

Financial Report

Management Report

This Management Report covers both the requirements pursuant to Art. 961c CO (Code of Obligations) in connection with the statutory financial statements and the provisions on the «Annual Report» relating to the financial statements in accordance with 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 and electricity consumption. As the owner and operator of Switzerland's extra-high-voltage grid, Swissgrid is responsible for electricity transmission.

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 electricity transmission. This has been structured as a legal monopoly by the legislator based on the Electricity Supply Act (ESA) and the Electricity Supply Ordinance (ESO). To strengthen the supply of electricity in Switzerland, the Winter Reserve Ordinance (WResO) was also enacted in 2023.

The Federal Electricity Commission ElCom oversees compliance with ESA, ESO and WResO. ElCom is the independent state 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 an ultimate possibility of appeal to the Federal Supreme Court. Given the public interest in the secure national supply of electricity, the resulting legislation and 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 Switzerland's extra-high-voltage grid are also considered amongst the company's most important tasks.

Swissgrid provides additional services, such as balance group and congestion management or ancillary services (AS), as part of European and Swiss interconnected operations. In addition to representing national 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 chargeable. ElCom has the right to verify ex post the chargeability of Swissgrid's costs for tariff-setting purposes.

Chargeable costs include the operating and capital costs of maintaining a secure and efficient grid. The chargeable costs according to ESA and ESO also include an adequate operating profit. As a result, this is referred to as «cost-plus» regulation: «cost» stands for the cost recovery principle and «plus» stands for the operating profit. The cost recovery principle applies to the chargeable costs according to WResO.

Chargeable operating and capital costs

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

Chargeable capital costs include depreciation/amortisation and imputed interest. The amount of imputed interest for ESA activities is directly dependent on the assets required to operate the grid (invested operating assets (IOA)) and the applicable regulatory interest rate ($WACC_{t+0}$). $WACC_{t+0}$ means that the WACC specified for this year also applies to the current financial year. By contrast, interest on the assets required for orders regulated by the WResO is calculated using the borrowing cost rate $_{t+0}$ included in $WACC_{t+0}$.

In particular, IOA consist of transmission grid assets (including construction in progress), intangible assets and net current assets determined on a monthly basis.

Volume- and tariff-related timing differences

Swissgrid calculates the required tariff revenues ex ante based on budgeted costs (operating and capital costs). Volume and price 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.

From the 2024 financial year, the new Article 18a of the Electricity Supply Ordinance (ESO) will apply for the first time to the interest on all volume- and tariff-related timing differences. The volume- and tariff-related timing differences arising from the 2024 financial year onwards will be subject to interest at the borrowing cost rate $_{t+2}$ included in $WACC_{t+2}$. In accordance with ElCom directive 03/2024, volume- and tariff-related timing differences resulting from ESA activities up to and including the end of the 2023 financial year remain subject to interest calculated at $WACC_{t+2}$ until they have been fully eliminated. As previously, no interest is calculated on the volume- and tariff-related timing differences resulting from WResO activities up to and including the end of the 2023 financial year until they have been fully eliminated.

Profit regulation

EBI (earnings before interest) from Swissgrid's regulated business area is calculated by multiplying the invested operating assets from ESA activities by the weighted average cost of capital rate $WACC_{t+0}$, multiplying the assets required for orders regulated by the WResO by the borrowing cost rate $_{t+0}$ included in $WACC_{t+0}$, and multiplying the interest on all volume- and tariff-related timing differences by the borrowing cost rate $_{t+2}$ included in the weighted average cost of capital rate $WACC_{t+2}$. The volume- and tariff-related timing differences resulting from ESA activities up to and including the end of the 2023 financial year remain subject to interest at $WACC_{t+2}$ until they have been fully eliminated, which also has an impact on EBI. Additional profits may arise from Swissgrid's unregulated business area.

The EBI is then used to compensate Swissgrid's stakeholders via interest on liabilities and return on equity (dividends and/or profit retention). The regulatory requirements therefore lead to a return equal to the capital

cost rates to be applied.

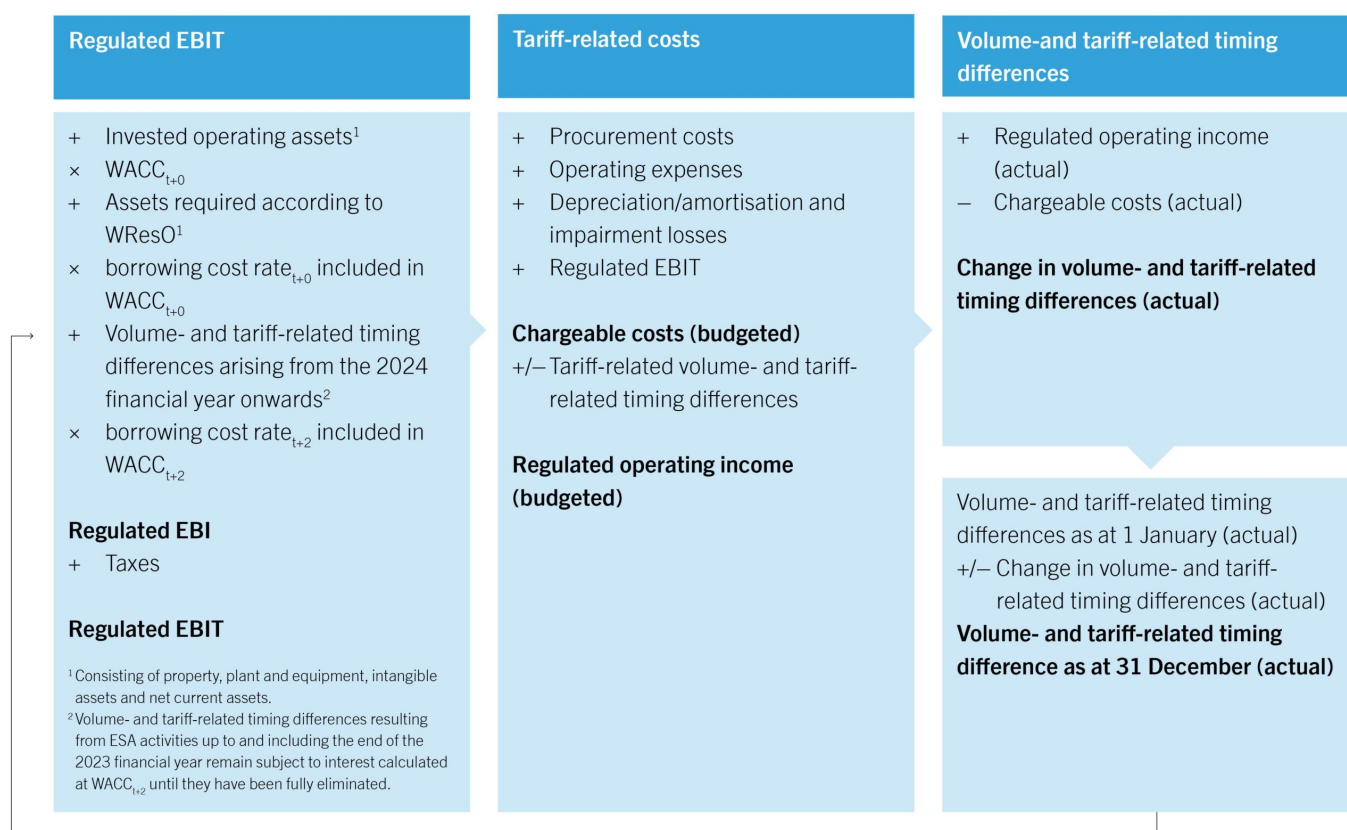
Imputed capital cost rate (WACC)

The WACC is an imputed interest rate defined annually based on the electricity supply legislation. It applies equally to all grid operators.

The WACC is calculated methodically taking account of the current best practice guidelines provided by the Federal Department of the Environment, Transport, Energy and Communications (DETEC). 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 electricity industry, 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



GRI-201-1

Business performance (values pursuant to Swiss GAAP FER)

Procurement costs

At CHF 684.5 million, procurement costs were CHF 215.4 million lower than the previous year's figure of CHF 899.9 million. This decrease is due to a reduction in costs of CHF 186.1 million and CHF 48.3 million respectively in the general ancillary services and active power loss segments. The reduction in the general

ancillary services segment is attributable to lower costs for control power provision. The decrease in the active power loss segment is due to lower procurement costs for the energy required to compensate for active power losses. By contrast, higher national redispatch costs in the grid usage segment led to an increase of CHF 29.1 million in procurement costs. Costs in the reactive energy segment remained at the previous year's level.

Operating expenses and depreciation/amortisation

Operating expenses rose by CHF 11.9 million year on year, from CHF 293.8 million to CHF 305.7 million. The consistent implementation of Strategy 2027 resulted in an increase in personnel expenses. The average number of full-time equivalents in 2024 amounted to 784.1 FTE (previous year: 704.3 FTE).

The scheduled depreciation/amortisation on property, plant and equipment and intangible assets amounted to CHF 160.9 million in the reporting year, up CHF 14.8 million on the previous year due to the rise in non-current assets.

Revenue and volume- and tariff-related timing differences

For the 2024 financial year, net turnover across all segments amounted to CHF 1,825.1 million. This represents an increase of CHF 605.9 million in relation to the previous year's figure of CHF 1,219.2 million. The rise is mainly attributable to the CHF 417.8 million and CHF 156.2 million increase in net turnover in the general ancillary services and active power loss segments respectively. Both segments recorded higher tariff income and were allocated higher pro rata auction income to cover the chargeable costs of the transmission system. The increase in tariff income is due to the regulatory requirement to reduce the deficit from previous years. In addition to higher tariff income and auction income, higher revenue from balance group balancing energy in the general ancillary services segment also led to a rise in net turnover.

In the 2024 financial year, the operating business activities reported net surpluses (cumulative surpluses less cumulative deficits) of CHF 582.8 million (previous year: net deficits of CHF 216.4 million). The general ancillary services and active power loss segments in particular recorded surpluses of CHF 438.7 million and CHF 132.0 million respectively due to higher net turnover. The initial recognition of tariff income in the power reserve segment in the reporting year led to a decline in deficits from the intermediary transactions in this segment by CHF 441.2 million compared to the previous year. As at 31 December 2024, there were deficits totalling CHF 343.3 million (previous year: deficits totalling CHF 1,367.3 million) across all segments combined.

EBIT, financial income and net income

Earnings before interest and taxes (EBIT) from Swissgrid's regulated business area are calculated by multiplying the invested operating assets from ESA activities by the weighted average cost of capital rate $WACC_{t+0}$, multiplying the assets required for orders regulated by the WResO by the borrowing cost rate r_{t+0} included in $WACC_{t+0}$, and multiplying the interest on all volume- and tariff-related timing differences by the borrowing cost rate r_{t+2} included in the weighted average cost of capital rate $WACC_{t+2}$. The volume- and tariff-related timing differences resulting from ESA activities up to and including the end of the 2023 financial year remain subject to interest calculated at $WACC_{t+2}$ until they have been fully eliminated, which also has an impact on EBIT.

The weighted average cost of capital rate ($WACC_{t+0}$) defined by DETEC for the 2024 financial year is 4.13%, and the borrowing cost rate r_{t+0} included in $WACC_{t+0}$ is 2.25%. The weighted average cost of capital rate for 2026 ($WACC_{t+2}$) applicable for the 2024 financial year is 3.43%, and the borrowing cost rate r_{t+2} included in $WACC_{t+2}$ is 2.0%. EBIT therefore stood at CHF 139.1 million in the reporting year, on a par with the previous year's level (CHF 138.2 million). Net income for 2024 amounted to CHF 103.8 million, up CHF 3.8 million on

the previous year's figure of CHF 100.0 million.

Balance sheet and cash flow statement

Total assets (excluding fiduciary positions) decreased by CHF 430.4 million compared to the previous year to CHF 3,789.2 million due to the reduction in deficits. The absolute equity base was further strengthened by the positive net income less dividends paid. Adjusted for the balance sheet items held on a fiduciary basis and volume- and tariff-related timing differences, the equity ratio on 31 December 2024 amounted to 37.6%, as compared to 32.1% on 31 December 2023.

A positive cash flow from operating activities of CHF 1,125.7 million was recorded in the reporting year (previous year: negative cash flow of CHF 505.9 million). The change is due to the increase in net turnover and the tariff income generated for the first time from the intermediary transactions for the power reserve.

With a gross investment volume of CHF 317.5 million, Swissgrid again realised more investments than in the previous year (CHF 279.5 million). Unlike in the previous year, no auction income was used for the maintenance or expansion of the transmission grid during the reporting year, in accordance with ElCom's instructions. Cash flow from investing activities therefore totalled CHF –316.8 million (previous year: CHF –40.5 million).

Due to the high cash flow from operating activities, financial liabilities totalling CHF 510.0 million were repaid in the reporting year. After deduction of the dividend and interest paid, cash flow from financing activities stood at CHF –565.6 million in 2024 (previous year: CHF 484.2 million).

Risk assessment

Risk management is an integral part of effective and prudent corporate management for Swissgrid. It covers the entire organisation, not including its subsidiaries and holdings, and is based on the established ISO 31000 standard.

Swissgrid's risk management meets the requirements of corporate governance, as well as the requirements under Swiss law.

Objectives

The Risk Management unit assists employees at all levels in consciously dealing with risks. This includes expedient and transparent reporting, as well as managing an appropriate risk management system. Swissgrid fosters the deliberate management of risks at all levels of the company.

Organisation

The Board of Directors has defined the governance requirements for risk management and delegated its implementation to the CEO. The Risk & Resilience team manages the risk management process, provides the methods and advises the operating units on risk management.

Process

The risk assessment takes place twice a year. The key risks are identified and assessed as part of a multi-stage process that includes the evaluation of risks based on the probability of their occurrence and the extent of their impact, as well as the definition of strategies to manage said risks.

Risk monitoring, including the effectiveness and level of implementation of the measures taken, is performed

as part of regular risk updates. The Executive Board and the Board of Directors receive the results of the risk assessment and the risk updates twice a year in the form of a standardised report.

Risk situation

The high availability of French nuclear power stations, high reservoir levels and well-filled gas storage facilities in the European Union alleviated the risk of a potential electricity shortage during the winter months. The European energy markets have steadied and price levels are stable as a result. However, the effects of the tense geopolitical situation, extreme climate events (persistent dry weather and a «Dunkelflaute» in Europe, i.e. a period without any wind or photovoltaic production) or cumulative outages of large power plants can still accentuate the risk again. This is especially true in the winter months, when Switzerland is dependent on electricity imports.

The effects of the energy transition are also leading to increasing risks. Exceptionally high load flows from Europe (due to increasing volatility in energy production) and inaccurate forecasts by market partners, particularly in combination with the decommissioning of infrastructure elements (maintenance or project expansion), are creating grid situations with reduced resilience. A variety of topological measures and the use of national and international redispatching measures and control energy are necessary to ensure grid operations. The use of these measures in turn leads to higher costs for Swissgrid.

In addition to the risks concerning grid-related security of supply, other risks remain relevant for Swissgrid. These risks are driven by natural influences, the national and international political and regulatory environment, and human and technical aspects. Digitalisation is enabling more efficient operation of the transmission grid, but also involves risks to grid and system security and therefore to security of supply, given the growing dependence on complex and networked ICT systems and their susceptibility to cyber risks.

The key risk factors are:

European and regulatory environment

The Swiss transmission grid is part of the continental European interconnected grid and is connected to neighbouring countries via 41 cross-border lines. The close meshing of the electricity system and cooperation with European partners to date make a significant contribution to Switzerland's security of supply. Swissgrid's role remains challenging at a national and international level. The Federal Council resumed negotiations on a framework agreement in 2024. In parallel, Swissgrid launched an internal «Electricity Agreement» project in 2024 to prepare for possible scenarios.

The negotiations were formally concluded at a political level on 20 December 2024. The consultation process is expected to start in the second half of 2025. Consequently, parliamentary debates will not start until the beginning of 2026 at the earliest.

Switzerland needs an electricity agreement with the EU. An electricity agreement would strengthen Switzerland as a business location whilst increasing security of supply and grid stability. In addition, an electricity agreement would give Swiss players access to the European electricity market and lead to lower costs. Switzerland would gain legal certainty and be able to help shape the further development of the European electricity market. Until an electricity agreement is implemented, higher unplanned electricity flows may continue to flow via the Swiss grid, impairing system stability and import capability. Swissgrid's alternative in order to find technical solutions during the transition period is to conclude contracts under private law with other transmission system operators to ensure grid stability. Swissgrid is dependent on political support in this regard. Success is not guaranteed as there are aspects to resolve at a political level that fall outside the control of Swissgrid. Private-law agreements between transmission system operators are

only a medium-term stopgap until an electricity agreement comes into force.

Security of supply

A wide-scale supply outage would cause enormous economic damage. Consequently, Swissgrid must keep the transmission system available for the supply of electricity at all times. It is therefore essential to have an intact grid infrastructure and to secure the availability of IT and communication systems. Meeting these prerequisites can be jeopardised by, for example, technical problems, natural disasters, operating errors and criminal actions. Among other measures, Swissgrid mitigates these risks by implementing redundancies and standardised processes to eliminate faults in grid systems and in system operations. Adequate training and development of personnel ensures that employees respond appropriately.

Security of supply also depends on the availability of control and redispatch power to balance short-term deviations between production and consumption, and to control grid congestion. The shift from large thermal power plants (nuclear and coal-fired power plants), which supply constant and deterministic electrical energy, to decentralised, volatile solar and wind power plants as part of the energy transition is making it increasingly difficult to meet these conditions. Swissgrid is therefore continuously optimising the Swiss market for ancillary services and cooperating with Swiss industry partners and transmission system operators in neighbouring countries to increase market liquidity.

Swissgrid takes precautions to protect the infrastructure against physical attacks. The project to physically protect substations is one of the main activities in this area and involves securing the relevant buildings and plants, as well as access control and monitoring. In 2024, Swissgrid took part in a corresponding exercise organised by the Swiss Armed Forces. The aim of the training was to practise cooperation between the army and civilian authorities.

The threat of cyber attacks is steadily rising due to the speed at which technology changes (which potential attackers also exploit), the countless possible modes of attack, as well as growing system integration across companies. To reduce this risk, Swissgrid is continuously developing its processes and systems to detect cyber threats early and defend itself against them.

Swissgrid has emergency procedures and structures in place in the highly unlikely event that infrastructures or systems fail over an extended period or the grid can no longer be controlled. Exercises with authorities and industry partners also took place again in 2024, such as practising OSTRAL procedures and carrying out regular grid restoration exercises with distribution system operators and foreign transmission system operators. In 2024, several drills were organised to ensure the proper functioning of emergency procedures, including the overall emergency drill «Uranus» to test cooperation between the emergency organisations at the Gösgen nuclear power station, ENSI, the relevant federal, cantonal and municipal authorities and Swissgrid.

Grid capacity

Planning for the further development of grid capacity is based on scenarios that consider future target values for generation technologies and consumer groups, taking into account the transformation of the energy system with regard to the energy transition. Important strategic grid expansion work continues to be affected by lengthy approval procedures due to large numbers of objections. This makes it more difficult to eliminate grid congestion. As far as approval processes are concerned, Swissgrid relies above all on dialogue with affected parties. However, given that the acceptance of overhead lines is often low, Swissgrid still has to factor in objections and delayed approval processes. The «Grid express» proposal (revision of the Electricity Act), which the Federal Council submitted for consultation at the end of June 2024, is a particularly positive development. The corresponding dispatch should be referred to Parliament in the spring of 2025. The revision is intended to speed up approval processes for the renovation and expansion of the grids. This new

provision should also be welcomed in the interests of a needs-based, environmentally friendly and economically efficient high-voltage and extra-high-voltage grid.

The progressive ageing of existing components represents another risk to grid capacity. Swissgrid therefore systematically records the condition of its plants and plans modernisation measures accordingly.

Personnel safety

Swissgrid's operation and maintenance of the extra-high-voltage infrastructure involves risks to personnel safety. People can be seriously injured while performing their work. To minimise this risk, Swissgrid systematically identifies present dangers, implements targeted protective measures, trains its own employees and instructs contractor employees so they can independently identify the dangers posed at plants and respond accordingly. Systematic local inspections help to ensure compliance with safety precautions on building sites. «Safety first» is the guiding principle. Swissgrid is therefore investing heavily in this area. At the beginning of 2024, Swissgrid received confirmation of its «Safety Culture Ladder» (SCL) certification. Thirteen Swissgrid service providers have also confirmed their «Safety Culture Ladder» certification, and others are in the certification phase. In addition, the third edition of the «Safety and Security Days» was held in 2024 to raise awareness among all Swissgrid employees. Information was provided on a variety of safety-related topics.

Financial risks

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

Depending on the financial volume and timing, the proper financial implementation of operational business activities and the additional tasks transferred to Swissgrid by the federal government may mean that Swissgrid has to provide interim financing for these resources, which are to be funded via downstream tariff revenues. Swissgrid anticipates developments on an ongoing basis and takes measures at an early stage to ensure liquidity at all times by means of intensified continuous planning, close monitoring of the funding requirements, an increase in minimum liquidity levels and the provision of confirmed bank credit facilities.

Foreign currency risk is reduced through natural hedging and forward exchange transactions. The hedging strategy is reviewed periodically and updated as needed.

The risk of interest rate changes is reduced by staggering the maturities and establishing a balanced financing mix. Derivative financial instruments are deployed for further mitigation if necessary.

Financial counterparties and balance groups are constantly reviewed, assigned individual limits and monitored. Counterparty risks are monitored on a regular basis.

At its meeting on 12 February 2025, the Federal Council approved an amendment to the Electricity Supply Ordinance which modifies the calculation of the WACC. The new calculation method (in particular the elimination of lower and upper limits) increases volatility depending on the general interest rate situation; this results in a lower WACC, particularly in low-interest phases. Swissgrid had rejected an adjustment to the calculation methodology during the consultation process. As well as leading to a reduction in Swissgrid's net income, which can be in the mid double-digit million range in the event of a low-interest phase, the other main effect of the new calculation method will be to make investments in the grid infrastructure less attractive in the future.

Future prospects

Strategic outlook

The electricity industry is undergoing a transformation which is significantly modifying the framework conditions for transmission system operators. In Switzerland and Europe, the volume of electricity being fed into the grid from new, renewable sources is rising. This production is decentralised and more difficult to plan than production from large power plants with a stable output. This is resulting in new requirements for grid operations. Swissgrid's Strategy 2027 addresses these challenges. It focuses on investing in the digitalisation of grid operations and in the development and integration of data-based technologies in order to incorporate the integration of decentralised, renewable energy sources into grid operations as effectively as possible.

If an electricity agreement is concluded between Switzerland and the EU, the challenges described above will be much easier to resolve. This is particularly the case because Switzerland would then be fully integrated into the European electricity market, which would make the procurement of control energy more efficient and cost-effective, as well as solving capacity problems at the border. The Swiss political process for the electricity agreement is expected to start in the summer of 2025, and Swissgrid is actively striving to inform its stakeholders about the benefits of the agreement for grid operations.

The «Grid express» is another important political proposal for Swissgrid. It essentially calls for an acceleration of the Transmission Lines sectoral plan (SÜL). To prevent the grids from becoming the bottleneck of the energy transition, it is crucial for them to be modernised and, where necessary, expanded to keep up with increasing production levels.

Swissgrid continuously develops the transmission system as part of the grid planning process and adapts it to changing framework conditions and challenges. In the summer of 2024, Swissgrid finalised the target grid for 2040 and submitted it to ElCom for review.

Although the expansion of PV electricity production in Switzerland is progressing, the availability of PV data and forecasts from market partners is lagging behind. This affects grid stability and can force Swissgrid to use cost-intensive control energy to compensate for imbalances. Swissgrid has launched various projects in association with industry partners to improve forecasting accuracy in relation to PV energy and to use renewable resource elements (e.g. PV systems, heat pumps and electric vehicles) for secure grid operation.

The Board of Directors approved Swissgrid's climate targets at the beginning of 2025. They specify a net-zero emissions target to be achieved by 2040. In the current year, Swissgrid is focussing on the development of specific targets for indirect emissions (Scope 3) in the area of sustainability.

Research and development

Swissgrid cooperates with national and international research institutions to make sure that it can continue to fulfil its tasks safely and cost-effectively in the future. Its project portfolio is aligned with its strategic goals, and consists of internal activities and projects being conducted in cooperation with universities and other Swiss partners.

Financial outlook

Grid investments

Investment volumes are expected to remain high due to the need to achieve a sustainable energy future and carry out the measures defined in the «Strategic Grid 2025» report. Permits for power line construction and modification continue to pose a major challenge. The budget has therefore been assigned a lower likelihood of realisation in order to properly reflect delays. Consequently, investments in the grid are expected to

increase by between CHF 250 million and CHF 330 million a year over the medium term.

Operating costs

In 2023, Swissgrid launched its Strategy 2027 and entered a new five-year strategy period. Strategy 2027 is enabling Swissgrid to address the challenges posed by the fundamental transformation of the energy system. In addition to an increase in investments, the implementation of these measures is also leading to an increase in operating costs.

EBIT and net income

In line with the regulatory business model, EBIT is directly dependent on the level of IOA and WACC or the borrowing cost rate of WACC. The WACC for 2025 communicated by DETEC is 3.98%, and the borrowing cost rate included in WACC is 2.0%. Consequently, an EBIT or net income in line with 2024 is expected for 2025.

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