHF 35.8 million (previous year: CHF 123.9 million) in the grid utilisation segment, despite another strong rise in net turnover with generally lower costs of procurement and operating costs.

General ancillary services/balance energy: The largest expense item for this segment is the control power provision, i.e. the reservation of power plant capacity in the interests of balancing energy consumption and energy injection. The sharp drop in costs for the ancillary services (AS) reservation of control power led to a much lower cost of procurement compared to the previous year.

In addition, expenses and income for control power and balance energy, which have a mutual influence on each other, are also part of this segment, as are expenses for automatic start-up/island operation capability and expenses and income from unintentional exchange with adjoining control areas. Finally, the costs paid to electricity producers for grid enhancements are also included in this segment.

The expenses relating to general AS are primarily covered by tariff revenues. The sharp drop in net turnover is due to the lower general ancillary services tariff (AS tariff) compared to the previous year.

As in the previous year an additional premium was included in the AS tariff. Therefore, it was possible to completely reduce the existing deficits. As at 31 December 2015, this segment reported a slight surplus of CHF 21.6 million.

Active power losses (Individual ancillary services): This segment reports expenses and income for active power losses in the transmission grid. In addition to tariff revenues, part of the income from ITC flows into this segment (see remarks on the grid utilisation segment on the previous page). The procurement of energy to compensate active power losses takes place on the spot market and via tenders.

In 2015, the higher individual AS tariff for active power losses had a positive income effect in this segment and was able to almost cover the overall slightly higher procurement costs and operating costs. This had a negative influence on EBIT due to the interest on surpluses.

These factors led to slight cost deficits in this segment of CHF 2.1 million in the reporting year (previous year: CHF 15.5 million).

Reactive energy (individual ancillary services): The supply of reactive energy to maintain the required operating voltage is ensured by means of contractual agreements with several power plants. Procurement costs are covered partly by an individual tariff for reactive energy and partly by the general AS tariff.

The rise in net turnover is due to the increase in the reactive energy segment's share included in the general AS tariff. In 2015, procurement costs as well as operating and capital costs were only slightly above the income generated, resulting in deficits of CHF 1.2 million (previous year: CHF 13.8 million).

5. NET TURNOVER AND PROCUREMENT COSTS ACCORDING TO THE ELECTRICITY SUPPLY ACT (STROMVG)

In millions of CHF	Segment	2015	2014
Tariff income for grid utilisation	A	415.7	357.1
Net income from ITC	A/C	20.0	17.5
Income from LTC owners	A	-	0.3
Income from auctions for the reduction of chargeable grid costs	A	-	-
Tariff income for general ancillary services (AS) and income from unintentional deviation	B/D	307.9	361.3
thereof ordinary		307.9	347.1
thereof subsequent charges for 2009 and 2010		-	14.2
Charge of residual costs to plants \geq 50 MW	B	-	0.4
thereof for 2010		-	0.1
thereof for 2009		-	0.3
Income from AS energy and from balance group/balance energy	B	50.9	45.7
Tariff income for active power losses	C	43.8	30.4
Tariff income for reactive energy	D	4.0	2.5
Eliminations		-4.6	-3.2
Net turnover		837.7	812.0
Operating expenses for transmission system	A	8.7	15.8
Capital expenses for transmission system	A	39.6	80.0
Expenses for AS control power provision and unintentional deviation	B	123.7	144.2
Expenses for automatic start-up/island operation capability	B	1.1	1.1
Expenses for grid enhancement	B	17.2	7.5
Expenses for AS energy and for balance groups/balance energy	B	20.5	26.1
Expenses for compensation of active power loss	C	50.3	46.4
Expenses for reactive energy/voltage maintenance	D	38.7	38.2
Eliminations		-4.6	-3.2
Procurement costs		295.2	356.1

Letters used for segment allocation:

A = Grid utilisation

B = General ancillary services/balance energy

C = Active power losses (individual ancillary services)

D = Reactive energy (individual ancillary services)

Segment reporting is provided in Note 4.

Income from ITC consists of the following:

- Compensation for grid utilisation (A) CHF 14.5 million (previous year: CHF 12.7 million)

- Compensation for active power losses (C) CHF 5.5 million (previous year: CHF 4.8 million)

The ITC compensation for grid utilisation corresponds to net income. Supervisory charges to ECom and to the Swiss Federal Office of Energy (SFOE) in the amount of CHF 5.0 million (previous year: CHF 4.4 million) are deducted from the gross income of CHF 19.5 million (previous year: CHF 17.1 million).

The tariff income for general AS and income from unintentional exchange is split as follows:

- General AS (B): CHF 269.7 million (previous year: CHF 335.5 million)
- Reactive energy (D): CHF 38.2 million (previous year: CHF 25.8 million)

Eliminations: Active power losses are a separate internal balance group. As a result, internal transactions occur between the general ancillary services/balance energy and active power losses segments.

6. OTHER OPERATING INCOME

In millions of CHF	2015	2014
Handling the orders in accordance with the energy act	5.0	4.2
Auction clearing	9.1	10.8
Issuance of guarantees of origin for renewable energies	3.3	2.0
Other	-	0.3
	17.4	17.3

The handling of the orders in accordance with the energy act includes compensation for expenditures in connection with CRF (cost-covering remuneration for feed-in to the electricity grid), ACF (additional cost financing) and OR (one-off remuneration).

7. COST OF MATERIALS AND THIRD-PARTY SUPPLIES

In millions of CHF	2015	2014
Grid maintenance	14.0	61.3
Grid system control	12.2	12.6
Other services in the grid area	16.7	5.8
Expenses for projects, advisory and material	35.4	33.7
Dismantling of grid elements	6.1	-
Hardware/software maintenance	9.4	8.2
	93.8	121.6

The expense for grid maintenance declined during the reporting period. This is due to the cost saving effects from the public tenders conducted for maintenance activities as well as the reduced commissioning of third parties compared to the previous year.

The increase in other services in the grid area is due to additional costs for mixed-use facilities of which a certain portion is borne by Swissgrid. This item further includes easement management services performed by third parties.

The item dismantling of grid elements is a consequence of the newly recognised provision for dismantling activities.

8. PERSONNEL EXPENSES

In millions of CHF	2015	2014
Salaries, bonuses, allowances	68.9	70.4
Employee insurance	12.2	11.9
Other personnel expenses	5.0	5.6
Provision for restructuring	7.5	-
	93.6	87.9
Headcount at 31.12.		
Permanent employment:		
Number of employees		
for core business (StromVG)	444	439
for the handling of the orders in accordance with the energy act (EnG)	29	30
	473	469
expressed as full-time equivalents:		
for core business (StromVG)	416.3	429.2
for the handling of the orders in accordance with the energy act (EnG)	26.3	27.4
	442.6	456.6
Fixed-term employment:		
Number of employees		
for core business (StromVG)	20	21
for the handling of the orders in accordance with the energy act (EnG)	9	2
	29	23
expressed as full-time equivalents:		
for core business (StromVG)	21.0	19.5
for the handling of the orders in accordance with the energy act (EnG)	7.6	1.8
	28.6	21.3

At its meeting on 4 March 2015, Swissgrid's Board of Directors passed a number of measures to increase efficiency and reduce costs. The implemented efficiency measures include operational adjustments and the gradual reduction of the workforce by 40 positions. A restructuring provision of CHF 7.5 million was recognised in connection with the adopted programme of measures.

Compared to the previous year, the total number of employees at the end of the year only include employees who were performing services for the company as at the cut-off date. For example, employees who have been released due to the programme to increase efficiency and reduce costs are no longer considered.

Other personnel expenses include, in particular, allowances for external catering for employees, for training and further education, recruitment as well as lump-sum expenses.

EXECUTIVE BOARD REMUNERATION

In millions of CHF	2015	2014
Fixed remuneration (incl. lump-sum expenses)	2.04	1.65
Variable remuneration	0.64	0.52
Non-cash benefits ¹	0.02	0.02
Pension benefits ²	0.50	0.40
Total remuneration to the Executive Board	3.20	2.59
Of which to the highest earning member of the Executive Board		
Fixed remuneration (incl. lump-sum expenses)	0.90	0.51
Variable remuneration	0.14	0.14
Pension benefits ²	0.22	0.13
Total remuneration to the highest earning member of the Executive Board	1.26	0.78

¹ Non-cash benefits include the private use of business vehicles

² Pension benefits include employer contributions to social security schemes and the employee pension plan.

Following the successful completion of the transfer of the extra-high-voltage grid as well as the strategic and organisational realignment of the company, the CEO of Swissgrid decided to leave the company in September 2015 and to tackle new professional challenges. In accordance with the contractual provisions, salary payments, including social benefits, continue to be paid until 30 September 2016. The respective amounts are included in their entirety in the above values (accrual principle) but are only transacted pro rata temporis.

Further information on the members of the Executive Board can be found in the Corporate Governance Report.

9. OTHER OPERATING EXPENSES

In millions of CHF	2015	2014
Rental and occupancy costs	5.9	7.0
Ground rents	1.0	1.8
Rental costs for communication equipment/telecommunication expense	4.1	2.6
Board of Directors fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	2.2	2.4
Fees, dues and licences	2.8	1.6
Insurance	2.1	2.2
Other administrative costs	2.9	3.1
	21.8	21.5

Board of Directors fees and expenses represent fixed gross remuneration. The remuneration paid to the Chairman of the Board of Directors amounted to CHF 250 000, incl. lump-sum expenses (previous year: CHF 250 000). The remaining Executive Board members received remuneration of between CHF 55 000 and 70 000 pro rata temporis for 2015, incl. lump-sum expenses (previous year: CHF 55 000 to CHF 70 000).

Further information on the members of the Executive Board can be found in the Corporate Governance Report.

10. FINANCIAL INCOME

In millions of CHF	2015	2014
Interest income	-	-
Other financial income	0.2	-
	0.2	-

11. FINANCIAL EXPENSES

In millions of CHF	2015	2014
Bank interest	-	0.2
Bond interest	10.2	9.4
Loans and convertible loans interest	32.1	28.9
Commitment fees	0.5	0.5
Other financial expenses	1.2	2.0
	44.0	41.0

12. INCOME TAXES

In millions of CHF	2015	2014
Current income taxes	22.2	20.4
Deferred taxes	- 0.6	- 0.5
	21.6	19.9

The average tax rate based on the ordinary result amounts to 20.3% (previous year: 20.3%).

13. NON-CURRENT ASSETS

SUMMARY OF PLANT, PROPERTY AND EQUIPMENT - 2015

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2015	161.3	1,425.6	2,005.5	131.1	47.0	3,770.5
Addition transfer of transmission grid as of 5.1.2015	44.0	208.7	329.2	20.5	-	602.4
Additions net ¹	62.3	12.8	7.7	1.5	0.5	84.8
Disposals	-	-	-0.1	-0.1	-1.1	-1.3
Reclassification ²	-62.2	128.1	56.0	10.0	4.8	136.7
Acquisition cost at 31.12.2015	205.4	1,775.2	2,398.3	163.0	51.2	4,593.1
Accumulated depreciation and amortisation at 1.1.2015	-	849.6	1,151.6	60.0	38.1	2,099.3
Addition transfer of transmission grid as of 5.1.2015	-	92.1	175.9	4.7	-	272.7
Depreciation and amortisation	-	47.0	42.1	3.6	7.8	100.5
Impairment losses ³	4.9	-	-	-	-	4.9
Disposals	-	-	-	-0.1	-1.1	-1.2
Reclassification ²	-	21.1	22.9	0.7	-	44.7
Accumulated depreciation and amortisation at 31.12.2015	4.9	1,009.8	1,392.5	68.9	44.8	2,520.9
Net book value at 1.1.2015	161.3	576.0	853.9	71.1	8.9	1,671.2
Net book value at 31.12.2015	200.5	765.4	1,005.8	94.1	6.4	2,072.2

¹ Gross investment in property, plant and equipment amounted to CHF 115.8 million (previous year: CHF 137.4 million). Thereof, CHF 31.0 million (previous year: CHF 118.7 million) was financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies.

² In the reporting year, the conversion of usage rights to ownership resulted in reclassifications of intangible assets to tangible assets of CHF 88.8 million (previous year: CHF 12.9 million). Income from auctions of CHF 3.2 million (previous year: CHF 0.0 million) was also reclassified from tangible to intangible assets.

³ Impairment losses are predominantly due to an unconfirmed project in the comprehensive "Strategic Grid 2025" grid planning. As a consequence, impairment losses in the amount of the previously capitalised costs had to be recorded.

Property, plant and equipment of CHF 38.5 million (previous year: CHF 56.8 million) was purchased from related parties in 2015 (excl. the acquisition of assets as at 5 January 2015).

SUMMARY OF PLANT, PROPERTY AND EQUIPMENT - 2014

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2014	251.1	1,311.7	1,942.1	114.7	44.5	3,664.1
Additions net	21.1	7.5	31.0	0.8	0.7	61.1
Disposals	-	-	-0.1	-	-1.6	-1.7
Reclassification	-110.9	106.4	32.5	15.6	3.4	47.0
Acquisition cost at 31.12.2014	161.3	1,425.6	2,005.5	131.1	47.0	3,770.5
Accumulated depreciation and amortisation at 1.1.2014	-	777.2	1,111.2	52.7	31.5	1,972.6
Depreciation and amortisation	-	36.1	33.0	4.0	8.1	81.2
Impairment losses	-	-	-	-	-	-
Disposals	-	-	-0.1	-	-1.5	-1.6
Reclassification	-	36.3	7.5	3.3	-	47.1
Accumulated depreciation and amortisation at 31.12.2014	-	849.6	1,151.6	60.0	38.1	2,099.3
Net book value at 1.1.2014	251.1	534.5	830.9	62.0	13.0	1,691.5
Net book value at 31.12.2014	161.3	576.0	853.9	71.1	8.9	1,671.2

SUMMARY OF INTANGIBLE ASSETS – 2015

In millions of CHF	Intangible assets in progress			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2015	67.7	15.9	83.6	229.2	–	229.2
Addition transfer of transmission grid as of 5.1.2015	0.4	–	0.4	2.1	–	2.1
Additions ¹	23.4	10.1	33.5	2.2	–	2.2
Disposals	–	–	–	–	–	–
Reclassification	–9.3	–0.9	–10.2	–133.1	–	–133.1
Acquisition cost at 31.12.2015	82.2	25.1	107.3	100.4	–	100.4
Accumulated depreciation and amortisation at 1.1.2015	5.4	0.7	6.1	89.3	–	89.3
Depreciation and amortisation	–	–	–	5.8	–	5.8
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–44.7	–	–44.7
Accumulated depreciation and amortisation at 31.12.2015	5.4	0.7	6.1	50.4	–	50.4
Net book value at 1.1.2015	62.3	15.2	77.5	139.9	–	139.9
Net book value at 31.12.2015	76.8	24.4	101.2	50.0	–	50.0

SUMMARY OF INTANGIBLE ASSETS – 2014

In millions of CHF	Intangible assets in progress			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2014	51.3	9.6	60.9	285.3	–	285.3
Additions	25.3	7.7	33.0	0.3	–	0.3
Disposals	–	–	–	–	–	–
Reclassification	–8.9	–1.4	–10.3	–56.4	–	–56.4
Acquisition cost at 31.12.2014	67.7	15.9	83.6	229.2	–	229.2
Accumulated depreciation and amortisation at 1.1.2014	5.4	0.7	6.1	123.0	–	123.0
Depreciation and amortisation	–	–	–	10.2	–	10.2
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–43.9	–	–43.9
Accumulated depreciation and amortisation at 31.12.2014	5.4	0.7	6.1	89.3	–	89.3
Net book value at 1.1.2014	45.9	8.9	54.8	162.3	–	162.3
Net book value at 31.12.2014	62.3	15.2	77.5	139.9	–	139.9

¹ Gross investments in intangible assets amounted to CHF 39.3 million (previous year: CHF 35.4 million). Thereof, CHF 0.8 million (previous year: CHF 0.0 million) was financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies.

Software			Technical regulations			Total intangible assets		
Purchased	Self-con- structed	Total	Purchased	Self-con- structed	Total	Purchased	Self-con- structed	Total
81.2	15.4	96.6	43.8	2.3	46.1	421.9	33.6	455.5
-	-	-	-	-	-	2.5	-	2.5
2.3	0.5	2.8	-	-	-	27.9	10.6	38.5
-0.8	-	-0.8	-43.8	-2.3	-46.1	-44.6	-2.3	-46.9
5.2	1.4	6.6	-	-	-	-137.2	0.5	-136.7
87.9	17.3	105.2	-	-	-	270.5	42.4	312.9
65.2	12.0	77.2	43.8	2.3	46.1	203.7	15.0	218.7
10.8	2.2	13.0	-	-	-	16.6	2.2	18.8
-	-	-	-	-	-	-	-	-
-0.8	-	-0.8	-43.8	-2.3	-46.1	-44.6	-2.3	-46.9
-	-	-	-	-	-	-44.7	-	-44.7
75.2	14.2	89.4	-	-	-	131.0	14.9	145.9
16.0	3.4	19.4	-	-	-	218.2	18.6	236.8
12.7	3.1	15.8	-	-	-	139.5	27.5	167.0

Software			Technical regulations			Total intangible assets		
Purchased	Self-con- structed	Total	Purchased	Self-con- structed	Total	Purchased	Self-con- structed	Total
66.6	13.3	79.9	43.8	2.3	46.1	447.0	25.2	472.2
1.9	0.5	2.4	-	-	-	27.5	8.2	35.7
-1.0	-0.3	-1.3	-	-	-	-1.0	-0.3	-1.3
13.7	1.9	15.6	-	-	-	-51.6	0.5	-51.1
81.2	15.4	96.6	43.8	2.3	46.1	421.9	33.6	455.5
55.1	10.2	65.3	43.8	2.3	46.1	227.3	13.2	240.5
11.1	2.1	13.2	-	-	-	21.3	2.1	23.4
-	-	-	-	-	-	-	-	-
-1.0	-0.3	-1.3	-	-	-	-1.0	-0.3	-1.3
-	-	-	-	-	-	-43.9	-	-43.9
65.2	12.0	77.2	43.8	2.3	46.1	203.7	15.0	218.7
11.5	3.1	14.6	-	-	-	219.7	12.0	231.7
16.0	3.4	19.4	-	-	-	218.2	18.6	236.8

In 2015, services for intangible assets of CHF 0,4 million (previous year: CHF 2.2 million) were purchased from related parties (excl. takeover of assets as at 5 January 2015).

14. FINANCIAL ASSETS

In millions of CHF	31.12.2015	31.12.2014
Investments	8.2	3.2
Employer contribution reserves	1.8	1.6
	10.0	4.8

Swissgrid has the following investments:

		Share capital in m.	Currency	Share in %
CESOC AG	Laufenburg	0.100	CHF	50.0
Joint Allocation Office (JAO) ¹	Luxemburg (Lux)	4.000	EUR	5.0
TSCNET Services GmbH	München (D)	0.025	EUR	7.7
Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT)	Paris (F)	52.119	EUR	5.0
AET NE1 SA	Laufenburg	0.100	CHF	100.0
ALENA Aletsch Energie Netz AG	Laufenburg	0.100	CHF	100.0
Alpiq Netz AG Gösigen/Laufenburg	Laufenburg	0.100	CHF	100.0
Alpiq Réseau SA Lausanne/Laufenburg	Laufenburg	0.100	CHF	100.0
BKW Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
CKW Grid AG	Laufenburg	0.100	CHF	100.0
EGL Grid AG	Laufenburg	0.100	CHF	100.0
ewb Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
ewz Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
FMV Réseau SA	Laufenburg	0.100	CHF	100.0
Kraftwerke Hinterrhein Netz AG	Laufenburg	0.100	CHF	100.0
LENA Lonza Energie Netz AG	Laufenburg	0.100	CHF	100.0
Nordostschweizerische Kraftwerke Grid AG	Laufenburg	0.100	CHF	100.0
Ofible Rete SA	Laufenburg	0.100	CHF	100.0
Ofima Rete SA	Laufenburg	0.100	CHF	100.0
Repower Transportnetz AG	Laufenburg	0.100	CHF	100.0
SN Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
Übertragungsnetz Basel/Laufenburg AG	Laufenburg	0.100	CHF	100.0

¹ In 2015, the Joint Allocation Office (JAO) was created from the merger of the two auction offices Capacity Allocation Service Company.eu S.A. (CASC.EU) and CAO Central Allocation Office GmbH. Before the merger, Swissgrid held a 7.1% investment in CASC.EU.

In 2015, Swissgrid acquired a investment in the Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT), with its head office in Paris (F). The Holding is owned by the European grid operators and bundles their influence on the leading spot market for electricity in Central and Western Europe, EPEX SPOT, via a 49% investment.

Furthermore, ewz Übertragungsnetz AG was founded in 2015. This investment is a procedural company, which was spun-off from the former grid company and which has the same name as the former grid company. The sole purpose of the procedural company is to continue the legal proceedings of the former grid company.

All other information on the investments is unchanged from the previous year.

15. VOLUME- AND TARIFF-RELATED TIMING DIFFERENCES

In millions of CHF	Grid utilisation	General ancillary services/ balance energy	Active power losses (individual ancillary services)	Reactive energy (individual ancillary services)	Balance groups responsible party	Total volume- and tariff-related timing differences	thereof surpluses	thereof deficits
Balance at 31.12.2013	249.3	239.2	- 36.1	31.7	27.5	511.6	- 36.1	547.7
Change in 2014	123.9	- 171.9	15.5	13.8	10.7	- 8.0		
Balance at 31.12.2014	373.2	67.3	- 20.6	45.5	38.2	503.6	- 20.6	524.2
Transfert	-	38.2	-	-	- 38.2	-		
Takeover of a grid company as of 5.1.2015	7.6	-	-	-	-	7.6		
Change in 2015	35.8	- 126.5	2.1	1.2	-	- 87.4		
Balance at 31.12.2015	416.6	- 21.0	- 18.5	46.7	-	423.8	- 39.5	463.3
current portion	190.6	- 21.0	-	-	-	169.6	- 21.0	190.6

Negative figures represent surpluses, and positive figures deficits. Further information on volume- and tariff-related differences (function, estimation uncertainties and current legal proceedings) can be found in Notes 1, 2 and 3.

As of 2015, the balance groups are no longer managed as a separate segment (cf. Note 4). Accordingly, in 2015, the deficit of CHF 38.2 million existing on 31 December 2014 was transferred to the general ancillary services/balance energy segment.

16. BALANCE SHEET ITEMS HELD ON FIDUCIARY BASIS

On the basis of a statutory mandate, Swissgrid coordinates the auctioning of bottleneck capacities for cross-border supplies and maintains accounting records and bank accounts on a fiduciary basis for this purpose.

ASSETS HELD ON FIDUCIARY BASIS

In millions of CHF	31.12.2015	31.12.2014
Trade accounts receivable	13.3	14.0
Other receivables	-	-
Prepaid expenses and accrued income	0.3	0.6
Cash and cash equivalents	332.4	276.1
	346.0	290.7

LIABILITIES HELD ON FIDUCIARY BASIS

In millions of CHF	31.12.2015	31.12.2014
Trade accounts payable	10.9	0.3
Other liabilities ¹	2.4	0.1
Accrued expenses and deferred income	332.7	290.3
	346.0	290.7

¹ Due to the discontinuation of the Euro minimum exchange rate by the Swiss National Bank and the resulting increased volatility of the EUR/CHF exchange rate, forward transactions have been used in some cases to partially hedge the currency risk since mid-2015. Forward transaction contracts are carried at their current values upon initial recognition and valued based on the same principles as the hedged underlying transaction (EUR 72.0 million). The negative replacement values as at 31 December 2015 amount to CHF 2.4 million.

The revenues and the manner in which they are used are as follows:

In millions of CHF	2015	2014
Share of revenue Switzerland	135.0	128.0
Auction expense Swissgrid and third parties	- 10.1	- 11.4
Net proceeds	124.9	116.6
Used for reduction of the allowable grid costs	0.0	0.0
Undistributed residual proceeds	124.9	116.6

In 2015, the residual proceeds from 2012 (CHF 31.8 million) were paid out to Swissgrid, as stipulated by ElCom, and used to maintain or expand the transmission grid.

As regards residual proceeds for 2013, in its letter dated 17 June 2014, ElCom instructed that Swissgrid has to use these proceeds to maintain or expand the transmission grid. Swissgrid is considering a new application in order to use the residual proceeds to fully cover the chargeable costs of the transmission system.

For the residual proceeds for 2014, Swissgrid has applied to ElCom to use these to fully cover the chargeable costs of the transmission system. ElCom's decision is still outstanding.

Swissgrid also intends to use the residual proceeds for 2015 to fully cover the chargeable costs of the transmission system. ElCom will make its decision no earlier than upon submission of approved 2015 financial statements.

17. TRADE RECEIVABLES

In millions of CHF	31.12.2015	31.12.2014
Trade receivables	158.7	164.4
Specific valuation allowances	- 0.1	- 0.6
	158.6	163.8

18. OTHER RECEIVABLES

In millions of CHF	31.12.2015	31.12.2014
Security deposits on blocked bank accounts	3.3	3.4
Other	0.1	-
	3.4	3.4

19. PREPAID EXPENSES AND ACCRUED INCOME

In millions of CHF	31.12.2015	31.12.2014
Accrued revenue for supplies made	45.2	49.7
Other	4.8	4.7
	50.0	54.4

In particular, other prepaid expenses and accrued income contains the discount on bond issues and financing and issue costs, which are amortised over the term of the financing instrument.

20. FINANCIAL LIABILITIES

In millions of CHF	31.12.2015	31.12.2014
Bonds	850.0	700.0
Convertible Loans	846.2	739.3
Loans	25.0	215.0
Total financial liabilities	1,721.2	1,654.3
current portion	25.0	228.1

BONDS

Nominal amount in CHF	Valor	Interest rate	Term	Expiry at nominal value
350 million	CH0204811076	1.000%	28.01.2013–27.01.2020	30.01.2020
350 million	CH0204811100	1.625%	28.01.2013–27.01.2025	30.01.2025
150 million	CH0269382088	0.625%	24.02.2015–21.02.2030	21.02.2030

CONVERTIBLE LOANS AND LOANS

Convertible loans have a term of 9 years and $\frac{1}{5}$ of the loans become payable annually from year 5. Moreover, loans are also assigned a conversion right by Swissgrid in the event of occurrence of contractually defined events and an associated conversion obligation by the creditors. Creditors are remunerated by a premium on the interest rate for the conversion right assigned to Swissgrid. Convertible loans are recognised in full in liabilities.

The interest conditions and maturities of convertible loans and loans are as follows:

Category	Interest rate (bandwidth)	Year 1	Year 2 – 5	more than 5 years
Convertible Loans	3,405% – 3,93%	–	456.7	389.5
Loans	– 0,12% – 0,00%	25.0	–	–

Convertible loans and loans are assessed at their nominal value.

LINES OF CREDIT

The committed lines of credit total CHF 325 million and remain unclaimed as of 31 December 2015.

21. PROVISIONS

In millions of CHF	Restructuring	Dismantling	Employee incentive plan	Procedural costs	Deferred taxes	Total provisions
Balance at 31 December 2013	–	–	1.9	5.1	37.5	44.5
Provisions raised	–	–	0.9	1.3	–	2.2
Provisions used	–	–	–	0.6	0.5	1.1
Dissolving	–	–	–	1.3	–	1.3
Balance at 31 December 2014	–	–	2.8	4.5	37.0	44.3
Provisions raised	7.5	6.1	0.2	0.9	–	14.7
Provisions used	1.4	–	2.8	0.7	0.6	5.5
Dissolving	–	–	–	0.8	–	0.8
Balance at 31 December 2015	6.1	6.1	0.2	3.9	36.4	52.7
current portion	1.4	–	0.1	2.7	–	4.2

PROCEDURAL COSTS

With the grid takeovers on 3 January 2013 and 5 January 2015 and the associated spin-offs of the procedural companies from the grid companies, contractual regulations mean that Swissgrid is responsible for the costs of proceedings attributable to the procedural companies. The provision corresponds to Swissgrid's expected future expenses for party, court and legal costs that may arise for the procedural companies as part of their administrative procedures in conducting proceedings.

The provision amount also includes the estimated compensation payable to parties and the court costs imposed on Swissgrid due to the administrative procedures in conducting proceedings.

The large number of proceedings as well as the complex subject matters of the proceedings means that numerous reassessments are required over time, which influence the provision amount as well as the provisions raised, dissolved and the expected current portion within the statement of provisions.

22. TRADE ACCOUNTS PAYABLE

In contrast to the reporting year, 2014 contains large invoices for costs in the grid area, which Swissgrid received shortly before the balance sheet date.

23. OTHER LIABILITIES

In millions of CHF	31.12.2015	31.12.2014
Value added tax	8.2	3.1
Security deposits on blocked bank accounts	2.9	3.1
Other	4.0	0.9
	15.1	7.1

The other liabilities item contains withholding tax on interest payments of CHF 2.9 million (previous year: CHF 0.0 million).

24. ACCRUED EXPENSES AND DEFERRED INCOME

In millions of CHF	31.12.2015	31.12.2014
Accrued expenses for supplies made	68.2	54.4
Personnel expenses and employees' insurance scheme	10.3	10.7
Accrued interest and premium from issued bond	11.0	8.4
Taxes	22.5	19.2
	112.0	92.7

25. CONTINGENT LIABILITIES

GUARANTEES ISSUED

Swissgrid issues formal risk guarantees for geothermal projects. Economically, they are borne by the CRF Foundation and, as such, are disclosed in its financial statements. The CRF Foundation operates independently from Swissgrid; it fulfils a separate statutory mandate in the field of promoting renewable energy and, for this reason, is economically responsible for these guarantees.

As at 31 December 2015, a guarantee exists in favour of AGEPP SA for CHF 8.8 million. In the previous year, a guarantee of CHF 32.9 million was issued in favour of AGEPP SA (CHF 8.8 million) as well as in favour of Sankt Galler Stadtwerke (CHF 24.1 million).

26. OTHER OFF-BALANCE-SHEET COMMITMENTS

GRID COSTS

As stipulated by ECom, the former owners are entitled to chargeable operating and capital costs from the period between 2009 until the transfer date for the grid elements included in the transmission system. Several parties to the proceedings have appealed against the relevant ECom rulings in the competent courts or contested these to ECom. Moreover, several former owners have submitted applications to ECom for the official stipulation of the asset value and the previously undeclared operating and capital costs.

For these reasons, no final cost can be specified on the balance-sheet date. Swissgrid has recognised the grid costs stipulated for each year in its financial statements. A reliable assessment of the additional grid costs is not possible. The operating and capital costs to be remunerated could range between CHF 140.0 million and CHF 180.0 million.

Any subsequent changes to the compensation amount are taken into account in the annual tariff calculation and will be reflected in costs in the subsequent accounting periods. They do not have any direct impact on Swissgrid's results.

ASSESSED TRANSACTION VALUE FOR THE TRANSMISSION SYSTEM

On 20 September 2012, ECom issued a ruling regarding the assessed value for the transfer of the transmission grid. A number of appeals against this were submitted to the Federal Administrative Court. With its judgement of 11 November 2013, the Federal Administrative Court ruled that the full compensation is owed per the assessed value, and the regulated value from the tariff proceedings is not to be decisive in this respect. The Federal Administrative Court referred the matter back to ECom for a complete clarification of the facts. ECom did not formally reopen the proceedings to define the assessed transfer value.

In its judgement on 30 August 2014, within the scope of the tariff proceedings, the Federal Court also addressed the problem that the transfer value may possibly not correspond to the regulatory asset value. According to the remarks by the Federal Court, it is primarily a matter for ECom and possibly the legislator to find appropriate solutions.

The financial results of the proceedings are currently difficult to assess. However, the outcome of the proceedings has no direct impact on Swissgrid's income.

JOINT ALLOCATION OFFICE (JAO)

As a shareholder of the Joint Allocation Office (JAO), Swissgrid is contractually obliged to assume its share of the annual costs.

TSCNET SERVICES GMBH

As a shareholder of TSCNET Services GmbH, Swissgrid is contractually obliged to assume its share of the annual costs.

LONG-TERM RENTAL CONTRACTS

Long-term rental contracts with fixed terms exist with several parties. These result in the following commitments:

In millions of CHF	Year 1	Year 2 – 10	more than 10 years	Total
31.12.2015	4.7	76.2	45.3	126.2
31.12.2014	4.6	68.8	48.5	121.9

The long-term rental obligations primarily include the future rental commitments based on the rental contract concluded in 2014 for the new Swissgrid head office in Aarau. The new location in the direct vicinity of the railway station supports the corporate strategy and a move is expected by the end of 2017. The current locations in Frick and Laufenburg will be vacated at this time.

OFF-BALANCE-SHEET LEASE COMMITMENTS

Swissgrid has the following off-balance-sheet lease commitments for vehicles and office equipment:

In millions of CHF	Year 1	Year 2 – 5	Total
31.12.2015	0.3	0.3	0.6
31.12.2014	0.4	0.6	1.0

27. EMPLOYEE PENSION PLAN

Reserve of employer contribution (REC)/ Employer's contribution reserve	Nominal value	Renounced use	Balance sheet	Formation of REC	Balance sheet	Result from REC in personnel expenses	
In millions of CHF	31.12.2015	per 2015	31.12.2015	per 2015	31.12.2014	2015	2014
Discretionary retirement benefit fund (employee pension foundation)	-	-	-	-	-	-	-
Pension fund (PKE)	1.8	-	1.8	-	1.6	0.2	0.3
Total	1.8	-	1.8	-	1.6	0.2	0.3

Economic benefit/economic obligation and retirement benefit plan expenses	Shortfall/surplus funding	Economic share of the organisation	Change compared with previous year/affecting income in FY	Accrued contributions	Pension benefit expenses within personnel expenses	
In millions of CHF	31.12.2015	31.12.2015	31.12.2014		2015	2014
Discretionary retirement benefit fund (employee pension foundation)	-	-	-	-	-	-
Pension fund without shortfall/surplus funding (PKE)	-	-	-	-	6.6	6.2
Total	-	-	-	-	6.6	6.2

The coverage ratio of the PKE Vorsorgestiftung Energie is 110.7% as of 31 December 2015 (previous year: 114.4%).

28. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties in millions of CHF	2015	2014
Total operating activities		
Net turnover	419.2	380.1
thereof grid utilisation	292.7	264.1
thereof general ancillary services (AS)/balance energy	85.4	85.3
thereof active power losses	31.9	22.4
thereof reactive energy	9.2	8.3
Other operating income	1.3	1.7
Procurement costs and operating expenses		
Procurement costs	198.0	277.0
thereof grid utilisation	21.5	79.4
thereof general ancillary services (AS)/balance energy	141.4	164.7
thereof active power losses	4.9	2.7
thereof reactive energy	30.2	30.2
Cost of materials and third-party supplies	33.2	68.7
Other operating expenses	3.3	4.6
Financial result		
Financial expenses	18.4	24.4
Unsettled balances at balance sheet date with related parties in millions of CHF		
Assets		
Trade receivables	80.6	75.9
Prepaid expenses and accrued income	13.8	16.2
Liabilities		
Convertible loans and loans	476.5	641.9
Trade accounts payable	43.0	63.5
Accrued expenses and deferred income	46.5	24.9

The conditions relating to related parties are described in Note 1. The transaction values with related parties from the takeover of ewz Übertragungsnetz AG as well as other transmission grid installations are disclosed in the note on the cash flow statement.

29. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

TAKEOVER OF ADDITIONAL PARTS OF THE TRANSMISSION GRID

On 4 January 2016, Swissgrid acquired additional parts of the transmission grid. These include the installations of 6 companies, which could not be acquired at the time of previous transactions (3 January 2013, 6 January 2014 and 5 January 2015) due to unresolved issues.

In this regard, the share capital of CHF 313.4 million was increased to CHF 316,3 million. The former owners were remunerated 30% in Swissgrid shares worth CHF 8.1 million and 70% in loans of CHF 18,9 million, while half of the loan amounts can be converted into equity.

In addition, conditional share capital of CHF 1,3 million was newly created. The entire conditional share capital amounts to CHF 130,0 million.

Two valuation adjustments are also planned for these grid takeovers. The first one is likely to take place in the autumn of 2016, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

There are no further events subsequent to the balance sheet date which would require disclosure or recognition in the 2015 financial statements.

On 5 April 2016, the Board of Directors of Swissgrid Ltd approved the 2015 financial statements for submission to the Annual General Meeting of shareholders and publication.

Report of the Independent Auditor

Report of the Independent Auditor to the General Meeting of Shareholders of Swissgrid Ltd, Laufenburg

As independent auditor, we have been engaged to audit the financial statements of Swissgrid Ltd, as presented on pages 21 to 61, which comprise the income statement, balance sheet, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2015.

BOARD OF DIRECTORS' RESPONSIBILITY

The board of directors is responsible for the preparation of the financial statements in accordance with Swiss GAAP FER. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Patrizia Chanton
Licensed Audit Expert

Basel, 5 April 2016

Statutory financial statements

Income statement

In millions of CHF	Notes	2015	2014
Net turnover	3	837.7	812.0
Other operating income	4	17.4	17.3
Change in volume- and tariff-related timing differences		- 86.8	- 7.5
Capitalised self-constructed assets		14.3	11.9
Total operating income		782.6	833.7
Procurement costs	3	295.2	356.1
Gross profit		487.4	477.6
Cost of materials and third-party supplies	5	93.9	121.6
Personnel expenses	6	93.6	87.9
Other operating expenses	7	21.8	21.6
Earnings before interest, income taxes, depreciation and amortisation		278.1	246.5
Depreciation on property, plant and equipment		97.5	79.3
Amortisation on intangible assets		26.5	29.6
Impairment losses		4.9	-
Earnings before interest and income taxes (EBIT)		149.2	137.6
Financial income		0.2	-
Financial expenses		44.0	41.0
Profit for the year before income taxes		105.4	96.6
Income taxes		22.2	20.4
Profit for the year		83.2	76.2

Balance sheet - assets

In millions of CHF	Notes	31.12.2015	31.12.2014
Cash and cash equivalents		27.9	10.8
Trade accounts receivable	8	158.6	163.8
Other receivables		3.4	3.4
Inventory		2.9	1.7
Prepaid expenses and accrued income	9	50.0	54.4
Short-term deficits arising from volume-and tariff-related timing differences		190.6	85.4
Assets held on fiduciary basis	10	346.0	290.7
Current assets		779.4	610.2
Financial assets	11	1.8	1.6
Investments	12	8.2	3.2
Property, plant and equipment	13	1,963.8	1,567.5
Intangible assets	14	306.6	376.3
Long-term deficits arising from volume-and tariff-related timing differences		197.9	363.6
Non-current assets		2,478.3	2,312.2
Assets		3,257.7	2,922.4

Balance sheet - equity and liabilities

In millions of CHF	Notes	31.12.2015	31.12.2014
Trade accounts payable	15	73.1	87.8
Current financial liabilities	18	25.0	228.1
Other liabilities	16	15.1	7.1
Accrued expenses and deferred income	17	112.0	92.7
Current provisions	19	4.2	4.9
Current surpluses arising from volume-and tariff-related timing differences		21.0	10.0
Liabilities held on fiduciary basis	10	346.0	290.7
Current liabilities		596.4	721.3
Non-current financial liabilities	18	1,696.2	1,426.2
Non-current provisions	19	12.1	2.4
Non-current surpluses arising from volume-and tariff-related timing differences		18.5	10.6
Non-current liabilities		1,726.8	1,439.2
Liabilities		2,323.2	2,160.5
Share capital	20	313.4	276.4
Legal capital reserves	20	393.9	328.4
Reserves from capital contributions		393.9	328.4
Legal retained earnings		1.6	1.6
General legal reserves		1.6	1.6
Voluntary retained earnings		225.6	155.5
Available earnings		225.6	155.5
Results carried forward		142.4	79.3
Profit for the year		83.2	76.2
Equity		934.5	761.9
Equity and liabilities		3,257.7	2,922.4

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2015	2014
Profit for the year		83.2	76.2
Financial expenses		44.0	41.0
Financial income		- 0.2	-
Current income taxes		22.2	20.4
Depreciation and amortisation		123.9	108.8
Impairment losses		4.9	-
Loss on disposal of non-current assets		0.1	0.1
Change in employer contribution reserves	11	- 0.2	- 0.3
Change in provisions	19	9.0	0.3
Change in inventory		0.4	-
Change in trade accounts receivable		5.3	- 49.6
Change in other receivables		-	4.5
Change in prepaid expenses and accrued income		4.4	- 4.6
Change in volume- and tariff-related timing differences		86.8	7.5
Change in trade accounts payable		- 14.8	7.3
Change in other current liabilities		8.0	2.6
Change in accrued expenses and deferred income		13.2	- 83.2
Income taxes paid		- 20.3	- 15.8
Cash flow from operating activities		369.9	115.2
Gross investments in property, plant and equipment		- 115.8	- 137.4
Congestion proceeds received for grid investments		31.0	118.7
Net investments in property, plant and equipment		- 84.8	- 18.7
Gross investments in intangible assets		- 39.3	- 35.4
Congestion proceeds received for grid investments		0.8	-
Net investments in intangible assets		- 38.5	- 35.4
Investments in investments		- 5.2	- 0.2
Divestment in investments		0.2	-
Cash flow from investing activities		- 128.3	- 54.3
Change in current financial liabilities		- 319.6	- 40.0
Issuing of bonds	18	150.0	-
Interest paid		- 41.9	- 38.8
Dividends paid		- 13.0	-
Cash flow from financing activities		- 224.5	- 78.8
Change in cash and cash equivalents		17.1	- 17.9
Composition			
Cash and cash equivalents at beginning of period		10.8	28.7
Cash and cash equivalents at end of period		27.9	10.8
Change in cash and cash equivalents		17.1	- 17.9

Investment and financing activities not affecting cash

On 5 January 2015, Swissgrid took over ewz Übertragungsnetz AG as well as installations of 16 companies. The purchase consideration was settled 30 % in Swissgrid shares and 70 % in loans. On 24 June 2015, ewz Übertragungsnetz AG was retroactively merged with Swissgrid with effect from 5 January 2015.

The following assets, liabilities and shareholder's equity were recorded in the balance sheet:

In millions of CHF	Values as per 5.1.2015
Property, plant and equipment	329.7
Intangible assets	2.5
Deficits arising from volume- and tariff-related timing differences	7.4
Trade accounts receivable	0.1
Inventory	1.6
Total assets	341.3
Financial liabilities	236.5
Trade accounts payable	0.1
Accrued expenses and deferred income	2.4
Total liabilities and shareholder's equity	239.0
Capital increases¹	102.5
Share capital	37.0
Reserves from capital contributions	65.5

¹ The merger of ewz Übertragungsnetz AG resulted in a merger loss (goodwill) of CHF 0.2 million, which is not included in this list.

Notes

1. ACCOUNTING PRINCIPLES

GENERAL ASPECTS

The financial statements for Swissgrid Ltd, Laufenburg, have been prepared in accordance with the new Swiss Law on Accounting and Financial Reporting (Title 32 title of the Swiss Code of Obligations) for the first time. The valuation principles applied are described below. To ensure comparability, the data from the previous year have been adapted to the new requirements in notes 8, 15 and 18.

CONVERSION OF FOREIGN CURRENCY POSITIONS

The accounting records are maintained in local currency (Swiss francs, CHF). All monetary assets and liabilities recognised in foreign currencies are converted at the exchange rate as of the balance sheet date. Transactions in foreign currencies are converted at the exchange rate on the day the transaction took place. Foreign exchange gains and losses resulting from transactions in foreign currencies are recognised in income statement and are presented in the same line item as the underlying transaction.

CASH FLOW STATEMENT

Cash and cash equivalents form the basis for the presentation of the cash flow statement. The cash flow from operating activities is calculated using the indirect method.

REVENUE RECOGNITION

Revenue is recognised in the income statement upon performance of Swissgrid's obligations. For activities regulated under the Federal Electricity Supply Act (StromVG), the measurement of performance is based mainly on energy data directly metered on the transmission system or reported from downstream grid levels.

For certain revenue and procurement positions, initial settlement values are available six weeks after delivery at the earliest, thereby rendering accruals necessary based on historical and statistical data as well as on estimates.

ACTIVITIES ACCORDING TO STROMVG

Volume- and tariff-related timing differences (surpluses and deficits): according to Art. 14 StromVG, grid utilisation costs must be allocated to users on a user-pays basis. The tariffs for a financial year are determined based on planned costs. Due to price and volume deviations, actual expense and income vary from the tariff calculation on both the revenue and procurement side. This results in surpluses or deficits, i.e. the tariff revenues from a financial year are higher or lower than the actual expense incurred during the same period. These volume- and tariff-related timing differences are transferred to the balance sheet and taken into account in cost calculations for future tariff periods. The expected reduction of the volume- and tariff-related timing differences within 12 months after the balance sheet date are recognised as short-term surpluses or deficits arising from volume- and tariff-related timing differences in the balance sheet.

EBIT regulated under StromVG: Earnings before interest and taxes (EBIT) from StromVG-regulated activities are defined in Article 13 of the Electricity Supply Ordinance (StromVV) and are equivalent to the interest applied to the assets required to operate the transmission system plus taxes. Accordingly, operating assets consist of net current assets and non-current assets as of the end of the financial year determined on a monthly basis. The weighted average cost of capital rate (WACC) is based on the current international practice of the WACC capital cost concept with reference to the Capital Asset Pricing Model (CAPM). Besides considering the findings of financial market theory, the regulatory framework conditions in Switzerland and the current situation in the money and capital market are also taken into account. In 2015, the applied WACC based on this calculation amounts to 4.70%.

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by ECom, which takes place ex post. In case of an ex post cost adjustment, an appeal can be lodged with the Federal Administrative Court. A cost adjustment impacting Swissgrid's operating result is applied whenever no appeal is lodged, or whenever an appeal's prospects for success are judged to be less than 50% on the basis of a reappraisal, or whenever a legally binding ruling is issued.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognised at acquisition or production cost, less accumulated depreciation and amortisation and any impairment losses. Significant spare parts, which are likely to be used for a longer period and whose use only takes place in connection with a non-current asset item, are recognised in non-current assets and depreciated over the remaining useful life of the relevant system.

Depreciation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets. The useful life is determined as follows:

- Lines: 15 to 60 years
- Substations: 10 to 35 years
- Buildings and expansions: 5 to 50 years
- Other property, plant and equipment: 3 to 8 years
- Construction in progress and properties: applicable only in the case of impairment

INTANGIBLE ASSETS

Intangible assets are recognised at acquisition or production cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets.

The useful life is determined as follows:

- Rights of use and easements: Contract term
- Software and technical regulations: 3 to 5 years
- Intangible assets under development: Only applicable in the case of impairment

The merger losses (goodwill) resulting from the mergers on 3 January 2013 and 5 January 2015 are also recognised in this item. Goodwill is depreciated on a straight line basis over 20 years and is reviewed annually for impairments.

IImpairments

The value of property, plant and equipment and intangible assets is reviewed annually. If there is an impairment indication, the carrying value is reduced to the realisable value and an impairment loss is charged to the results of the period.

CONSTRUCTION IN PROGRESS / INTANGIBLE ASSETS UNDER DEVELOPMENT

Construction in progress and intangible assets under development are assets that are not yet completed or not yet operational. All items of property, plant and equipment and intangible assets, including self-constructed assets, are classified as non-current assets. As of each balance sheet date, a review is performed to determine whether any assets under construction in or intangible assets under development have to be impaired. These are recognised as impairment losses in the year of identification. Ordinary depreciation or amortisation of these assets begins once they are completed or ready for operation.

FINANCIAL ASSETS

Financial assets are measured at acquisition costs less any adjustments for impairment. Employer contribution reserves without conditional renounced use are also recognised in financial assets.

INVESTMENTS

Investments are measured at acquisition costs less any adjustments for impairment. These include investments that are controlled by Swissgrid, but which do not have a significant impact on the financial statements, as well as investments with a capital share of less than 20 %.

INVENTORY

Inventory includes waste material for maintaining the grid systems. Inventory is measured at the lower of acquisition cost or market price.

ACCOUNTS RECEIVABLE

Accounts receivable are reported at their nominal value less any impairment losses required for business reasons.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, cash at banks and deposits at banks maturing in 90 days or less. They are recognised at their nominal values.

BONDS

Bonds issued on the capital market are recognised at their nominal value. Deviations from the nominal value in the case of below- or above-par issues are recognised as accruals and are reversed on a straight-line basis over the term of the bond.

LIABILITIES

Liabilities include current and non-current debts and are recognised at their nominal value.

PROVISIONS

Provisions are recognised if there is an obligation based on an event that took place prior to the balance sheet date, the amount and/or due date of which is uncertain but capable of being estimated.

CONTINGENT LIABILITIES

Contingent liabilities are measured as at the balance sheet date. A provision is set aside if a cash outflow without a utilisable inflow of funds is probable and capable of being estimated. Otherwise, contingent liabilities are disclosed in the notes to the financial statements.

INTEREST ON BORROWED CAPITAL

Interest on borrowed capital is recognised as an expense in the period in which it arises.

INCOME TAXES

Current income taxes are calculated based on the taxable results on an accruals basis.

2. ESTIMATION UNCERTAINTY

Financial-statement reporting requires estimates and assumptions to be made that may have a significant impact on Swissgrid's financial statements. With respect to assets and liabilities recognised in the balance sheet, accruals and deferrals (prepaid expenses and accrued income/ accrued expenses and deferred income) and volume- and tariff-related timing differences in particular are based on various assumptions and estimates that may necessitate significant adjustments. This is due to specific volumes not being available for certain revenue and procurement positions when the financial statements are prepared, as well as regulatory uncertainties. The volume- and tariff-related timing differences are also influenced by estimates in the allocation of operating expenses to the segments.

For more information on this, the reader is referred to the notes in the sections on «Revenue recognition» and «Activities according to StromVG» in Note 1 as well as the comments in the Note 23.

3. NET TURNOVER AND PROCUREMENT COSTS

NET TURNOVER

Net turnover increased moderately by CHF 25.7 million compared to previous year and amounts to CHF 837.7 million. However, there were opposite effects within the different segments. Net turnover in the grid utilisation segment amounts to CHF 430.2 million in 2015, and CHF 370.2 million the previous year. In the general ancillary services segment, net turnover declined by CHF 61.0 million in the reporting year to CHF 320.6 million.

PROCUREMENT COSTS

Amounting to CHF 295.2 million, procurement costs are far lower than the CHF 356.1 million incurred in the previous year, while, in the grid utilisation segment, the cost of procurement fell significantly to CHF 48.3 million (previous year: CHF 95.8 million). The reductions are due to the acquisition of the extra-high-voltage grid of the electric power supplier for the City of Zurich on 5 January 2015 as well as the lower supplemental compensation of grid costs to former transmission grid owners. In the general ancillary services segment, the cost of procurement declined by CHF 16.4 million.

More detailed comments on the individual segments, including the effects on the volume- and tariff-related timing differences can be found in Note 4 in the financial statements in accordance with Swiss GAAP FER.

4. OTHER OPERATING INCOME

In millions of CHF	2015	2014
Handling the orders in accordance with the energy act	5.0	4.2
Auction clearing	9.1	10.8
Issuance of guarantees of origin for renewable energies	3.3	2.0
Other	–	0.3
	17.4	17.3

The handling of the orders in accordance with the energy act includes compensation for expenditures in connection with CRF (cost-covering remuneration for feed-in to the electricity grid), ACF (additional cost financing) and OR (one-off remuneration).

5. COST OF MATERIALS AND THIRD-PARTY SUPPLIES

In millions of CHF	2015	2014
Grid maintenance	14.0	61.3
Grid system control	12.2	12.6
Other services in the grid area	16.7	5.8
Expenses for projects, advisory and material	35.5	33.7
Dismantling of grid elements	6.1	-
Hardware/software maintenance	9.4	8.2
	93.9	121.6

The expense for grid maintenance declined during the reporting period. This is due to the cost saving effects from the public tenders conducted for maintenance activities as well as the reduced commissioning of third parties compared to the previous year.

The increase in other services in the grid area is due to additional costs for mixed-use facilities of which a certain portion is borne by Swissgrid. This item further includes easement management services performed by third parties.

The item dismantling of grid elements is a consequence of the newly recognised provision for dismantling activities.

6. PERSONNEL EXPENSES

In millions of CHF	2015	2014
Salaries, bonuses, allowances	68.9	70.4
Employee insurance	12.2	11.9
Other personnel expenses	5.0	5.6
Provision for restructuring	7.5	-
	93.6	87.9

At its meeting on 4 March 2015, Swissgrid's Board of Directors passed a number of measures to increase efficiency and reduce costs. The implemented efficiency measures include operational adjustments and the gradual reduction of the workforce by 40 positions. A restructuring provision of CHF 7.5 million was recognised in connection with the adopted programme of measures.

Other personnel expenses include, in particular, allowances for external catering for employees, for training and further education, recruitment as well as lump-sum expenses.

The average number of full-time equivalents exceeded 250 in the reporting period as was the case the previous year.

7. OTHER OPERATING EXPENSES

In millions of CHF	2015	2014
Rental and occupancy costs	5.9	7.0
Ground rents	1.0	1.8
Rental costs for communication equipment/telecommunication expense	4.1	2.6
Board of Directors fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	2.2	2.4
Fees, dues and licences	2.8	1.6
Insurance	2.1	2.2
Other administrative costs	2.9	3.2
	21.8	21.6

Fees and expenses payable to the members of the Board of Directors represent fixed gross remuneration. The remuneration paid to the Chairman of the Board of Directors amounted to CHF 250 000, incl. lump-sum expenses (previous year: CHF 250 000). The remaining Executive Board members received remuneration of between CHF 55 000 and 70 000 pro rata temporis for 2015, incl. lump-sum expenses (previous year: CHF 55 000 to CHF 70 000).

Further information on the members of the Executive Board can be found in the Corporate Governance Report.

8. TRADE RECEIVABLES

On 31 December 2015, trade receivables include CHF 68.6 million (previous year: CHF 68.3 million) vis-à-vis companies with a direct or indirect investment in Swissgrid.

9. PREPAID EXPENSES AND ACCRUED INCOME

In millions of CHF	31.12.2015	31.12.2014
Accrued revenue for supplies made	45.2	49.7
Other	4.8	4.7
	50.0	54.4

In particular, other prepaid expenses and accrued income contains the discount on bond issues and financing and issue costs, which are amortised over the term of the financing instrument.

10. BALANCE SHEET ITEMS HELD ON FIDUCIARY BASIS

The increase in comparison to the previous year is due to the residual proceeds received for 2015 less the remaining residual proceeds for 2012 paid to Swissgrid, as stipulated by ElCom, and the foreign currency loss on cash and cash equivalents suffered as a consequence of the discontinuation of the Euro minimum exchange rate by the Swiss National Bank at the start of the 2015 financial year.

11. FINANCIAL ASSETS

Financial assets contain the employer contribution reserves without renounced use of CHF 1.8 million (previous year: CHF 1.6 million).

12. INVESTMENTS

		Share capital in m.	Currency	Share in %
CESOC AG	Laufenburg	0.100	CHF	50.0
Joint Allocation Office (JAO) ¹	Luxemburg (Lux)	4.000	EUR	5.0
TSCNET Services GmbH	München (D)	0.025	EUR	7.7
Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT)	Paris (F)	52.119	EUR	5.0
AET NE1 SA	Laufenburg	0.100	CHF	100.0
ALENA Aletsch Energie Netz AG	Laufenburg	0.100	CHF	100.0
Alpiq Netz AG Gösgen/Laufenburg	Laufenburg	0.100	CHF	100.0
Alpiq Réseau SA Lausanne/Laufenburg	Laufenburg	0.100	CHF	100.0
BKW Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
CKW Grid AG	Laufenburg	0.100	CHF	100.0
EGL Grid AG	Laufenburg	0.100	CHF	100.0
ewb Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
ewz Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
FMV Réseau SA	Laufenburg	0.100	CHF	100.0
Kraftwerke Hinterrhein Netz AG	Laufenburg	0.100	CHF	100.0
LENA Lonza Energie Netz AG	Laufenburg	0.100	CHF	100.0
Nordostschweizerische Kraftwerke Grid AG	Laufenburg	0.100	CHF	100.0
Ofible Rete SA	Laufenburg	0.100	CHF	100.0
Ofima Rete SA	Laufenburg	0.100	CHF	100.0
Repower Transportnetz AG	Laufenburg	0.100	CHF	100.0
SN Übertragungsnetz AG	Laufenburg	0.100	CHF	100.0
Übertragungsnetz Basel/Laufenburg AG	Laufenburg	0.100	CHF	100.0

¹ In 2015, the Joint Allocation Office (JAO) was created from the merger of the two auction offices Capacity Allocation Service Company.eu S.A. (CASC.EU) and CAO Central Allocation Office GmbH. Before the merger, Swissgrid held a 7.1% investment in CASC.EU.

In the reporting year, Swissgrid acquired an investment in the Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT), with its head office in Paris (F). The Holding is owned by the European grid operators and bundles their influence on the leading spot market for electricity in Central and Western Europe, EPEX SPOT, via a 49% investment.

Furthermore, ewz Übertragungsnetz AG was founded in 2015. This investment is a procedural company, which was spun-off from the former grid company and which has the same name as the former grid company. The sole purpose of the procedural company is to continue the legal proceedings of the former grid company.

All other information on the investments is unchanged from the previous year.

13. PROPERTY, PLANT AND EQUIPMENT

The book values of the individual categories are as follows:

In millions of CHF	31.12.2015	31.12.2014
Construction in progress	200.5	161.3
Substations	737.4	555.9
Lines	930.5	775.4
Properties and buildings	89.0	66.0
Other property, plant and equipment	6.4	8.9
	1,963.8	1,567.5

The increase in the reporting year is mainly due to the grid assets acquired on 5 January 2015 as well as the conversions indicated in Note 14.

14. INTANGIBLE ASSETS

The book values of the individual categories are as follows:

In millions of CHF	31.12.2015	31.12.2014
Intangible assets in progress	101.2	77.5
Usage rights	47.1	128.7
Software	15.8	19.4
Merger losses (Goodwill)	142.5	150.7
	306.6	376.3

The reduction in the reporting year is mainly due to the conversion of usage rights to ownership and the resulting reclassification of the usage rights to tangible assets.

15. TRADE ACCOUNTS PAYABLE

On 31 December 2015, trade accounts payable include CHF 22.9 million (previous year: CHF 55.3 million) vis-à-vis companies with a direct or indirect investment in Swissgrid and CHF 0.1 million (previous year: CHF 0.1 million) towards the auditors.

16. OTHER LIABILITIES

In millions of CHF	31.12.2015	31.12.2014
Value added tax	8.2	3.1
Security deposits on blocked bank accounts	2.9	3.1
Other	4.0	0.9
	15.1	7.1

The other liabilities item contains withholding tax on interest payments of CHF 2.9 million (previous year: CHF 0.0 million) and the obligations towards the PKE Vorsorgestiftung Energie of CHF 0.9 million (previous year: CHF 0.9 million).

17. ACCRUED EXPENSES AND DEFERRED INCOME

In millions of CHF	31.12.2015	31.12.2014
Accrued expenses for supplies made	68.2	54.4
Personnel expenses and employees' insurance scheme	10.3	10.7
Accrued interest and premium from issued bond	11.0	8.4
Taxes	22.5	19.2
	112.0	92.7

18. FINANCIAL LIABILITIES

In millions of CHF	31.12.2015	31.12.2014
Bonds	850.0	700.0
Convertible Loans	846.2	739.3
Loans	25.0	215.0
Total financial liabilities	1,721.2	1,654.3
current portion	25.0	228.1

BONDS

Nominal amount in CHF	Valor	Interest rate	Term	Expiry at nominal value
350 million	CH0204811076	1.000%	28.01.2013–27.01.2020	30.01.2020
350 million	CH0204811100	1.625%	28.01.2013–27.01.2025	30.01.2025
150 million	CH0269382088	0.625%	24.02.2015–21.02.2030	21.02.2030

CONVERTIBLE LOANS AND LOANS

Convertible loans have a term of 9 years and 1/5 of the loans become payable annually from year 5. Moreover, loans are also assigned a conversion right by Swissgrid in the event of occurrence of contractually defined events and an associated conversion obligation by the creditors. Creditors are compensated by a premium on the interest rate for the conversion right assigned to Swissgrid. Convertible bonds are recognised in full in liabilities.

The interest conditions and maturities of convertible loans and loans are as follows:

Category	Interest rate (bandwidth)	Year 1	Year 2 – 5	more than 5 years
Convertible Loans	3,405% - 3,93%	-	456.7	389.5
Loans	-0,12% - 0,00%	25.0	-	-

On 31 December 2015, convertible loans of CHF 473.5 million (previous year: CHF 553.9 million) and loans of CHF 15.0 million (previous year: CHF 128.1 million) exist towards companies with a direct or indirect investment in Swissgrid.

19. PROVISIONS

In millions of CHF	31.12.2015	31.12.2014
Restructuring	6.1	-
Dismantling	6.1	-
Employee incentive plan	0.2	2.8
Procedural costs	3.9	4.5
Total provisions	16.3	7.3
current portion	4.2	4.9

PROCEDURAL COSTS

With the grid takeovers on 3 January 2013 and 5 January 2015 and the associated spin-offs of the procedural companies from the grid companies, contractual regulations mean that Swissgrid is responsible for the costs of proceedings attributable to the procedural companies. The provision corresponds to Swissgrid's expected future expenses for party, court and legal costs that may arise for the procedural companies as part of their administrative procedures in conducting proceedings.

The provision amount also includes the estimated compensation payable to parties and the court costs imposed on Swissgrid due to the administrative procedures in conducting proceedings.

20. SHARE CAPITAL AND RESERVES FROM CAPITAL CONTRIBUTIONS

The share capital consists of 313 398 719 (previous year: 276 350 637) fully paid-up registered shares with a par value of CHF 1 per share.

The share capital has increased by a total of CHF 37.0 million, while the reserves from capital contributions have increased by a total of CHF 65.5 million as a consequence of the acquisition of additional parts of the transmission system on 5 January 2015.

21. GUARANTEES ISSUED

Swissgrid issues formal risk guarantees for geothermal projects. Economically, they are borne by the CRF Foundation and, as such, are disclosed in its financial statements. The CRF Foundation operates independently from Swissgrid; it fulfils a separate statutory mandate in the field of promoting renewable energy and, for this reason, is economically responsible for these guarantees.

As at 31 December 2015, a guarantee existed in favour of AGEPP SA for CHF 8.8 million. In the previous year, a guarantee of CHF 32.9 million was issued in favour of AGEPP SA (CHF 8.8 million) as well as in favour of Sankt Galler Stadtwerke (CHF 24.1 million).

22. OTHER OFF-BALANCE-SHEET COMMITMENTS

GRID COSTS

As stipulated by ECom, the former owners are entitled to chargeable operating and capital costs from the period between 2009 until the transfer date for the grid elements included in the transmission system. Several parties to the proceedings have appealed against the relevant ECom rulings in the competent courts or contested these to ECom. Moreover, several former owners have submitted applications to ECom for the official stipulation of the asset value and the previously undeclared operating and capital costs.

For these reasons, no final cost can be specified on the balance-sheet date. Swissgrid has recognised the grid costs stipulated for each year in its financial statements. A reliable assessment of the additional grid costs is not possible. The operating and capital costs to be remunerated could range between CHF 140.0 million and CHF 180.0 million.

Any subsequent changes to the compensation amount are taken into account in the annual tariff calculation and will be reflected in costs in the subsequent accounting periods. They do not have any direct impact on Swissgrid's results.

ASSESSED TRANSACTION VALUE FOR THE TRANSMISSION SYSTEM

On 20 September 2012, ECom issued a ruling regarding the assessed value for the transfer of the transmission grid. A number of appeals against this were submitted to the Federal Administrative Court. With its judgement of 11 November 2013, the Federal Administrative Court ruled that the full compensation is owed per the assessed value, and the regulated value from the tariff proceedings is not to be decisive in this respect. The Federal Administrative Court referred the matter back to ECom for a complete clarification of the facts. ECom did not formally reopen the proceedings to define the assessed transfer value.

In its judgement on 30 August 2014, within the scope of the tariff proceedings, the Federal Court also addressed the problem that the transfer value may possibly not correspond to the regulatory asset value. According to the remarks by the Federal Court, it is primarily a matter for ECom and possibly the legislator to find appropriate solutions.

The financial results of the proceedings are currently difficult to assess. However, the outcome of the proceedings has no direct impact on Swissgrid's income.

JOINT ALLOCATION OFFICE (JAO)

As a shareholder in the Joint Allocation Office (JAO), Swissgrid is contractually obliged to assume its share of the annual costs.

TSCNET SERVICES GMBH

As a shareholder of TSCNET Services GmbH, Swissgrid is contractually obliged to assume its share of the annual costs.

OFF-BALANCE-SHEET LEASE COMMITMENTS

Swissgrid has the following off-balance-sheet lease commitments for vehicles and office equipment:

In millions of CHF	Year 1	Year 2 – 5	Total
31.12.2015	0.3	0.3	0.6
31.12.2014	0.4	0.6	1.0

LONG-TERM RENTAL CONTRACTS

Long-term rental contracts with fixed terms exist with several parties. These result in the following commitments:

In millions of CHF	Year 1	Year 2 – 10	more than 10 years	Total
31.12.2015	4.7	76.2	45.3	126.2
31.12.2014	4.6	68.8	48.5	121.9

The long-term rental obligations primarily include the future rental commitments based on the rental contract concluded in 2014 for the new Swissgrid head office in Aarau. The new location in the direct vicinity of the railway station supports the corporate strategy and a move is expected by the end of 2017. The current locations in Frick and Laufenburg will be vacated at this time.

23. LEGAL PROCEEDINGS

The cumulative risk for non-chargeable costs amounts to CHF 164.0 million as of 31 December 2015 (previous year: CHF 133.7 million). Swissgrid's Board of Directors and Executive Board are of the opinion that all costs qualify as chargeable. Based on this assessment, Swissgrid has treated all operating and capital costs as chargeable and consequently recognised them in full in the volume- and tariff-related timing differences.

Detailed comments on the legal proceedings can be found in the financial statements prepared in compliance with Swiss GAAP FER in Note 3.

24. AUDIT FEES

In 2015, the fees for audit services amount to CHF 0.2 million (previous year: CHF 0.2 million) and CHF 0.1 million (previous year: CHF 0.1 million) for other services.

25. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

TAKEOVER OF ADDITIONAL PARTS OF THE TRANSMISSION GRID

On 4 January 2016, Swissgrid acquired additional parts of the transmission grid. These include the installations of 6 companies, which could not be acquired at the time of previous transactions (3 January 2013, 6 January 2014 and 5 January 2015) due to unresolved issues.

In this regard, the share capital of CHF 313.4 million was increased to CHF 316,3 million. The former owners were remunerated 30% in Swissgrid shares worth CHF 8,1 million and 70% in loans of CHF 18,9 million, while half of the loan amounts can be converted into equity.

In addition, conditional share capital of CHF 1,3 million was newly created. The entire conditional share capital amounts to CHF 130,0 million.

Two valuation adjustments are also planned for these grid takeovers. The first one is likely to take place in the autumn of 2016, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

There are no further events subsequent to the balance sheet date which would require disclosure or recognition in the 2015 financial statements.

On 5 April 2016, the Board of Directors of Swissgrid Ltd approved the 2015 financial statements for submission to the Annual General Meeting of shareholders and publication.

Proposed appropriation of available earnings

The Board of Directors proposes to the Annual General Meeting that the available earnings be appropriated as follows:

CHF	2015	2014
Balance carried forward from the previous year	142,448,838.80	79,271,406.30
Profit for the year	83,265,991.70	76,165,912.44
Retained earnings	225,714,830.50	155,437,318.74
Appropriation to the general legal reserves	-	-
Dividend payment	21,499,152.12	12,988,479.94
Balance to be carried forward	204,215,678.38	142,448,838.80
Total appropriation	225,714,830.50	155,437,318.74

In view of valuation adjustment 1 planned in autumn 2016 for the parts of the grid integrated as of 4 January 2016, which will result in the issue of new shares based on the conditional capital (Art. 3a of the Articles of Association) and which will also be entitled to a dividend payment for the 2015 financial year pursuant to the contractual agreements between Swissgrid and the in-kind contributors, the dividend payment will therefore take place after valuation adjustment 1. The distribution per share is determined based on the number of shares entitled to a dividend payment after valuation adjustment 1.

Laufenburg, 5 April 2016

For the Board of Directors:
 Adrian Bult, Chairman

Report of the Statutory Auditor

Report of the Statutory Auditor to the General Meeting of Shareholders of Swissgrid Ltd, Laufenburg

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Swissgrid Ltd, as presented on pages 65 to 85, which comprise the income statement, balance sheet, cash flow statement and notes for the year ended 31 December 2015.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Patrizia Chanton
Licensed Audit Expert

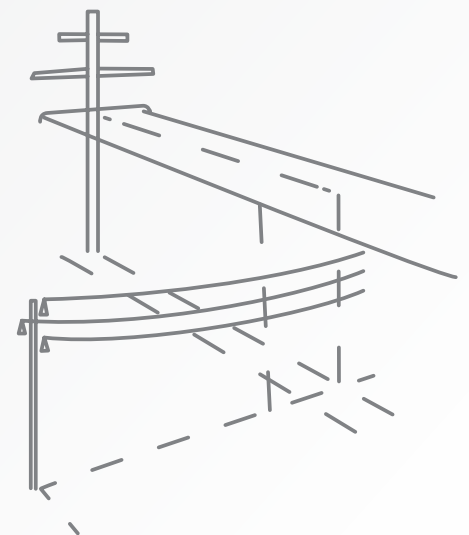
Basel, 5 April 2016

For more information on the cooperation between the ETH Zurich and Swissgrid, go to:
<http://ar2015.swissgrid.ch>



“Swissgrid connects us with a good partnership with regard to the future of energy in Switzerland and beyond.”

Prof. Dr Christian Franck, Director High Voltage Laboratory, ETH Zurich

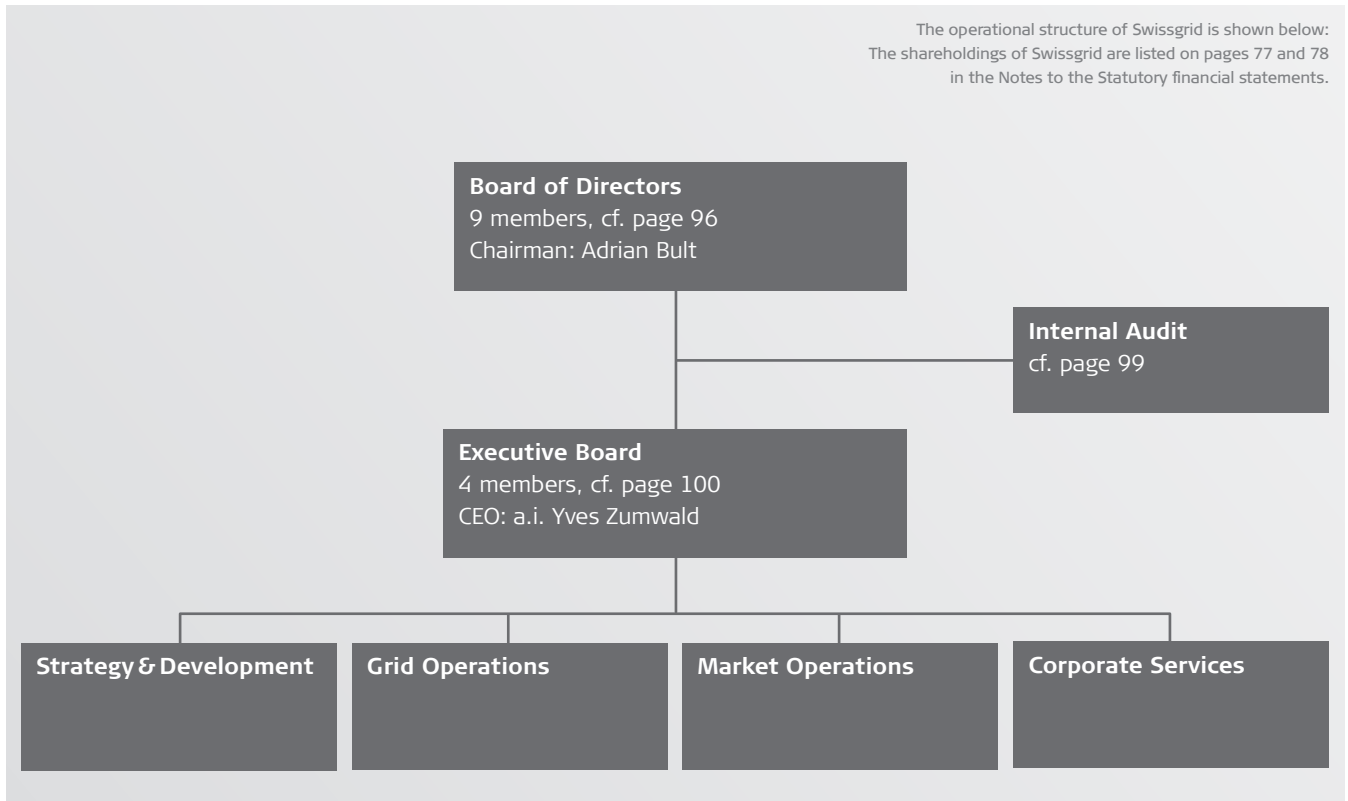


Corporate Governance

The Board of Directors and the Executive Board of Swissgrid Ltd (hereinafter Swissgrid) place great importance on good corporate governance. The following statements are based on the Swiss Code of Best Practice for Corporate Governance. All information relates to 31 December 2015, unless specified otherwise.

Corporate structure and shareholders

CORPORATE STRUCTURE



SHAREHOLDERS

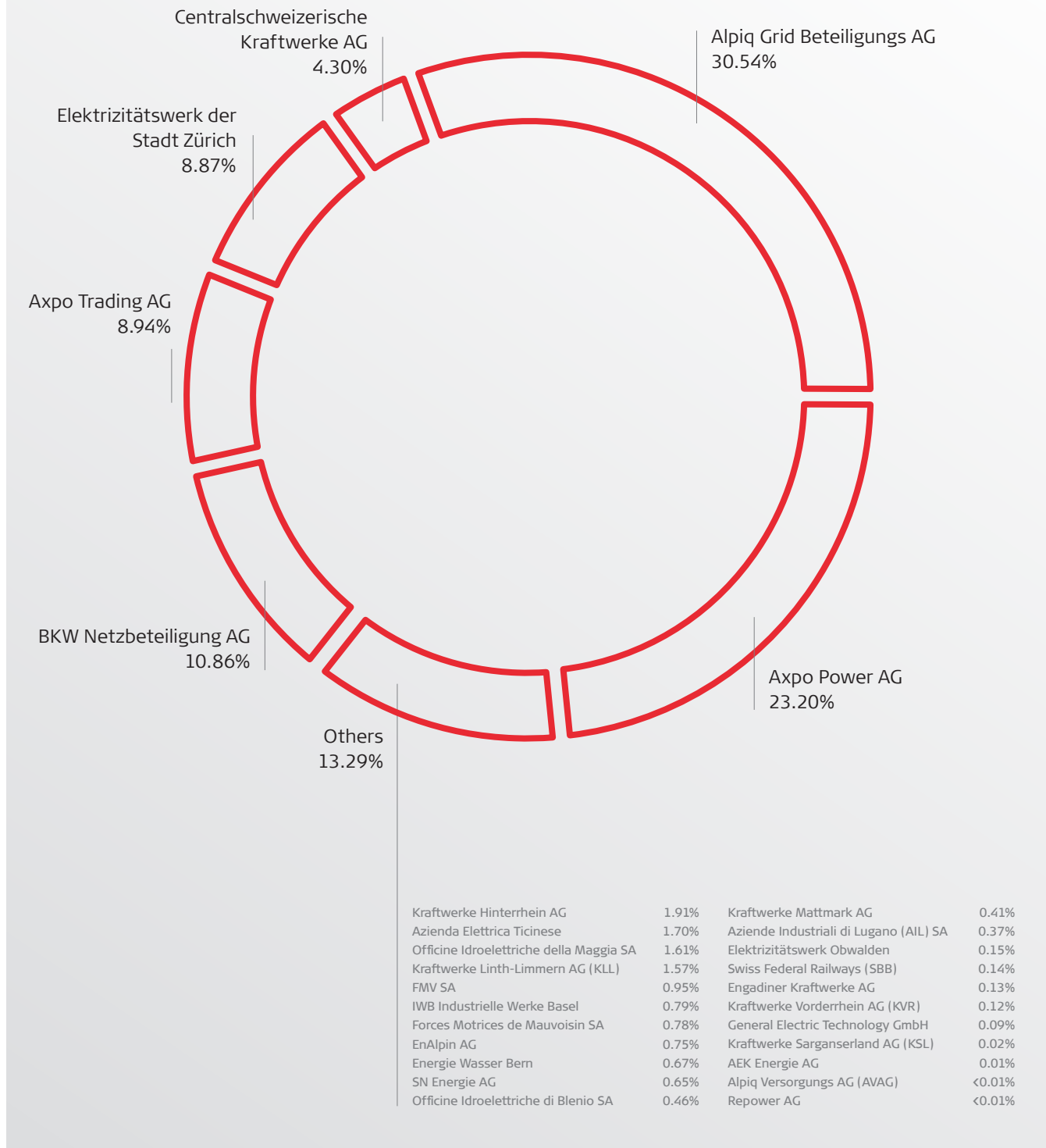
The following companies are Swissgrid shareholders: as of 31 December 2015, Swissgrid is wholly owned by AEK Energie AG, Alpiq Grid Beteiligungs AG, Alpiq Versorgungs AG (AVAG), General Electric Technology GmbH, Axpo Power AG, Axpo Trading AG, Azienda Elettrica Ticinese, Aziende Industriali di Lugano (AIL) SA, BKW Netzbeteiligung AG, Centralschweizerische Kraftwerke AG, Elektrizitätswerk der Stadt Zürich, Elektrizitätswerk Obwalden, EnAlpin AG, Energie Wasser Bern, Engadiner Kraftwerke AG, FMV SA, Forces Motrices de Mauvoisin SA, IWB Industrielle Werke Basel, Kraftwerke Hinterrhein AG, Kraftwerke Linth-Limmern AG (KLL), Kraftwerke Mattmark AG, Kraftwerke Sarganserland AG (KSL), Kraftwerke Vorderrhein AG (KVR), Officine idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA, Repower AG, Swiss Federal Railways (SBB) and SN Energie AG. Swissgrid is directly or indirectly majority-owned by the cantons and the municipalities. The current shareholder structure can be viewed online (www.swissgrid.ch).

CROSS SHAREHOLDINGS

No cross shareholdings currently exist.

SHAREHOLDINGS IN SWISSGRID

Situation at 31 December 2015
Percentage figures have been rounded.



Capital structure

CAPITAL AND RESTRICTION ON TRANSFERABILITY

In February 2015, at an extraordinary General Assembly, the shareholders approved the application made by the Board of Directors to establish two share categories (registered shares A and B) in order to ensure Swiss control and the equal treatment of shareholders.

The ordinary share capital as at 31 December 2015 amounts to 313,398,719 registered shares with a nominal value of CHF 1 per share (divided into 156,699,360 A registered shares and 156,699,359 B registered shares). With entry into the commercial register on 4 January 2016, Swissgrid also took over additional transmission grid assets and raised its share capital accordingly by CHF 2,928,344 (by 1,464,172 A registered shares and 1,464,172 B registered shares). The conditional share capital as of 31 December 2015 consists of a maximum of 128,660,249 registered shares, each with a nominal value of CHF 1. With entry into the commercial register on 4 January 2016, the conditional capital was raised by CHF 1,339,751 to the original value of CHF 130 million. The conditional share capital relates to received convertible bonds that Swissgrid used to finance the transfer of the transmission grid. Creditors can exercise conversion rights over a maximum of 20 years. Shareholders have no pre-emptive rights. Shareholder advance subscription rights are also excluded, as the convertible bonds are financing the takeover of integrated grid companies or individual system elements, or the simple and rapid improvement of Swissgrid's capital resources.

No authorised capital exists. According to Article 18 (5) of the Electricity Supply Act, the company's shares may not be listed on a stock exchange. The Board of Directors maintains a share register in which the names and addresses of the owners and beneficiaries are entered. Only shareholders or beneficiaries entered in the share register are recognised by the company and are authorised to exercise their shareholder rights. The status of the entries in the share register on the 20th day prior to the Annual General Meeting is decisive for determining entitlement to participation and representation at the Annual General Meeting. According to Article 18 (3) of the Electricity Supply Act, the majority of the share capital and the associated voting rights must be directly or indirectly held by the cantons and municipalities. In the event of share transfers (sale, gift, exercise of pre-emption rights and purchase rights, etc.), these majorities must be retained. If an intended transaction breaches one of these majority ownership requirements, the Board of Directors must not grant its approval.







There are no participation or profit-sharing certificates and no options were issued.




CAPITAL CHANGES

Further information on the share capital and capital changes in the last two years is shown in the statement of changes in shareholders' equity on page 26.

Board of Directors

MEMBERS OF THE BOARD OF DIRECTORS, ADDITIONAL ACTIVITIES AND AFFILIATIONS

	NAME, NATIONALITY, ROLE, QUALIFICATION, DATE OF ELECTION TO THE SWISSGRID LTD BOARD OF DIRECTORS	PROFESSIONAL EXPERIENCE, CAREER	ADDITIONAL ACTIVITIES AND ANY AFFILIATIONS	MEMBERSHIP OF SWISSGRID LTD COMMITTEES
	ADRIAN BULT (*1959, CH) Chairman (since 10 December 2012), independent member Lic. oec. 14 December 2006	COO of Avaloq Evolution AG (2007 to 2012); previously CEO of Swisscom Mobile AG and CEO of Swisscom Fixnet AG, member of the Executive Board of IBM Switzerland	Board of Directors of Swissquote Holding AG, Enkom AG, AdNovum AG, Garaio AG, Alfred Müller AG, SWICA, Regent AG, Chairman of the CRF Foundation	Chairman of the Strategy Committee, member of the Staff and Compensation Committee, Chairman of the Steering Committee for the GOI+ project (transfer of the transmission grid), Chairman of the Steering Committee for the strategic financing project, Chairman of the special Security Strategy Committee
	DORIS RUSSI SCHURTER (*1956, CH) Vice Chairwoman (since 10 December 2012), independent member Lic. iur., lawyer 11 December 2007	Lawyer in own practice, Burger & Müller law firm (since 2005); previously a partner at KPMG Switzerland, head of KPMG Lucerne	Vice Chairwoman of the Board of Directors of Helvetia Holding Ltd, member of the Board of Directors of Luzerner Kantonalbank AG and LZ Medien Holding AG, Chairwoman of the Association of Swiss Companies in Germany (VSUD)	Chairwoman of the Finance and Audit Committee, member of the Special Security Strategy Committee
	MARCEL FREI (*1959, CH) Board of Directors, industry representative, accounting and controlling expert (Federal diploma) 10 December 2012	Director of ewz (since 2012); previously CFO and Deputy Director of ewz	Board of Directors for companies affiliated with ewz and for various companies in the energy sector	Member of the Finance and Audit Committee
	ISABELLE MORET (*1970, CH) Board of Directors, independent member Lic. iur., LL.M., lawyer 10 December 2012	Lawyer at own law firm	National Councillor, Vice Chairwoman of FDP Switzerland, foundation board of the ECA-RP pension fund, Vice Chairwoman of the Board of Directors of Retraites Populaires, member of the Executive Committee at economiesuisse (association of Swiss companies), Chairwoman of the Federation of Swiss Food Industries (FIAL)	Chairwoman of the Staff and Compensation Committee
	CLAUDE NICATI (*1957, CH) Board of Directors, cantonal representative Lic. iur., lawyer 24 June 2014	Independent lawyer; previously a Councillor for the canton of Neuchâtel, Head of the department for regional planning, deputy Federal Public Prosecutor and examining magistrate for the canton of Neuchâtel, roles in managerial positions for the municipal and cantonal police department	Board member in various not-for-profit organisations	Member of the Staff and Compensation Committee, member of the Special Security Strategy Committee
	FADRI RAMMING (*1962, CH) Board of Directors, cantonal representative Lic. iur., lawyer and notary 14 December 2006	Lawyer and notary at own law firm	Member of the Swiss delegation for a Swiss-EU agreement on electricity (cantonal representative), Chairman of the Board of Directors of the Grisons psychiatric services, General Secretary of the Intergovernmental Conference of the Mountain Cantons	Member of the Finance and Audit Committee

	NAME, NATIONALITY, ROLE, QUALIFICATION, DATE OF ELECTION TO THE SWISSGRID LTD BOARD OF DIRECTORS	PROFESSIONAL EXPERIENCE, CAREER	ADDITIONAL ACTIVITIES AND ANY AFFILIATIONS	MEMBERSHIP OF SWISSGRID LTD COMMITTEES
	RONALD TRÄCHSEL (1959, CH) Board of Directors, industry representative Lic. rer. pol. 16 February 2015	CFO of BKW AG; previously CFO of the Sika Group, CEO/ CFO of the Vitra Group, CFO of the Ringier Group	Chairman of the Board of Directors of Wyss Samen und Pflanzen AG, Board of Directors of Création Baumann AG, Kraftwerke Oberhasli AG and Contour- Global GP, Ltd	Member of the Finance and Audit Committee
	ANDREW WALDO (*1963, CH, GB) Board of Directors, industry representative Dr oec. publ. 24 June 2014	CEO of Axpo Holding AG (since 2014); previously CEO of CKW AG, managing director of SN Energie AG and in leading managerial positions at Alstom and ABB	Chairman of the Board of Directors at CKW AG, chairman of the Board at Swisselectric, member of the Executive Committee at economiesuisse (associ- ation of Swiss companies), member of the Waste Disposal Advisory Council	Member of the Strategy Committee
	MICHAEL WIDER (*1961, CH) Board of Directors, industry representative Lic. iur., MBA 30 June 2009	Head Generation, deputy CEO of Al- piq Holding Ltd (since 2009); previously in various roles in the executive management of electricity companies	Chairman or member of the Board of Di- rectors of various energy companies, member of the Board of swisselectric	Member of the Strategy Committee, member of the Special Security Strategy Committee

Departures in the reporting period

– Christophe Bossel, on 16 February 2015

ELECTION AND TERM OF OFFICE

The Board of Directors is comprised of at least three elected members. The majority of members and the chairman must meet independence requirements in accordance with Article 18 (7) of the Electricity Supply Act. As a rule, the Board of Directors is elected at the annual General Assembly for one year at a time. The term of office for the members of the Board of Directors ends on the day of the next annual General Assembly. All cantons together have the right to delegate and recall two members to/from the company's Board of Directors (Art. 18 (8) of the Electricity Supply Act). The members of the Board of Directors can be re-elected at any time. The Board of Directors is self-constituting. It nominates its Chairman, Vice Chairman and the Secretary, who does not have to be a member of the Board of Directors.

INTERNAL ORGANISATION

The Board of Directors is responsible for the overall management of the company and for supervising the management of the company. It represents the company externally and takes care of all matters that are not assigned to another corporate body according to law, regulations or the Articles of Association. The Board of Directors can, subject to the legal guidelines on independence (Art. 18 (7) of the Energy Supply Act), transfer the management of the company or individual parts thereof as well as the representation of the company to one or more persons, members of the Board of Directors or third parties, who do not have to be shareholders. It issues the organisational regulations and arranges the corresponding contractual relationships. The powers of the Board of Directors and the Executive Board are defined in the organisational regulations. The members of the Board of Directors do not exercise any executive roles within Swissgrid. The Board of Directors met seven times in the last financial year and held six teleconferences.

BOARD RESOLUTIONS

In order to incorporate the specialist knowledge and broad range of experience of the individual members into the decision-making process, or to report as part of its supervisory duty, the Board of Directors formed three committees to assist in management and control activities in close collaboration with the Executive Board: the Strategy Committee, the Finance and Audit Committee, and the Staff and Compensation Committee. The tasks and powers of the Board committees are set out in detail in the organisational regulations.

Strategy Committee The Strategy Committee supports the Board of Directors in the strategy process. It advises on the strategic principles on behalf of the Board of Directors and reviews the strategy for the Board of Directors on a regular basis. The committee presents its view on proposals that relate to strategic issues. The Strategy Committee met twice during the last financial year and held two teleconferences.

Finance and Audit Committee The Finance and Audit Committee supports the Board of Directors in its supervisory role, namely with regard to the integrity of the accounts, the fulfilment of legal provisions, and the competence and performance of the external auditors. The Finance and Audit Committee assesses the suitability of financial reporting, the internal control system and the general monitoring of business risks. It ensures that there is ongoing communication with the external auditors concerning the financial position and course of business. It makes the necessary preparations relating to the appointment or discharge of auditors. The Finance and Audit Committee met five times during the last financial year.

Staff and Compensation Committee The Staff and Compensation Committee draws up principles for all compensation components of the members of the Board of Directors, the CEO and the division heads, and submits a proposal to the Board of Directors accordingly. The committee defines the compensation of the CEO and the members of the Executive Board. The basis for this decision is the compensation concept approved by the Board of Directors. The committee presents its view on the changes to the Executive Board that are proposed by the CEO. It also ensures that succession planning is in place for the Board of Directors and the Executive Board. The Staff and Compensation Committee met four times in the last financial year and held one teleconference.

Special committees The Board of Directors may appoint ad hoc committees for specific tasks. The Special Security Strategy Committee, established in 2014, met once during the last financial year and was dissolved by the Board of Directors in June 2015.

INFORMATION AND CONTROL INSTRUMENTS WITH REGARD TO THE EXECUTIVE BOARD

Information and control instruments The Board of Directors has the following instruments for monitoring and supervising the Executive Board:

- At Board meetings, the Executive Board presents and comments on business performance and submits all important issues for discussion or resolution.
- A report to the Board of Directors is compiled quarterly, and contains key figures on business performance together with comments from the Executive Board.
- The written CEO report is submitted at every ordinary Board meeting and also deals with recurring issues, such as the ancillary services reports, grid expansion projects and key performance indicators (KPI).
- Additional periodically recurring information instruments for the Board of Directors are the risk report and the reports on developments in the energy sector in Switzerland and Europe.
- The external auditor issues an annual written report for the Board of Directors (see also the comments on page 101).



Internal control system The internal control system has an important role as part of corporate management and monitoring, and covers all procedures, methods and measures mandated by the Board of Directors and the Executive Board that serve to ensure that Swissgrid operates in the correct way. The internal operational controls are integrated into the operating procedures, which means that they are implemented while work is being carried out or take place immediately before or after the procedure. Internal checks do not come under a separate function, but are integrated into the processes. The internal control system at Swissgrid is implemented at all levels of the organisation and demands a high level of personal responsibility from employees.

Internal audit The Internal Audit division reports to the Board of Directors, while certain operational management tasks are transferred to the Finance and Audit Committee. The Internal Audit division provides independent and objective audit and consulting services oriented to the creation of added value and the improvement of business processes. It assists the organisation in fulfilling its tasks by systematically and objectively evaluating and improving the effectiveness of risk management and the internal control system (i.e. the management and monitoring processes). The Board of Directors approves the Internal Audit division's audit planning annually upon application by the Finance and Audit Committee. The Internal Audit division pursues a risk-based audit approach. The individual audit reports are submitted to the Chairman and the Finance and Audit Committee and presented for discussion. The implementation of measures is monitored. The Internal Audit division performed six audits during the year under review. The Head of Internal Audit may use co-sourcing and appoint an audit company independent from the external audit to perform the audits.

Risk management Risk management is an integral part of effective and prudent corporate management for Swissgrid. Swissgrid's risk management includes the entire organisation, considers established standards (ISO 31000) and satisfies the internal requirements of corporate governance as well as the requirements under Swiss law. Additional information on the implementation of the risk assessment can be found in the Management Report on pages 16 to 18.

Executive Board

MEMBERS OF THE EXECUTIVE BOARD, ADDITIONAL ACTIVITIES AND AFFILIATIONS

	NAME, NATIONALITY, ROLE, QUALIFICATION, MEMBER OF THE EXECUTIVE BOARD SINCE	PROFESSIONAL EXPERIENCE, CAREER	ADDITIONAL ACTIVITIES AND ANY AFFILIATIONS
	YVES ZUMWALD (*1967, CH) CEO a.i. (since 3 September 2015), Grid Operations, Qualified Engineer., P. M.Sc Energie ETH, 1 January 2014	Sales Director and Board member of the Romande Energie Group (2009 to 2013), head of the infrastructure department and member of the Executive Board of EOS Réseau, responsible for grid utilisation and grid access for EOS Holding, Orange Communications, EOS Quest Suisse	Head of the electricity department at the Federal Office for National Economic Supply, Board member of procedural companies (see also financial reporting on page 50)
	LUCA BARONI (*1971, CH and I) Corporate Services, certified economist FH, 15 December 2006	CFO of Etrans AG (2005 to 2006), CFO of Energiedienst Holding AG and at EGL AG, WATT AG and at the Federation of Migros Cooperatives	Board member of procedural companies (see also financial reporting on page 50), CRF Foundation Board
	RAINER MÜHLBERGER (*1958, CH and D) Strategy & Development, Qualified Engineer, MBA, 1 October 2013	Head of Strategy at Swissgrid (2011 to 2013), CEO of Swisscom Directories Ltd, various management positions at Swisscom Fixnet AG, most recently as CIO	Chairman of the Board of Directors of CESOC AG
	DR. JÖRG SPICKER (*1957, D) Market Operations, Qualified Physicist, 1 October 2013	Senior External Advisor for McKinsey Inc. (2013), Board member of Alpiq Energie Deutschland AG, Managing Director of Aquila Energy GmbH, Ruhrgas AG	Member of the Board of the Holding de Gestionnaires de Réseau de Transport d'Électricité SAS, Member of the Board of EPEX SPOT

Resignation in the reporting period:
 – Pierre-Alain Graf, CEO, on 3 September 2015.

Remuneration

The members of the Board of Directors receive a fixed remuneration (fees and expenses) based on a sliding scale for the Chairman and the other Board members. Remuneration for the members of the Executive Board consists of a basic salary (including per diem expenses) and a variable salary component which is dependent on achieving company and personal targets. The amount of remuneration for members of the Executive Board is defined by the Staff and Compensation Committee within the framework defined by the Board of Directors. Payments to the Executive Board and the Board of Directors are disclosed on pages 43 and 44 of the Notes to the Swiss GAAP FER financial statements.

Rights of participation

Shareholders' rights to assets and rights of participation are governed by the law and the Articles of Association. There are no statutory regulations that differ from the legislation.

External audit

MANDAT UND HONORARE

KPMG AG, Basel, acts as the statutory auditor for Swissgrid Ltd. The audit mandate was first awarded to KPMG for the 2005-2006 financial year (long year). The auditor in charge, Rolf Hauenstein, has been in this role since the 2015 financial year. The auditor is appointed at the General Assembly for a one-year term. For its function as auditor, KPMG received remuneration of CHF 206,000 for the last financial year. Additional services provided in connection with the transfer of additional parts of the transmission grid were remunerated with a total of CHF 53,000.

INFORMATION INSTRUMENTS

Every year, the Finance and Audit Committee evaluates the effectiveness of the external audit. The members of the committee use their knowledge and experience garnered from holding similar positions in other companies to evaluate the audit. They also base their evaluation on the documents provided by the external auditor, such as the comprehensive report and the verbal and written statements on individual aspects in connection with accounting, the internal control system and the audit.

“Swissgrid and SBB work together at all levels – as the owner of extensive electricity grids, we make an important contribution towards ensuring the secure supply of electricity.”

Daniel Koch, Head of Energy, SBB



For more information on the cooperation between SBB and Swissgrid, go to:
<http://ar2015.swissgrid.ch>



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