

Annual Report 2017



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Welcome to the future of energy



Adrian Bult

Yves Zumwald

Dear readers,

Switzerland has decided to push ahead with energy reform. On 21 May 2017, the public voted in favour of the new Energy Act and declared its approval for the gradual phase-out of nuclear energy, alongside measures to promote renewable energies and improve energy efficiency. Swissgrid has already taken account of these developments in its grid planning. Two years ago, “Strategic Grid 2025” identified the lines and plants that have to be dismantled or upgraded by 2025 in order to maintain a high security of supply in the long-term. The gradual phase-out of nuclear energy was an important driver in the selection of the projects. The missing capacity either has to be produced elsewhere in Switzerland or imported from abroad. This also changes the requirements for transporting energy into the Swiss transmission grid.

Grid expansion is a key element of the energy reform. For Swissgrid to be able to expand the transmission grid in good time, the approval processes need to be accelerated. Parliament’s adoption of the “Electricity Grid Strategy” bill means that the current protracted processes can be optimised and the responsibilities and roles clarified. For Swissgrid, this means more legal certainty. The bill also lays the groundwork for integrating stakeholders, authorities and associations earlier.

The changes in the European and Swiss energy landscape are not only influencing the expansion of the transmission grid, but also increasing the demands on its secure operation. For instance, the rise in production from renewable energy sources abroad is creating very different production patterns and volatile load flows. Switzerland’s exclusion from market coupling means that unplanned flows will place a greater strain on the grid elements. Swissgrid cannot overcome the future challenges of monitoring and controlling the energy flows alone; it can only achieve this together with its European partners. Swissgrid already works closely with international transmission grid operators to ensure security of supply in the European interconnected grid.

However, Swissgrid’s collaboration with its European colleagues is now at risk. The lack of an electricity agreement between Switzerland and the EU means that Swissgrid is increasingly being excluded from developments in the European electricity market. The European Commission has also called into question Swissgrid’s cooperation at a technical level. If this collaboration were to break down, Swissgrid would no longer have an opportunity to influence new developments, despite its central position in Europe. This makes it all the more important that Yves Zumwald has been

appointed to the Board of ENTSO-E (European Network of Transmission System Operators) and that Doris Barnert will be appointed in mid-2018 to the Supervisory Board of TSCNET Service GmbH, a cooperation between European transmission system operators to improve safety in extra-high-voltage grids.

Changes are also happening internally. In mid-2018, Swissgrid will move to its new headquarters in Aarau. This will bring us closer to its customers and partners. 2018 is also the year in which Swissgrid will present its 2022 strategy and its new corporate identity, which has been updated accordingly. These developments pave the way for further progress, externally as well as internally, in the new financial year.

Adrian Bult
Chairman of the Board
of Directors

Yves Zumwald
CEO

Year in review

The past financial year brought with it a number of challenges in the operation of the transmission grid, advancements in its expansion, as well as uncertainties in relation to Swissgrid's participation in Europe.

The cold snap in January 2017 placed major demands on the operators in the grid control room: the icy temperatures had an impact on energy flows across Europe. France was forced to import a lot of energy since national consumption was extremely high due to the use of electric heaters, and because up to 23 of its 58 nuclear power plants were offline due to inspections or maintenance. This placed a greater strain than usual on the cross-border lines to France. As Switzerland imports a great deal of energy in winter, this also resulted in congestion points along other lines at the northern borders. However, the situation was also tense in some areas of the grid during the summer. Large transit flows, high levels of domestic energy production as well as fewer available lines due to inspections and maintenance placed huge pressure on the transmission grid. The operators often had to implement redispatch measures to ensure secure grid operations. Despite these short-term changes in power plant utilisation and the challenges mentioned above, Swissgrid safeguarded the uninterrupted operation of the Swiss transmission grid over the past financial year.

Swissgrid believes that the challenges involved in ensuring secure grid operation will only increase further in future. This is why it has been working hard towards introducing the new grid control system as a basis for managing its grid operations. In addition to the ongoing monitoring of the grid, the new system permits direct control of the switching substations from the two control centres. This increases the level of automation, which in turn boosts efficiency and security in the operation of the transmission grid. By the end of 2017, half of all switching substations were already being controlled with the new system.

Grid expansion sees progress

Swissgrid's primary goal is to ensure the security of supply and secure grid operations. To achieve this goal in the medium- and long-term, the grid infrastructure needs to be maintained, updated and expanded. Swissgrid achieved a number of grid expansion milestones in 2017, especially in important construction projects that are essential to the transportation of hydropower from the mountains to the consumption centres in central Switzerland. The line connecting the new Nant de Drance pumped storage power plant, which runs between Châtelard and the La Bâtiâz substation, has been in operation since the summer of 2017. In 2018, Swissgrid will also begin building an underground cable connection between this substation and the existing line between Chamoson and Romanel to relieve the strain on the region. In the summer of 2017, Swissgrid commenced the civil engineering work required to expand the line between Pradella and La Punt in Engadin. Elsewhere, the foundations have already been constructed for the line section between Mörel and Ulrichen in Upper Valais.

To capture synergies, Swissgrid is implementing line projects together with other partners, such as the SBB. In the Uri valley, two existing lines are being bundled together in a new route between Amsteg and Mettlen, which will reduce the number of pylons in the region by about a dozen. Work on this project began in late 2017. Swissgrid and the SBB are also working on another line project in Ticino. The shared lines between Manno and Mendrisio have been routed in a single tunnel. This connection, which went live towards the end of 2017, improves the security of supply across the entire Sottoceneri.

Smaller and more compact – the new switching substations

Swissgrid is responsible for 125 substations and 145 switching substations at the highest Swiss grid level. These are needed to control and transform energy flows into the subordinate grid levels. In 2017, Swissgrid put into service a 380/220 kV transformer in the Beznau switching substation. This transformer comes into play in the event of a lack of feed-in by the Beznau nuclear power plant, increasing the import capacity at the Swiss northern border and improving the security of supply in the Greater Zurich area.

In 2017, Swissgrid also installed a new 380/220 kV transformer in the Romanel substation and brought a new gas-insulated switching substation online. These plants are much more compact and smaller than conventional outdoor switching substations. Swissgrid has also been operating this kind of plant in Laufenburg since the spring of 2017. It also constructed a new substation in Rûthi to improve the security of supply in eastern Switzerland, which means it is now able to redirect energy flows if a grid element fails so as to prevent lines in the region from being overloaded.

Important decisions for projects in approval processes

2017 saw a number of significant advancements in other important construction projects in the "Strategic Grid 2025". The Federal Supreme Court upheld the planning approval decision by the Swiss Federal Office of Energy for the line between Chamoson and Chippis. This means that Swissgrid can start building the overhead line. The new connection is of national importance: it increases capacities for the transportation of energy produced in Valais to the major consumption centres in central Switzerland.

In the past financial year, Swissgrid submitted its planning approval dossier to the Swiss Federal Inspectorate for Heavy Current Installations as regards increasing the voltage for the line between Bassecourt and Mühleberg from 220 kV to 380 kV. It also commenced the public disclosure process in the municipalities. The more powerful line is important to security of supply in the Greater Berne area, since the Mühleberg nuclear power plant goes offline in 2019 and the lack of feed-in will need to be offset by imports. Furthermore, Swissgrid has developed planning corridors for the new line between Niederwil and Obfelden. It has presented these to the cantons of Aargau and Zurich as well as the local authorities and associations. This line is part of the grid project between Beznau and Mettlen.

Service and maintenance – the basis for reliable operation

A regularly serviced grid is a basic requirement for reliable operation. That is why Swissgrid inspects the Swiss transmission grid on an ongoing basis and substations and lines are maintained as this becomes necessary. Swissgrid must plan the inspection of lines and substations precisely, as they are shut down to allow for maintenance activities and are not available for operation. In 2017, Swissgrid also completed renovations of the line between Sils in Domleschg and Soazza. Since 2013, it has steadily reinforced this connection, which leads over the San Bernardino Pass, with over 50 pylons as well as new conductors in some areas.

Minimising the impact on the environment

Swissgrid infrastructure projects have an impact on nature and the landscape. Line projects are therefore subject to an environmental impact assessment. Swissgrid prepares an environmental impact report in cooperation with independent environmental agencies with the aim of minimising the impact on the environment. It also implements compensatory measures. For example, as part of its work to connect the Nant de Drance pumped storage power plant, it upgraded a local black alder forest, meadow, forest and biotope. To compensate for the forest clearance undertaken for the connection between Mörel and Ulrichen, Swissgrid's efforts also included improving rare arid sites and clearing several alpine pastures as a form of ecological compensation.

Swissgrid in dialogue

Swissgrid is in active dialogue with the general public, municipalities and associations. Transparent and prompt communication is critical to ensure that all stakeholders are directly informed and construction projects are implemented as planned. In Valais, Swissgrid held several information events to update residents on the important Chamoson – Chippis line project, including at the Foire du Valais Autumn Fair in Martigny. In Lyss and Tavannes, Swissgrid informed the population directly, before the planning approval dossier for the line between Bassecourt and Mühleberg was made public. Local government officials and environmental associations were also informed of the infrastructure projects. Swissgrid actively fosters communication with political bodies. In 2017, several meetings were held with parliamentarians and local politicians.

Swissgrid also captures the benefits offered by digitisation, such as when selecting the optimal line corridor. The 3D Decision Support System project, developed in partnership with ETH Zurich, identifies the line route with the highest acceptance amongst all stakeholders. The system presents the solutions in three dimensions. The 3D Decision Support System will be used for the first time for the planned line between Mettlen and Innertkirchen.

Swissgrid regularly welcomes visitors from around the globe. More than 1,300 people were given an insight into the work of the grid control room operators in 2017. These included delegations from the domestic and international electricity sector. Swissgrid maintains active communication and dialogue with the industry at conferences, such as the Grid Forum, at the balance group meetings, as well as at the Info Day on Grid Utilisation.

Connections to Europe – participation at risk

National and international cooperation with the sector is vital to enable Swissgrid to ensure the secure and efficient operation of the Swiss transmission grid and allow it to provide corresponding transport capacities. The European interconnected grid permits load distribution amongst all participating countries. This international cooperation means that a power plant failure can be offset across borders. In 2017, Swissgrid, together with 19 other grid owners, signed a declaration of intent in the MARI project (Manually Activated Reserves Initiative). The aim is to jointly develop a new platform for exchanging tertiary control energy with an activation time of 30 minutes. Swissgrid is also involved in the TERRE project (Trans European Replacement Reserve Exchange). In future, this exchange will enable internationally coordinated requests for tertiary control energy with an activation time of 12.5 minutes. In 2017, Swissgrid also expanded its existing partnership for primary control energy with France. Power plants in six different countries can now bid at an auction for primary control power.

In 2017, the European Commission established a legal basis for these international projects. The decision was made that, in future, Switzerland will only be able to participate if it signs up to an electricity agreement. The sole exception would be in the event of a threat to grid security. For Swissgrid, it is extremely important to be able to participate at a technical level in Europe to ensure grid stability and the security of supply in Switzerland. This is why Swissgrid is involved in key national and international committees that facilitate smooth cooperation with Europe. However, the lack of an electricity agreement between Switzerland and the EU means that Swissgrid is increasingly being excluded from developments in the European electricity market.

Preparing to move in the new year

Swissgrid made further organisational changes in 2017 to optimise processes and improve efficiency and effectiveness. Changes also took place in the Swissgrid Executive Board and Board of Directors: Jörg Spicker, who had headed the Market division as a member of the Executive Board since October 2013, resigned from his position and will now take on a role as Senior Advisor for Swissgrid. Yves Zumwald will manage this division through a transition phase. The Board of Directors elected Regula Wallimann, Dominique Gachoud and Kerem Kern to replace resigning Board members Doris Russi Schurter, Michael Wider and Andrew Walo.

In the past financial year, Swissgrid reached important milestones in terms of moving to its new headquarters in Aarau. The state-of-the-art office concept will play a key role in shortening communication paths and facilitating collaboration. In the lead-up to the move, Swissgrid is unveiling an updated corporate identity. This will refine its positioning amongst its various stakeholders while also strengthening its profile as a grid operator. With its 2022 strategy, Swissgrid is underlining its role as the backbone of security of supply. This lays the foundations for a secure energy future – for the benefit of the Swiss economy.

Promoting renewable energies – new administration

The new Energy Act stipulates that the volume of electricity generated from new sources of renewable energy must be increased to 11,400 GWh per year by 2035. Cost-covering remuneration for feed-in to the electricity grid (CRF) and one-off remuneration are important pillars in reaching this target. Swissgrid previously administered the applications for both of these funding instruments.

Founding of Pronovo AG

Central administration of the funding programmes was restructured on 1 January 2018. In line with the provisions set out in the new Energy Act, the collection of grid premiums and the payment of the CRF and one-off remuneration will be administered by an independent enforcement agency. This new agency will also be responsible for registering the guarantees of origin. Swissgrid has been preparing for this over the course of the past financial year and, on 8 November 2017, it announced the founding of an independent subsidiary, Pronovo AG. This newly established enforcement agency, which is headquartered in Frick, commenced operations on 3 January 2018.

Other changes resulting from the new Energy Act

The new Energy Act will have other effects: from 1 January 2018, the grid supplement will increase from 1.5 ct. to 2.3 ct. The federal government will use the additional income to finance new funding instruments. However, this will also benefit a small number of owners of construction-ready and completed hydropower, wind energy, geothermal energy and biomass projects who have long-standing registrations for CRF.

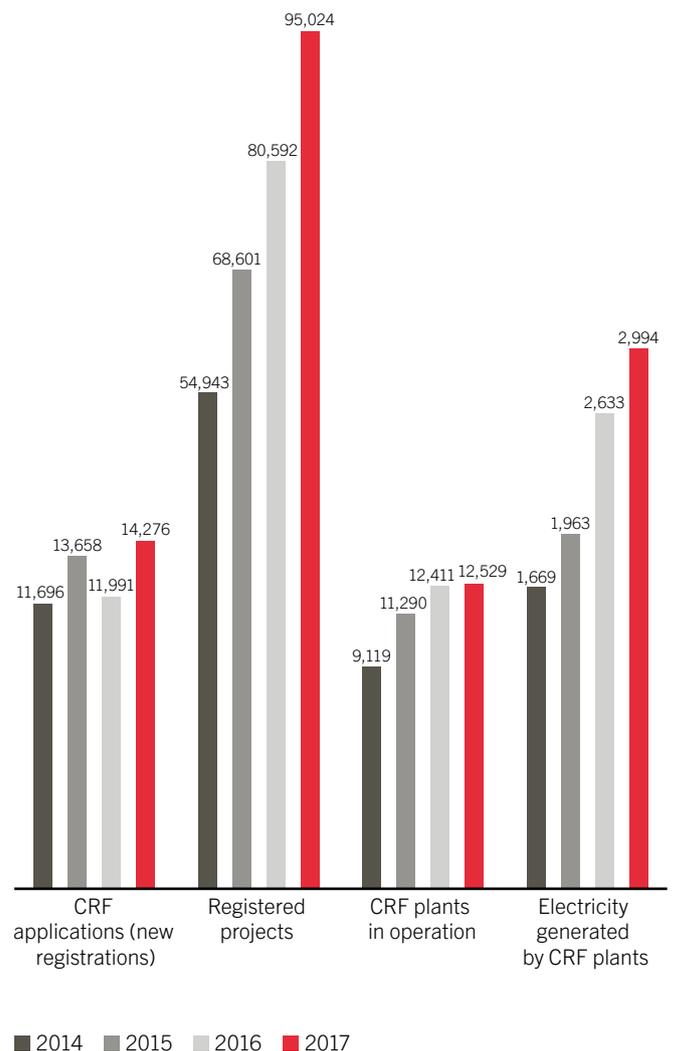
In 2018, photovoltaic plants will have access to a total one-off remuneration of CHF 120 million. Thanks to the new Energy Act, these investment contributions will also benefit owners of larger photovoltaic plants that have an output in excess of 30 kW. The long waiting list means that it may take several years until the remuneration for recently commissioned plants is paid.

Continued success of one-off remuneration

The demand for funding for renewable energies remains high. Of the more than 95,000 funding applications submitted to date, 14,800 were new registrations received in the past year – and most of these were requesting one-off remuneration for photovoltaic plants. This funding instrument is becoming increasingly important: from its introduction through to the end of 2017, 35,000 photovoltaic plants with an installed capacity of 260 MW benefited from a one-off investment grant. In total, around CHF 314 million in funding had been disbursed by the end of 2017.

At the end of 2017, around 12,600 plants funded by the CRF were in operation. These produced 2,800 GWh of electricity during the year, equivalent to 5 percent of Switzerland's annual electricity consumption.

Key figures



Financial Report

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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 and electricity consumption. As the 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 electricity transmission. 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 (EiCom) oversees compliance with the Electricity Supply Act and the Electricity Supply Ordinance. It 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 the possibility of appeal to the Federal Supreme 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 ancillary services (AS) as part of the European and Swiss grid 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. EiCom 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. Chargeable 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 income taxes.

Chargeable capital costs include depreciation/amortisation and imputed interest. The amount of imputed interest is directly dependent on the assets required to operate the grid (invested operating assets, IOA) and the applicable regulatory interest rate (WACC).

In particular, the IOA consists of the transmission grid assets (including plants under construction), intangible assets, the net current assets determined on a monthly basis and the accumulated 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). 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.

As part of the invested 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 invested operating assets (IOA) and the capital cost rate (WACC). Additional profits 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).

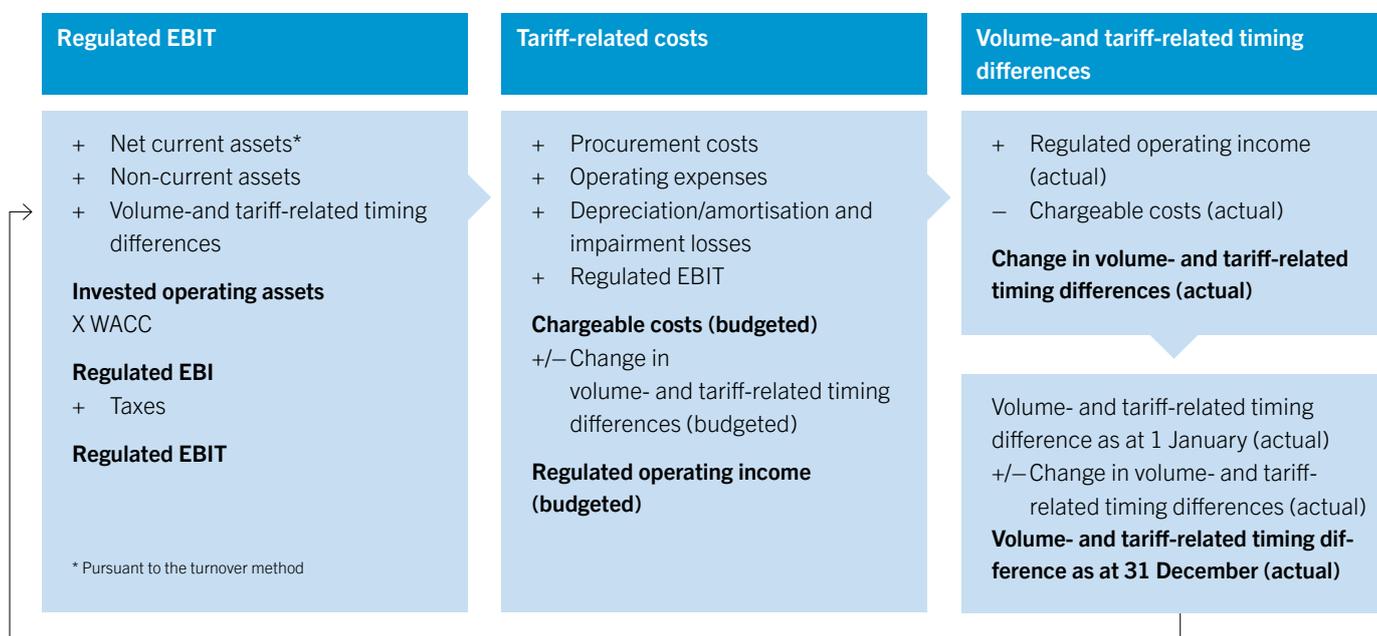
Imputed capital cost rate (WACC)

The WACC is an imputed interest rate defined annually based on the electricity supply legislation. 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 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 per cent and a borrowed capital share of 60 per cent. 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



Business performance

(values pursuant to Swiss GAAP FER)

Procurement costs

At CHF 294.1 million, the cost of procurement is well below the previous year's value of CHF 767.3 million. The previous year contains the remuneration of CHF 417.4 million resulting from the ruling issued by ECom on 20 October 2016 regarding the method for establishing the assessed value of the transmission system. Even after adjusting for this value, the cost of procurement fell compared to the previous year.

In the grid utilisation segment, additional remuneration for operating and capital costs paid to former transmission system owners was CHF 52.2 million lower in 2017 than in the same period of the previous year.

Procurement costs in the general ancillary services segment also declined from 2016. This CHF 30.2 million drop was due to a reduction in provision costs for control power on the previous financial year.

By contrast, the cost of procurement in the individual ancillary services (active power loss and reactive energy) increased by CHF 41.0 million year-on-year. Besides the higher quantities of active power loss energy procured in 2016, the significant increase in energy prices was the main factor influencing the cost of procurement in 2017.

Operating expenses and depreciation/amortisation

Operating expenses amounted to CHF 199.8 million, almost CHF 10 million below the previous year's value of CHF 209.2 million.

The decline in operating costs is due to the materials and third-party supplies item, which fell by CHF 13.4 million from 2016. In particular, costs for substation control services (CHF –5.3 million) and project, advisory and non-cash benefits (CHF –9.1 million) were lower in 2017 year-on-year. While the commissioning of the new grid control system at the end of 2017 already enables half of the switchgears to be controlled internally, meaning that contracts for substation control services are no longer required, lower costs for project activities and generally lower demand for third-party supplies also led to a reduction in materials and third-party supplies compared to the previous year.

Personnel expenses rose only slightly, by CHF 1.6 million, compared to the same period the previous year. The annual average number of full-time equivalents amounts to 453.7 (previous year: 448.3 FTE) to operate the core business and 40.0 (previous year: 33.8 FTE) to handle the orders in accordance with the Energy Act. In total, Swissgrid employed an annual average of 493.7 full-time equivalents in 2017 (previous year: 482.1 FTE).

Other operating expenses increased by CHF 2.4 million year-on-year due to higher ground rents. In its ruling on 20 October 2016 on the method for establishing the assessed value of the transmission system, ECom also defined higher amounts for recurring ground rent remuneration. In the previous year, the remuneration for the higher ground rents during 2013–2016 was part of the remuneration resulting from the ruling issued by ECom and was therefore included in the procurement costs item.

The depreciation/amortisation on property, plant and equipment and intangible assets amounted to CHF 143.2 million in the financial year, an increase of CHF 11.5 million on the previous year. While depreciation/amortisation on property, plant and equipment only changed slightly, from CHF 113.6 million to CHF 116.1 million, depreciation/amortisation of intangible assets recorded a much larger increase of CHF 9.0 million. This rise was due to the commissioning of high-value projects (including the grid control system) for which depreciation/amortisation is initially recognised in 2017.

Revenue and volume- and tariff- related timing differences

Net turnover in the grid utilisation segment fell considerably by approx. CHF 290 million compared to the previous year. Swissgrid was able to generate less income from auctioning off bottleneck capacities at the national borders compared to the previous reporting period. In the year under review, Swissgrid used auction income received in 2017 and undistributed income from auctions in 2016 of CHF 136.0 million to cover the chargeable costs of the transmission system. By contrast, in 2016, income from auctions of CHF 433.8 million was received for 2013 to 2016.

Lower tariff revenues also led to lower net turnovers for the general ancillary services (CHF –14.7 million) and active power loss (CHF –11.1 million) segments compared to the previous year. On the other hand, net turnover in the reactive energy segment rose by CHF 26.7 million. The reason for this is the higher allocation from the tariff income for general ancillary services of CHF 26.2 million compared to the previous year.

Overall, net turnover declined from CHF 1,250.8 million to CHF 948.2 million year-on-year, primarily due to the sharp fall in net proceeds in the grid utilisation segment.

The net amounts of the volume- and tariff-related timing differences decreased by CHF 220.6 million in the reporting year (cumulative deficits less cumulative surpluses).

In the grid utilisation segment, the deficits reduced by CHF 201.9 million despite the significant decline in net turnover.

As was the case in the previous year, net turnover exceeded costs in the general ancillary services segment. Consequently, the surplus in this segment rose by a further CHF 41.0 million.

In the active power loss segment, the sharp rise in procurement costs during the year under review completely eliminated the surplus that existed at the end of 2016. A deficit of CHF 29.9 million exists as at 31 December 2017.

In the reactive energy segment, the higher net proceeds resulted in a deficit reduction of CHF 26.4 million.

EBIT, financial income and net income

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

The reduction of the WACC from 4.70% to 3.83% ruled by the Federal Department of Environment, Transport, Energy and Communications (DETEC) for the year 2017 will have a negative impact on EBIT and net income. At CHF 124.9 million in the year under review, EBIT fell by a considerable CHF 33.1 million from the previous year's value of CHF 158.0 million. Net income declined by CHF 26.6 million, from CHF 91.9 million to CHF 65.3 million.

Balance sheet and cash flow statement

Total assets (excluding fiduciary positions) fell by CHF 405.0 million compared to the previous year to CHF 3.094 billion. This decrease is largely due to the provision of cash and cash equivalents at the end of 2016 in order to pay CHF 417.4 million in remuneration on 3 January 2017 as required by the ECom ruling issued on 20 October 2016.

As was the case in the previous years, the absolute equity base was further strengthened by the net income. Adjusted for the balance sheet items held on a fiduciary basis and volume- and tariff-related timing differences, the equity ratio on 31 December 2017 amounts to 35.5% (29.8% on 31 December 2016).

The cash flow from operating activities of CHF 13.9 million was negatively affected by the payment of the remuneration of CHF 417.4 million resulting from the aforementioned ECom ruling. Cash flow from investing activities of CHF 200.3 million was slightly below the previous year's value of CHF 212.1 million. No financial liabilities were due for repayment in the year under review (previous year: CHF 40.8 million), resulting in a corresponding reduction in the cash flow from financing activities.

Risk assessment

Risk management is an integral part of effective and prudent corporate management for Swissgrid. Swissgrid's risk management covers 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

The Risk Management unit assists management at all tiers in consciously dealing with risks. This includes expedient and transparent reporting as well as managing and documenting 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 CEO has delegated this activity to the Risk Management unit, which manages the risk management process and a team of specialists in all business units.

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 defining target/threshold values and strategies to handle 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 in the form of a standardised report.

Risk situation

The risk profile has not changed significantly compared to the previous year. Risk drivers can still be found in the national as well as the international political and regulatory environment, in the framework economic conditions in the sector and in European market structural developments.

Digitalisation is leading to higher risks as regards security of supply, grid control and grid management.

The key risk factors are:

European and regulatory environment

Swissgrid's role remains challenging at a national and international level. In Europe, the trend towards centralisation and the restricted access to important committees are threatening our scope of action.

Due to the lack of an electricity agreement with the EU, the Swiss electricity system finds itself increasingly excluded from important European processes. This jeopardises system stability and import capacity in the medium term. Without an electricity agreement, it remains difficult to assert Swiss interests.

Implementation of the "Strategic Grid 2025"

The Energy Strategy 2050 approved by the general public and the Electricity Grid Strategy adopted by parliament are having a positive impact on the implementation of the "Strategic Grid 2025". With the adoption of the first package of measures for the energy strategy, the deadlines for the sectoral planning and planning approval procedure have been shortened to a maximum of two years in each case.

The opportunity to lodge an appeal with the Federal Supreme Court will now be limited to legal issues of significant importance. However, important activities relating to the "Strategic Grid 2025" continue to be hampered by protracted processes and numerous objections. This makes it more difficult to eliminate grid congestion due to the ongoing significant planning uncertainties.

Security of supply

Swissgrid is heavily reliant on technical infrastructure to carry out its activities. This specifically relates to the energy grids and communication networks as well as IT systems, which Swissgrid uses to control and manage the transmission system and ensure the security of supply. A wide-scale supply outage would cause enormous economic damage.

Grid operations could be significantly impaired by the failure of important grid management functions or by falsified or unavailable data. In a worst-case scenario, this could lead to supply outages. Natural events, human error, hardware and software failures as well as criminal actions, such as cyber crime, could also disrupt the transmission system.

In addition, speculative behaviour on the part of market players or their insolvency, as well as insufficient control reserves, could produce a critical imbalance between production and consumption.

Swissgrid is continuously working to reduce risks through redundancies, emergency plans, alternative locations as well as the careful selection of suppliers, and is therefore able to provide the required services.

Security and cyber risks

Swissgrid's operation and maintenance of the extra-high-voltage infrastructure involves risk. People can be seriously injured while performing their work. To minimise this risk to the greatest extent possible, Swissgrid constantly invests in safety and risk culture and implements comprehensive technical and organisational measures.

Cyber risks represent a significant challenge due to the speed at which technology changes, the countless possible modes of attack as well as the increasing 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.

Financial risks

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

Liquidity risk: liquidity is always ensured by continuous planning and monitoring of the funding requirements, maintenance of minimum liquidity levels and committed bank credit facilities.

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

Interest rate risk: the risk of interest rate changes is reduced by staggering the maturities and a balanced financing mix. Derivative financial instruments can also be deployed for further mitigation if necessary.

Counterparty risk: financial counterparties are constantly reviewed, assigned individual limits and monitored. Operational counterparties are regularly monitored.

Future prospects

Strategic outlook

In the coming years, Swissgrid will continue to focus on its key responsibilities of occupational safety, security of supply, grid expansion and efficiency.

The primary focus is the protection of employees and the infrastructure. Given their essential nature, Swissgrid constantly invests in the operation and proper maintenance of plants and reliable IT systems.

Security of supply is critical to the Swiss economy. The introduction of a new grid control system will make a significant contribution to the efficient management of the transmission system.

Another objective involves the prompt implementation of the “Strategic Grid 2025”. The plans prepared in the spring of 2015 take account of all medium- and long-term factors that can influence the grid development.

Swissgrid is also working on permanently increasing efficiency and effectiveness, as well as consistently pushing ahead with measures to optimise overall costs.

Besides these key responsibilities, Swissgrid has defined important strategic areas of focus for 2018. Switzerland’s integration in Europe is a high priority. Despite the lack of an electricity agreement, Swissgrid is endeavouring to ensure the best possible access to the European market through its involvement in key national and international committees. Swissgrid is also intensifying its cooperation with neighbouring transmission system operators and other partners in Europe.

At the same time, Swissgrid has adopted the new strategy until 2022 and has commenced implementing the newly formulated approaches.

The relocation to the new headquarters in Aarau will be completed by the middle of the year. The infrastructure and processes are in place to ensure that the changeover in early summer can occur without impacting operations.

Research and development

Swissgrid collaborates with national and international research institutions in order to continue performing its duties 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, ranging from CHF 150 million to CHF 250 million a year, due to the need to achieve a sustainable energy future and carry out the measures defined in the “Strategic Grid 2025” report. Although the construction of the new 380-kV Chamoson–Chippis line was approved by the Federal Supreme Court in September 2017, the budget has been assigned a lower likelihood of realisation due to persistent restrictions, particularly those regarding permits for power line construction and modification. As such, Swissgrid currently expects to invest approximately CHF 150 million to CHF 200 million a year in the grid over the medium term.

Operating costs

A further reduction in operating costs is expected for 2018, to be achieved by way of the continued focus on efficiency and consolidation measures.

EBIT and net income

Based on the regulatory business model, EBIT is directly dependent on the invested operating assets as well as the capital cost rate. The WACC communicated by the Federal Department of Environment, Transport, Energy and Communications (DETEC) for 2018 will remain unchanged at 3.83%. As a result, EBIT and net income at the level achieved in 2017 is expected for 2018.

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 and financing situation. This enables a further increase in the equity ratio to ensure Swissgrid’s long-term financial stability.

Grid acquisitions

The next transfer of individual grid assets will take place at the start of 2018. These are transmission system assets that could not be transferred to Swissgrid earlier for various legal reasons. The first valuation adjustment of these transferred transmission systems will take place in autumn 2018, similar to previous grid acquisitions. However, any effects on Swissgrid’s balance sheet (increase in non-current assets, equity and borrowed capital) are expected to be marginal.

The ECom ruling issued on 20 October 2016 definitively established the method for determining the assessed value of the transmission system. The first remuneration based on this method was issued on 3 January 2017. The final remuneration owed under this method cannot be determined until all valuation proceedings related to valuation adjustment 2 have been finally adjudicated. The financial consequences are difficult to predict at this time. However, the outcome of the proceedings has no direct impact on Swissgrid’s income.

Financial statements

Swiss GAAP FER

Income statement

In millions of CHF	Notes	2017	2016
Net turnover	4, 5	948.2	1,250.8
Other operating income	4, 6	19.8	18.2
Change in volume- and tariff-related timing differences	4, 15	-220.6	-16.4
Capitalised self-constructed assets		14.6	13.6
Total operating income		762.0	1,266.2
Procurement costs	4, 5	294.1	767.3
Gross profit		467.9	498.9
Cost of materials and third-party supplies	7	84.5	97.9
Personnel expenses	8	88.2	86.6
Other operating expenses	9	27.1	24.7
Earnings before interest, income taxes and depreciation		268.1	289.7
Depreciation on property, plant and equipment	13	116.1	113.6
Amortisation on intangible assets	13	27.1	18.1
Earnings before interest and income taxes (EBIT)	4	124.9	158.0
Financial income	10	0.4	0.7
Financial expenses	11	44.7	44.6
Earnings before income taxes		80.6	114.1
Income taxes	12	15.3	22.2
Net income		65.3	91.9

Earnings per share

CHF	2017	2016
Net income	65,336,297	91,913,462
Weighted average number of shares outstanding	317,917,131	316,724,580
Non-diluted earnings per share	0.21	0.29
Dilution from the conversion of the convertible loans	-0.04	-0.08
Diluted earnings per share	0.17	0.21

The dilution arises from the potential conversion of the convertible loans to equity. Assuming that conversion had taken place on 1 January of the year under review, the interest expense would have been reduced by CHF 33.1 million (previous year: CHF 32.5 million). Given that income taxes are chargeable in Swissgrid's regulated business model, the conversion would have increased net income by CHF 33.1 million (pre-

vious year: CHF 32.5 million). At the same time, the average number of shares outstanding would have increased by 267,223,122 units (previous year: 281,624,053 units). This leads to a potential dilution of CHF -0.04 per share (previous year: CHF -0.08 per share).

Balance sheet

Assets

In millions of CHF	Notes	31.12.2017	31.12.2016
Property, plant and equipment	13	2,247.9	2,196.3
Intangible assets	13	174.9	169.2
Financial assets	14	10.9	10.3
Long-term deficits arising from volume- and tariff-related timing differences	15	132.8	331.1
Non-current assets		2,566.5	2,706.9
Assets held on fiduciary basis	16	46.6	34.4
Short-term deficits arising from volume- and tariff-related timing differences	15	138.9	139.0
Inventory		2.1	2.1
Trade accounts receivable	17	158.2	173.5
Other receivables	18	2.5	5.7
Prepaid expenses and accrued income	19	49.5	43.5
Cash and cash equivalents	20	176.2	428.2
Current assets		574.0	826.4
Assets		3,140.5	3,533.3

Equity and liabilities

In millions of CHF	Notes	31.12.2017	31.12.2016
Share capital		317.9	317.9
Capital reserves		404.0	404.0
Retained earnings		347.3	303.7
Total equity		1,069.2	1,025.6
Non-current financial liabilities	21	1,570.0	1,712.1
Non-current provisions	22	32.4	45.6
Non-current surpluses arising from volume- and tariff-related timing differences	15	83.0	57.7
Non-current liabilities		1,685.4	1,815.4
Liabilities held on fiduciary basis	16	46.6	34.4
Current financial liabilities	21	142.2	–
Trade accounts payable	23	53.5	495.9
Other liabilities	24	13.4	12.3
Accrued expenses and deferred income	25	125.0	141.3
Current provisions	22	3.3	3.4
Current surpluses arising from volume- and tariff-related timing differences	15	1.9	5.0
Current liabilities		385.9	692.3
Total liabilities		2,071.3	2,507.7
Equity and liabilities		3,140.5	3,533.3

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2017	2016
Net income		65.3	91.9
Financial expenses	11	44.7	44.6
Financial income	10	-0.4	-0.7
Current income taxes	12	26.4	23.3
Depreciation and amortisation	13	143.2	131.7
Gains/losses on disposal of non-current assets		-	-0.2
Change in employer contribution reserves	14	-	-0.2
Change in provisions	22	-13.3	-3.7
Change in inventory		-	0.8
Change in trade accounts receivable		15.3	-14.9
Change in other receivables		3.2	-2.3
Change in prepaid expenses and accrued income		-6.0	6.5
Change in volume- and tariff-related timing differences	4, 15	220.6	16.4
Change in trade accounts payable		-442.4	422.8
Change in other current liabilities		1.1	-2.8
Change in accrued expenses and deferred income		-22.4	32.2
Income taxes paid		-21.4	-26.8
Cash flow from operating activities		13.9	718.6
Gross investments in property, plant and equipment		-170.0	-183.0
Congestion proceeds received for grid investments		-	-
Net investments in property, plant and equipment	13	-170.0	-183.0
Divestment in property, plant and equipment		-	0.2
Gross investments in intangible assets		-30.5	-29.7
Congestion proceeds received for grid investments		-	-
Net investments in intangible assets	13	-30.5	-29.7
Investments in financial assets		-0.1	-0.1
Dividends received		0.3	0.5
Cash flow from investing activities		-200.3	-212.1
Change in current financial liabilities		-	-40.8
Change in non-current financial liabilities		0.1	-
Interest paid		-43.9	-43.9
Dividends paid		-21.8	-21.5
Cash flow from financing activities		-65.6	-106.2
Change in cash and cash equivalents		-252.0	400.3
Composition			
Cash and cash equivalents at beginning of period		428.2	27.9
Cash and cash equivalents at end of period		176.2	428.2
Change in cash and cash equivalents		-252.0	400.3

Statement of changes in equity

In millions of CHF	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 31.12.2015	313.4	395.0	233.3	941.7
Allocation	–	–	–	–
Dividends paid	–	–	–21.5	–21.5
Capital increases (minus transaction costs)	4.5	9.0	–	13.5
Net income 2016	–	–	91.9	91.9
Balance at 31.12.2016	317.9	404.0	303.7	1,025.6
Allocation	–	–	–	–
Dividends paid ¹	–	–	–21.7	–21.7
Capital increases (minus transaction costs)	–	–	–	–
Net income 2017	–	–	65.3	65.3
Balance at 31.12.2017	317.9	404.0	347.3	1,069.2

The share capital consists of 317,917,131 (previous year: 317,917,131) fully paid-up registered shares with a par value of CHF 1 per share.

As at 31 December 2017, Swissgrid has conditional share capital of a maximum of CHF 128,409,932, divided into 128,409,932 registered shares with a par value of CHF 1 per share (previous year: CHF 128,409,932, divided into 128,409,932 registered shares with a par value of CHF 1).

¹ The dividends paid amounted to CHF 21.8 million. The amount had to be rounded to CHF 21.7 million in the table on the statement of changes in equity so that the values as at 31 December 2017 coincided with those in the balance sheet.

Notes

1. Accounting principles

General information

The 2017 financial statements of Swissgrid Ltd (hereinafter: Swissgrid) have been prepared in accordance with Swiss GAAP FER. The financial statements provide a true and fair view 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 the 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 volumes 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 expenses 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 expenses incurred during the same period. These volume- and tariff-related timing differences are transferred to the balance sheet and taken into account in cost and revenue calculations for future tariff periods. The expected reduction in volume- and tariff-related timing differences within

12 months after the balance sheet date is 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 income taxes. Accordingly, invested operating assets consist of net current assets determined on a monthly basis and non-current assets as of the end of the financial year. 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 2017, the officially applied WACC based on this calculation amounts to 3.83% (previous year: 4.7%).

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by EICOM, 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 the cost of acquisition or production less accumulated 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/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:

- 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
- Plants under construction and properties: only applicable in the case of an impairment loss

Intangible assets

Intangible assets are recognised at the cost of acquisition or production less accumulated amortisation and any impairment losses. Depreciation/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 in progress: only applicable in the case of an impairment loss

Impairment losses

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

Plants under construction/intangible assets in progress

Plants under construction and intangible assets in progress 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 plants under construction or intangible assets in progress have to be impaired. These are recognised as impairment losses in the year of completion. 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. These include shareholdings with a capital share of over 20%, but which do not have a significant impact on the financial statements, as well as shareholdings 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 impairments 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 value.

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 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 reported if a cash outflow without a usable countervalue is probable and assessable. 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 plan from 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 can have a 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, as are Members of the Board of Directors and the Executive Board. 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 with 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

Rulings/proceedings by ECom	Date	31.12.2017*	31.12.2016*
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 differences	–	a	a
5 Proceedings concerning 2015 volume- and tariff-related timing differences	–	a	a
6 Proceedings concerning 2016 volume- and tariff-related timing differences	–	a	a
7 Proceedings concerning 2017 volume- and tariff-related timing differences	–	a	–

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

- 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 Supreme Court
- h = Legally binding judgement pronounced

The list includes proceedings whose outcome may result in a reduction in Swissgrid's chargeable costs. The financial impact of third-party proceedings in which Swissgrid is involved 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.

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, ECom 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 ECom.

Points 3, 4, 5, 6 and 7 If ECom rules that the costs included in the volume- and tariff-related timing differences be reduced for the not-yet initiated proceedings on the 2013 to 2017 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 ECom, while the operating and capital costs are CHF 48.7 million higher for 2014, CHF 30.3 million higher for 2015, CHF 30.2 million higher for 2016 and CHF 15.6 million higher for 2017.

Moreover, in its ruling in 2013, regarding the obligation to bear the costs for the ITC shortfalls, ECom 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 ECom 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 7 From Swissgrid's perspective, the cumulative risk for non-chargeable costs as at 31 December 2017 is CHF 209.8 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, CHF 30.3 million for 2015, CHF 30.2 million for 2016 and CHF 15.6 million for 2017). In the previous year, the cumulative risk as at 31 December 2016 amounted to CHF 194.2 million.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2017 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 2020. If, contrary to Swissgrid's assessment, the costs claimed are ruled to be non-chargeable, this would be reflected no earlier than in the 2020 financial statements. Even if the maximum risk of CHF 209.8 million materialises, Swissgrid's equity situation is not jeopardised due to the capital increase in connection with the grid acquisitions in 2013, 2014, 2015 and 2016 as well as the net incomes achieved since then.

4. Segment reporting

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

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.

Segment report 2017

In millions of CHF	Total	Grid utilisation	General ancillary services/ balance energy	Active power losses (individual ancillary services)	Reactive energy (individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
Net turnover	948.2	621.4	240.8	34.0	72.7	-20.7	948.2	-
Other operating income	19.8	0.9	0.1	-	-	-	1.0	18.8
Volume- and tariff-related timing differences	-220.6	-201.9	-41.0	48.7	-26.4	-	-220.6	-
Total operating income	747.4	420.4	199.9	82.7	46.3	-20.7	728.6	18.8
Procurement costs	-294.1	-15.1	-177.1	-80.4	-42.2	20.7	-294.1	-
Gross profit	453.3	405.3	22.8	2.3	4.1	-	434.5	18.8
Operating expenses	-185.2	-147.9	-17.2	-1.6	-2.1	-	-168.8	-16.4
Depreciation/amortisation and impairment losses	-143.2	-134.9	-5.7	-0.3	-0.4	-	-141.3	-1.9
Earnings before interest and income tax (EBIT)	124.9	122.5	-0.1	0.4	1.6	-	124.4	0.5

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

Change in volume- and tariff-related timing differences per segment

In millions of CHF	Total	Grid utilisation	General ancillary services/ balance energy	Active power losses (individual ancillary services)	Reactive energy (individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
Net turnover	948.2	621.4	240.8	34.0	72.7	-20.7	948.2	-
Other operating income	19.8	0.9	0.1	-	-	-	1.0	18.8
Procurement costs	-294.1	-15.1	-177.1	-80.4	-42.2	20.7	-294.1	-
Operating expenses	-185.2	-147.9	-17.2	-1.6	-2.1	-	-168.8	-16.4
Depreciation/amortisation and impairment losses	-143.2	-134.9	-5.7	-0.3	-0.4	-	-141.3	-1.9
Return on operating assets (EBIT)	-124.9	-122.5	0.1	-0.4	-1.6	-	-124.4	-0.5
Volume- and tariff-related timing differences	220.6	201.9	41.0	-48.7	26.4	-	220.6	-

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

Segment report 2016

In millions of CHF	Total	Grid utilisation	General ancillary services/ balance energy	Active power losses (individual ancillary services)	Reactive energy (individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
Net turnover	1,250.8	910.5	255.5	45.1	46.0	-6.3	1,250.8	-
Other operating income	18.2	1.2	-	-	-	-	1.2	17.0
Volume- and tariff-related timing differences	-16.4	8.5	-22.9	-0.3	-1.7	-	-16.4	-
Total operating income	1,252.6	920.2	232.6	44.8	44.3	-6.3	1,235.6	17.0
Procurement costs	-767.3	-484.7	-207.3	-42.5	-39.1	6.3	-767.3	-
Gross profit	485.3	435.5	25.3	2.3	5.2	-	468.3	17.0
Operating expenses	-195.6	-157.1	-19.6	-2.1	-2.2	-	-181.0	-14.6
Depreciation/amortisation and impairment losses	-131.7	-126.2	-3.1	-0.3	-0.3	-	-129.9	-1.8
Earnings before interest and income tax (EBIT)	158.0	152.2	2.6	-0.1	2.7	-	157.4	0.6

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

Change in volume- and tariff-related timing differences per segment

In millions of CHF	Total	Grid utilisation	General ancillary services/ balance energy	Active power losses (individual ancillary services)	Reactive energy (individual ancillary services)	Eliminations	Total activities according to StromVG	Further activities
Net turnover	1,250.8	910.5	255.5	45.1	46.0	-6.3	1,250.8	-
Other operating income	18.2	1.2	-	-	-	-	1.2	17.0
Procurement costs	-767.3	-484.7	-207.3	-42.5	-39.1	6.3	-767.3	-
Operating expenses	-195.6	-157.1	-19.6	-2.1	-2.2	-	-181.0	-14.6
Depreciation/amortisation and impairment losses	-131.7	-126.2	-3.1	-0.3	-0.3	-	-129.9	-1.8
Return on operating assets (EBIT)	-158.0	-152.2	-2.6	0.1	-2.7	-	-157.4	-0.6
Volume- and tariff-related timing differences	16.4	-8.5	22.9	0.3	1.7	-	16.4	-

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

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). 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.

Net turnover in this segment fell considerably by approximately CHF 290 million compared to the previous year. Swissgrid was able to generate significantly less income from auctioning off bottleneck capacities at the national borders compared to the previous reporting period. In the year under review, Swissgrid used auction income received in 2017 and undistributed income from auctions in 2016 of CHF 136.0 million to cover the chargeable costs of the transmission system. By contrast, in the previous year, income from auctions of CHF 433.8 million was received for 2013 to 2016.

The cost of procurement in the previous year includes the remuneration resulting from the EICom ruling from 20 October 2016 on the method for establishing the assessed value of the transmission system of CHF 417.4 million. Adjusted for this value, in 2017 the cost of procurement fell by CHF 52.2 million from 2016, due to the lower additional remuneration for operating and capital costs paid to former transmission system owners.

The segment's total costs are well below the revenue achieved in the financial year, which explains the CHF 201.9 million decrease in deficits.

General ancillary services/balance energy The largest expense item for this segment is the control power provision, that is to say, the reservation of power plant capacity in the interests of balancing energy consumption and energy feed-in.

The procurement costs in this segment are CHF 30.2 million lower than in 2016. In the previous year, this item was encumbered by high control power provision costs as a result of the tense energy and grid situation in the winter of 2015/2016.

The expenses relating to general ancillary services (AS) are covered primarily by tariff revenues. As was the case in the previous year, net turnover declined primarily due to lower tariff revenues.

Despite the decline in revenue, the fact that costs fell further than net turnover in the year under review resulted in a further CHF 41.0 million increase in the surplus.

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. The procurement of energy to offset active power losses takes place on the spot market and via tenders.

In the financial year, this segment recorded procurement costs of CHF 80.4 million (previous year: CHF 44.8 million). Besides the higher quantities of active power loss energy procured compared to the previous year, the significant increase in energy prices was the main influencing factor on the cost of procurement in 2017.

In 2017, the surplus of CHF 18.8 million that existed at the end of 2016 was completely eliminated by the sharp rise in procurement costs. A deficit of CHF 29.9 million exists as at 31 December 2017.

Reactive energy (individual ancillary services) The supply of reactive energy to maintain the required voltage rating 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 net proceeds recorded in this segment in 2017 increased significantly from the previous year. The reason for this is the higher allocation from the tariff income for general AS of CHF 26.2 million compared to the previous year.

As a consequence of the higher net turnover, while costs remained at the level of the previous year, it has been possible to reduce the deficits by CHF 26.4 million in 2017.

5. Net turnover and cost of procurement according to StromVG

In millions of CHF	Segment	2017	2016
Tariff income for grid utilisation	A	475.8	470.5
Net income from ITC	A/C	12.3	9.3
Income from auctions for the reduction of chargeable grid costs	A	136.0	433.8
Tariff income for general ancillary services (AS) and income from unintentional deviation	B/D	229.4	260.3
Income from balance group/balance energy	B	79.8	37.4
Tariff income for active power losses	C	31.3	42.0
Tariff income for reactive energy	D	4.3	3.8
Eliminations		-20.7	-6.3
Net turnover		948.2	1,250.8
Operating expenses for transmission system	A	1.6	440.0
Capital expenses for transmission system	A	13.5	44.7
Expenses for AS control power provision and unintentional deviation	B	135.4	171.8
Expenses for automatic start-up/island operation capability	B	1.1	1.1
Expenses for grid enhancement	B	13.0	14.2
Expenses for AS energy	B	27.6	20.2
Expenses for compensation of active power loss	C	80.4	42.5
Expenses for reactive energy/voltage maintenance	D	42.2	39.1
Eliminations		-20.7	-6.3
Procurement costs		294.1	767.3

Letters used for segment allocation:

- A = Grid utilisation
- B = General ancillary services/balance energy
- C = Active power loss (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 9.6 million (previous year: CHF 6.2 million)
- Compensation for active power losses (C) CHF 2.7 million (previous year: CHF 3.1 million)

The ITC compensation for grid utilisation and active power losses corresponds to the net income.

Supervision fees paid to ECom and to the Swiss Federal Office of Energy (SFOE) in the amount of CHF 4.5 million (previous year: CHF 4.9 million) are deducted from the gross income of CHF 13.1 million for grid utilisation (previous year: 11.1 million) and CHF 3.7 million for active power loss (previous year CHF 3.1 million).

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

- General AS (B): CHF 161.0 million (previous year: CHF 218.1 million)
- Reactive energy (D): CHF 68.4 million (previous year: CHF 42.2 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	2017	2016
Handling the orders in accordance with the Energy Act	6.6	5.4
Congestion management clearing	7.3	7.7
Issuance of guarantees of origin for renewable energies	4.9	3.9
Other	1.0	1.2
	19.8	18.2

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	2017	2016
Grid maintenance	29.4	25.9
Grid system control	5.4	10.7
Other services in the grid area	14.9	17.0
Expenses for projects, advisory and non-cash benefits	25.6	34.7
Hardware/software maintenance	9.2	9.6
	84.5	97.9

As at the end of 2017, the commissioning of the new grid control system already allows Swissgrid to control half of all switchgears internally. This allowed substation control contracts to be terminated during the financial year, which was reflected in a corresponding decrease in the grid system control item in a year-on-year comparison.

The expenses for projects, advisory and non-cash benefits also fell compared to the previous year. This is due to the lower costs for project activities and a generally lower demand for third-party services compared to 2016.

Other services in the grid area particularly include easement management services performed by third parties and the operating expense for mixed-use systems.

8. Personnel expenses

In millions of CHF	2017	2016
Salaries, bonuses, allowances	71.3	70.4
Employee insurance	13.1	12.2
Other personnel expenses	3.8	4.0
	88.2	86.6
Headcount at 31.12.		
Permanent employment:		
Number of employees		
for core business (StromVG)	459	450
for the handling of the orders in accordance with the Energy Act (EnG)	44	34
	503	484
expressed as full-time equivalents:		
for core business (StromVG)	442.1	432.0
for the handling of the orders in accordance with the Energy Act (EnG)	41.1	31.6
	483.2	463.6
Fixed-term employment:		
Number of employees		
for core business (StromVG)	14	23
for the handling of the orders in accordance with the Energy Act (EnG)	1	4
	15	27
expressed as full-time equivalents:		
for core business (StromVG)	12.9	20.8
for the handling of the orders in accordance with the Energy Act (EnG)	0.8	4.0
	13.7	24.8

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	2017	2016
Fixed remuneration (incl. lump-sum expenses)	1.27	1.40
Variable remuneration	0.65	0.66
Non-cash benefits ¹	0.01	0.02
Pension benefits ²	0.31	0.34
Total remuneration to the Executive Board	2.24	2.42
Of which to the highest-earning member of the Executive Board		
Fixed remuneration (incl. lump-sum expenses)	0.42	0.38
Variable remuneration	0.21	0.16
Pension benefits ²	0.10	0.09
Total remuneration to the highest-earning member of the Executive Board	0.73	0.63

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

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

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	2017	2016
Rental and occupancy costs	7.3	7.2
Ground rents	4.4	1.5
Rental costs for communication equipment/telecommunication expense	3.7	3.9
Board of Directors' fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	2.0	1.9
Fees, dues and licences	4.0	5.0
Insurance	2.1	2.2
Other administrative costs	2.8	2.2
	27.1	24.7

In its ruling on 20 October 2016 on the method for establishing the assessed value of the transmission system, EICom also defined higher amounts for recurring ground rent remuneration. In the previous year, the remuneration for the higher ground rents during 2013–2016 was part of the remuneration resulting from the ruling issued by EICom and was therefore included in the procurement costs item. This resulted in an increase in the ground rents item compared to the previous year.

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, including lump-sum expenses (previous year: CHF 250,000). The remaining members of the Board of Directors received remuneration of between CHF 55,000 and CHF 70,000 pro rata temporis for 2017, including lump-sum expenses (previous year: CHF 55,000 to CHF 70,000).

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

10. Financial income

In millions of CHF	2017	2016
Interest income	–	–
Other financial income	0.4	0.7
	0.4	0.7

Other financial income includes a dividend of CHF 0.3 million (previous year: CHF 0.5 million) from Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT).

11. Financial expenses

In millions of CHF	2017	2016
Bond interest	10.3	10.3
Loans and convertible loans interest	33.1	33.1
Commitment fees	0.5	0.5
Other financial expenses	0.8	0.7
	44.7	44.6

12. Income taxes

In millions of CHF	2017	2016
Current income taxes	26.4	23.3
Change in deferred taxes	– 11.1	– 1.1
	15.3	22.2

Valuation differences, which arose as part of the transfer of transmission system as at 3 January 2013, between the valuations according to Swiss GAAP FER and the applicable tax value of CHF 56.2 million (previous year: CHF 3.4 million) were recorded in the year under review. Accordingly, deferred taxes decreased by CHF 11.1 million in 2017 (previous year: CHF 1.1 million).

The average tax rate based on the ordinary result amounts to 19.0% (previous year: 20.4%).

13. Non-current assets

Summary of plant, property and equipment – 2017

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2017	302.9	1,828.2	2,445.5	165.0	55.3	4,796.9
Additions	121.4	31.5	7.9	6.2	3.0	170.0
Disposals	–	–	–	–	–1.8	–1.8
Reclassification	–120.4	72.6	37.1	4.3	4.1	–2.3
Acquisition cost at 31.12.2017	303.9	1,932.3	2,490.5	175.5	60.6	4,962.8
Accumulated depreciation and amortisation at 1.1.2017	4.9	1,040.5	1,433.1	72.6	49.5	2,600.6
Depreciation and amortisation	–	63.1	43.6	4.1	5.3	116.1
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–1.8	–1.8
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2017	4.9	1,103.6	1,476.7	76.7	53.0	2,714.9
Net book value at 1.1.2017	298.0	787.7	1,012.4	92.4	5.8	2,196.3
Net book value at 31.12.2017	299.0	828.7	1,013.8	98.8	7.6	2,247.9

Summary of plant, property and equipment – 2016

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2016	205.4	1,775.2	2,398.3	163.0	51.2	4,593.1
Additions	149.7	30.5	46.5	0.2	1.2	228.1
Disposals	–	–29.0	–2.9	–0.3	–1.7	–33.9
Reclassification	–52.2	51.5	3.6	2.1	4.6	9.6
Acquisition cost at 31.12.2016	302.9	1,828.2	2,445.5	165.0	55.3	4,796.9
Accumulated depreciation and amortisation at 1.1.2016	4.9	1,009.8	1,392.5	68.9	44.8	2,520.9
Depreciation and amortisation	–	59.7	43.5	4.0	6.4	113.6
Impairment losses	–	–	–	–	–	–
Disposals	–	–29.0	–2.9	–0.3	–1.7	–33.9
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2016	4.9	1,040.5	1,433.1	72.6	49.5	2,600.6
Net book value at 1.1.2016	200.5	765.4	1,005.8	94.1	6.4	2,072.2
Net book value at 31.12.2016	298.0	787.7	1,012.4	92.4	5.8	2,196.3

Gross investment in property, plant and equipment amounted to CHF 170.0 million (previous year: CHF 183.0 million). In the reporting year, no investments (previous year: CHF 0.0 million) were financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies.

In the year under review, project costs of CHF 2.3 million were reclassified from plants under construction to intangible assets in progress (previous year: CHF 9.6 million were reclassified from intangible assets in progress to plants under construction).

Property, plant and equipment of CHF 32.3 million (previous year: CHF 43.9 million) was purchased from related parties in 2017.

Summary of intangible assets – 2017

In millions of CHF	Intangible assets under development			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2017	49.5	23.7	73.2	134.4	–	134.4
Additions	10.2	4.6	14.8	3.1	–	3.1
Disposals	–5.4	–0.7	–6.1	–	–	–
Reclassification	–34.4	–18.4	–52.8	7.2	–	7.2
Acquisition cost at 31.12.2017	19.9	9.2	29.1	144.7	–	144.7
Accumulated depreciation and amortisation at 1.1.2017	5.4	0.7	6.1	53.9	–	53.9
Depreciation and amortisation	–	–	–	5.4	–	5.4
Impairment losses	–	–	–	–	–	–
Disposals	–5.4	–0.7	–6.1	–	–	–
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2017	–	–	–	59.3	–	59.3
Net book value at 1.1.2017	44.1	23.0	67.1	80.5	–	80.5
Net book value at 31.12.2017	19.9	9.2	29.1	85.4	–	85.4

Summary of intangible assets – 2016

In millions of CHF	Intangible assets under development			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2016	82.2	25.1	107.3	100.4	–	100.4
Additions	16.4	8.2	24.6	2.8	–	2.8
Disposals	–	–	–	–0.4	–	–0.4
Reclassification	–49.1	–9.6	–58.7	31.6	–	31.6
Acquisition cost at 31.12.2016	49.5	23.7	73.2	134.4	–	134.4
Accumulated depreciation and amortisation at 1.1.2016	5.4	0.7	6.1	50.4	–	50.4
Depreciation and amortisation	–	–	–	3.9	–	3.9
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–0.4	–	–0.4
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2016	5.4	0.7	6.1	53.9	–	53.9
Net book value at 1.1.2016	76.8	24.4	101.2	50.0	–	50.0
Net book value at 31.12.2016	44.1	23.0	67.1	80.5	–	80.5

Gross investment in intangible assets amounted to CHF 30.5 million (previous year: CHF 29.7 million). Of this amount, no investments (previous year: CHF 0.0 million) were financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies.

In 2017, services for intangible assets of CHF 1.2 million (previous year: CHF 1.2 million) were purchased from related parties.

Software			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
87.7	22.1	109.8	271.6	45.8	317.4
9.3	3.3	12.6	22.6	7.9	30.5
-1.3	-0.1	-1.4	-6.7	-0.8	-7.5
32.2	15.7	47.9	5.0	-2.7	2.3
127.9	41.0	168.9	292.5	50.2	342.7
73.2	15.0	88.2	132.5	15.7	148.2
15.9	5.8	21.7	21.3	5.8	27.1
-	-	-	-	-	-
-1.3	-0.1	-1.4	-6.7	-0.8	-7.5
-	-	-	-	-	-
87.8	20.7	108.5	147.1	20.7	167.8
14.5	7.1	21.6	139.1	30.1	169.2
40.1	20.3	60.4	145.4	29.5	174.9

Software			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
87.9	17.3	105.2	270.5	42.4	312.9
1.9	0.6	2.5	21.1	8.8	29.9
-13.4	-2.0	-15.4	-13.8	-2.0	-15.8
11.3	6.2	17.5	-6.2	-3.4	-9.6
87.7	22.1	109.8	271.6	45.8	317.4
75.2	14.2	89.4	131.0	14.9	145.9
11.4	2.8	14.2	15.3	2.8	18.1
-	-	-	-	-	-
-13.4	-2.0	-15.4	-13.8	-2.0	-15.8
-	-	-	-	-	-
73.2	15.0	88.2	132.5	15.7	148.2
12.7	3.1	15.8	139.5	27.5	167.0
14.5	7.1	21.6	139.1	30.1	169.2

14. Financial assets

In millions of CHF	31.12.2017	31.12.2016
Shareholdings	8.9	8.3
Employer contribution reserves	2.0	2.0
	10.9	10.3

Swissgrid has the following shareholdings, which are recognised in the balance sheet as financial assets:

		Share capital in m.	Share in %
CESOC AG	A	0.100	50.0
Joint Allocation Office (JAO)	B	0.100	5.0
TSCNET Services GmbH	C	0.033	7.7
Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT)	D	52.119	5.0
Pronovo AG	E	0.100	100.0
AET NE1 SA	A	0.100	100.0
ALENA Aletsch Energie Netz AG	A	0.100	100.0
Alpiq Netz AG Gösgen/Laufenburg	A	0.100	100.0
Alpiq Réseau SA Lausanne/Laufenburg	A	0.100	100.0
BKW Übertragungsnetz AG	A	0.100	100.0
CKW Grid AG	A	0.100	100.0
EGL Grid AG	A	0.100	100.0
ewb Übertragungsnetz AG	A	0.100	100.0
ewz Übertragungsnetz AG	A	0.100	100.0
FMV Réseau SA	A	0.100	100.0
Kraftwerke Hinterrhein Netz AG	A	0.100	100.0
LENA Lonza Energie Netz AG	A	0.100	100.0
Nordostschweizerische Kraftwerke Grid AG	A	0.100	100.0
Ofible Rete SA	A	0.100	100.0
Ofima Rete SA	A	0.100	100.0
Repower Transportnetz AG	A	0.100	100.0
SN Übertragungsnetz AG	A	0.100	100.0
Übertragungsnetz Basel/Laufenburg AG	A	0.100	100.0

Letters used for locations and currencies:

A = Laufenburg (CH) | Currency: CHF

B = Luxembourg (Lux) | Currency: EUR

C = Munich (D) | Currency: EUR

D = Paris (F) | Currency: EUR

E = Frick (CH) | Currency: CHF

Pronovo AG was founded as a wholly-owned subsidiary of Swissgrid on 3 November 2017 as a consequence of the revised Energy Act. It commenced its operational activities on 3 January 2018, which include the processing of federal funding programmes for renewable energies as well as guarantees of origin.

Swissgrid is not legally obliged to prepare consolidated financial statements. Either the control principle necessary to prepare a consolidated financial statement (FER 30) is not satisfied, or the subsidiaries do not have a material influence on Swissgrid's financial statements. In particular, Pronovo AG is regulated by the Swiss Federal Office of Energy (SFOE) and is explicitly excluded from any consolidation with Swissgrid based on Art. 64 (5) of the Energy Act (EnG).

Otherwise, the information 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)	Total volume- and tariff-related timing differences	Thereof surpluses	Thereof deficits
Balance at 31.12.2015	416.6	-21.0	-18.5	46.7	423.8	-39.5	463.3
Change in 2016	8.5	-22.9	-0.3	-1.7	-16.4		
Balance at 31.12.2016	425.1	-43.9	-18.8	45.0	407.4	-62.7	470.1
Change in 2017	-201.9	-41.0	48.7	-26.4	-220.6		
Balance at 31.12.2017	223.2	-84.9	29.9	18.6	186.8	-84.9	271.7
Current portion	127.4	-1.9	-	11.5	137.0	-1.9	138.9

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.

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	31.12.2017	31.12.2016
Trade accounts receivable	11.0	19.1
Other receivables	0.2	1.2
Cash and cash equivalents	35.4	14.1
	46.6	34.4

Liabilities held on fiduciary basis

In millions of CHF	31.12.2017	31.12.2016
Trade accounts payable	8.3	10.3
Other liabilities ¹	4.8	–
Accrued expenses and deferred income	33.5	24.1
	46.6	34.4

¹ Forward transactions are used to partially hedge the EUR/CHF currency risk. 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 74.3 million). The negative replacement values as at 31 December 2017 amount to CHF 4.8 million (previous year: positive replacement values of CHF 1.0 million).

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

In millions of CHF	2017	2016
Share of revenue Switzerland	160.6	124.0
Congestion management clearing	–7.8	–8.4
Net proceeds	152.8	115.6
Used for reduction of the chargeable grid costs	–120.0	–99.9
Undistributed income from auctions	32.8	15.7

Pursuant to the EICOM letter of approval issued on 16 November 2017, CHF 120.0 million in income from auctions in 2017 was paid to Swissgrid in the financial year to cover the chargeable costs of the transmission system. CHF 32.8 million in undistributed income from auctions collected by Swissgrid in 2017 to cover the chargeable costs of the transmission system will be carried forward to 2018.

17. Trade receivables

In millions of CHF	31.12.2017	31.12.2016
Trade receivables	158.2	173.6
Specific valuation allowances	–	–0.1
	158.2	173.5

18. Other receivables

In millions of CHF	31.12.2017	31.12.2016
Security deposits on blocked bank accounts	2.4	5.6
Other	0.1	0.1
	2.5	5.7

19. Prepaid expenses and accrued income

In millions of CHF	31.12.2017	31.12.2016
Accrued revenue for supplies made	46.4	39.4
Other	3.1	4.1
	49.5	43.5

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. Cash and cash equivalents

As at 31 December 2017, cash and cash equivalents had already been provided for the repayment of convertible loans of CHF 142.2 million on 3 January 2018. In the previous year, as at 31 December 2016, cash and cash equivalents included funds of CHF 417.4 million for the first payment, on 3 January 2017, of the remuneration resulting from the EICoM ruling on 20 October 2016.

21. Financial liabilities

In millions of CHF	31.12.2017	31.12.2016
Bonds	850.0	850.0
Convertible loans	862.1	862.1
Loans	0.1	–
Total financial liabilities	1,712.2	1,712.1
Current portion	142.2	–

Bonds

Nominal amount in CHF	Interest rate	Term	Expiry at nominal value
350 million	1.000%	2013–2020	30.01.2020
350 million	1.625%	2013–2025	30.01.2025
150 million	0.625%	2015–2030	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 loans are recognised in full in liabilities.

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

Category	Interest rate p.a. (range)	Up to 1 year	2–5 years	More than 5 years
Convertible loans	3.405%–3.93%	142.2	659.3	60.6
Loans	0.00%	–	–	0.1

Convertible loans and loans are assessed at their nominal value.

Lines of credit

The committed lines of credit total CHF 300 million and remain unclaimed as of 31 December 2017.

22. Provisions

In millions of CHF	Restructuring	Dismantling	Employee incentive plan	Procedural costs	Deferred taxes	Total provisions
Balance at 31 December 2015	6.1	6.1	0.2	3.9	36.4	52.7
Provisions raised	–	0.6	0.2	0.9	–	1.7
Provisions used	2.8	–	0.1	0.6	1.1	4.6
Dissolving	–	–	–	0.8	–	0.8
Balance at 31 December 2016	3.3	6.7	0.3	3.4	35.3	49.0
Provisions raised	–	–	0.2	0.3	–	0.5
Provisions used	1.6	–	0.1	0.3	11.1	13.1
Dissolving	–	–	–	0.7	–	0.7
Balance at 31 December 2017	1.7	6.7	0.4	2.7	24.2	35.7
Current portion	1.0	0.6	0.2	1.5	–	3.3

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.

23. Trade accounts payable

In the previous year, the remuneration of CHF 417.4 million resulting from the EICom ruling issued on 20 October 2016 was included in trade accounts payable.

24. Other liabilities

In millions of CHF	31.12.2017	31.12.2016
Value-added tax	9.4	4.5
Security deposits on blocked bank accounts	2.1	4.7
Other	1.9	3.1
	13.4	12.3

As at 31 December 2017, the other item includes obligations of CHF 1.0 million toward PKE Vorsorgestiftung Energie (previous year: the CHF 0.9 million owed to PKE were included in accrued expenses and deferred income).

25. Accrued expenses and deferred income

In millions of CHF	31.12.2017	31.12.2016
Accrued expenses for supplies made	81.5	99.9
Personnel expenses and employees' insurance scheme	8.5	12.0
Accrued interest and premium from issued bonds	10.8	10.9
Taxes	24.2	18.5
	125.0	141.3

26. Contingent receivables and contingent liabilities

Billing method for AS and EnG surcharges

EICom provided a refined billing method for AS tariffs and Energy Act (EnG) surcharges in its 3/2016 directive on the billing method for AS and EnG surcharges. Under this method, Swissgrid and the distribution system operators wait until the subsequent year to finally settle payments of AS tariffs for the previous financial year.

The settlement will result in receivables owed to Swissgrid by the distribution system operators. However, since the amount of these receivables could not be reliably determined when the financial statements were prepared, they were recognised as contingent receivables. The final settlement of EnG surcharges for 2017 will be handled by the CRF Foundation or Pronovo AG and the distribution system operators.

Guarantees

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 of 31 December 2017, there were guarantees totalling CHF 56.6 million (previous year: CHF 56.6 million) in favour of AGEPP SA (CHF 8.8 million) and Geo-Energie Suisse AG (CHF 47.8 million).

Upon entry into force of the revised Energy Act on 1 January 2018, the existing guarantees and the future issuance of new guarantees transfer to the Swiss Federal Office of Energy (SFOE).

27. Other off-balance-sheet commitments

Grid costs

As stipulated by EICom, the former owners are entitled to allowable operating and capital costs from the period between 2009 until the transfer date for the grid elements included in the transmission system. Several proceedings are pending in this respect. Moreover, former owners have submitted applications to EICom for an 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 annual 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 20.0 million and CHF 60.0 million.

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

Assessed transaction value for the transmission system

The EICOM ruling issued on 20 October 2016 definitively established the method for determining the assessed value of the transmission system. The first remuneration based on this method was issued on 3 January 2017. The final remuneration owed under this method cannot be determined until all valuation proceedings related to valuation adjustment 2 have been finally adjudicated. The financial consequences are difficult to predict at this time. 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 obligations:

In millions of CHF	Year 1	Year 2–10	More than 10 years	Total
31.12.2017	50.4	41.6	39.6	131.6
31.12.2016	4.8	80.8	43.2	128.8

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 the move can take place in mid-2018. 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
31.12.2017	0.5	1.2	1.7
31.12.2016	0.3	0.2	0.5

28. Employee pension plan

Employer contribution reserve	Nominal value	Renounced use	Balance sheet	Formation of REC	Balance sheet	Result from REC in personnel expenses	
	31.12.2017	pro 2017	31.12.2017	pro 2017	31.12.2016	2017	2016
In millions of CHF							
Pension fund (PKE)	2.0	–	2.0	–	2.0	–	0.2
Total	2.0	–	2.0	–	2.0	–	0.2

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	
					31.12.2017	31.12.2016
In millions of CHF	31.12.2017	31.12.2017	31.12.2016		2017	2016
Pension fund with surplus funding (PKE)	10,839.0	–	–	–	7.2	6.5
Total	10,839.0	–	–	–	7.2	6.5

Swissgrid is affiliated to a collective plan by the pension fund PKE Vorsorgestiftung Energie. Therefore, an economic benefit or economic obligation cannot be determined on the basis of the individual contract. The coverage ratio of the collective plan is 116.5% as at 31 December 2017 (previous year: 115.5%).

29. Transactions with related parties

Transactions with related parties in millions of CHF	2017	2016
Total operating activities		
Net turnover	402.6	397.3
thereof grid utilisation	298.2	296.3
thereof general ancillary services/ balance energy	57.7	59.0
thereof active power losses	19.8	27.3
thereof reactive energy	26.9	14.7
Other operating income	0.8	1.1
Procurement costs and operating expenses		
Procurement costs	151.9	611.3
thereof grid utilisation	6.5	388.6
thereof general ancillary services/ balance energy	113.6	180.0
thereof active power losses	8.6	10.8
thereof reactive energy	23.2	31.9
Cost of materials and third-party supplies	23.7	28.5
Other operating expenses	5.0	4.4
Financial result		
Financial expenses	13.8	17.6
Unsettled balances at balance sheet date with related parties in millions of CHF	2017	2016
Assets		
Trade receivables	77.2	79.7
Prepaid expenses and accrued income	15.0	12.9
Liabilities		
Convertible loans and loans	364.2	365.3
Trade accounts payable	21.5	417.3
Accrued expenses and deferred income	27.1	45.9

The conditions relating to related parties are described in Note 1.

30. Events after the balance sheet date

Takeover of additional parts of the transmission system

On 3 January 2018, Swissgrid took over transmission system assets from an in-kind contributor. The transfer relates to assets that could not be transferred to Swissgrid earlier for various legal reasons.

The share capital of CHF 317.9 million increased to CHF 318.1 million in this respect. The former owner was remunerated 30% in Swissgrid shares worth CHF 0.7 million and 70% in loans of CHF 1.6 million, while half of the loan amounts can be converted into equity.

Two valuation adjustments are planned for this grid takeover as well. The first one is likely to take place in the autumn of 2018, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

Asset transfer to Pronovo AG

As at 3 January 2018, Swissgrid transferred the assets required for Pronovo AG's business activities and obligations to be taken over by Pronovo AG, which existed at the time, by way of an asset transfer agreement.

Liquidation of CESOC AG

At the extraordinary General Assembly on 15 January 2018, CESOC AG shareholders resolved to liquidate CESOC AG. The company will be liquidated in 2018 in compliance with the legal regulations. CESOC AG does not employ any staff.

Otherwise, there are no events after the balance sheet date that would require disclosure or recognition in the 2017 financial statements.

On 23 April 2018, the Board of Directors of Swissgrid Ltd approved the 2017 financial statements for submission to the General Assembly and for publication.



Independent Auditor's Report

To the General Meeting of Swissgrid Ltd, Laufenburg

Opinion

We have audited the financial statements of Swissgrid Ltd, which comprise the balance sheet as at 31 December 2017, the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 18 to 44) give a true and fair view of the financial position of the Company as at 31 December 2017, and its results of operations and its cash flows for the year then ended in accordance with Swiss GAAP FER.

Basis for Opinion

We conducted our audit in accordance with Swiss Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Accuracy of the calculation of the regulated EBIT and volume- and tariff-related timing differences



Completeness and accuracy of the net turnover and procurement costs



Correct recording of investments in property, plant and equipment

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Accuracy of the calculation of the regulated EBIT and volume- and tariff-related timing differences

Key Audit Matter

For the 2017 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 124.9 million. The change in volume- and tariff-related timing differences amounts to CHF -220.6 million.

The EBIT presented in Swissgrid's financial statements is legally defined as the multiplication of the invested operating assets (regulatory asset base, "RAB") by the applicable regulatory interest rates plus taxes. The RAB consists of the transmission grid assets (incl. construction in progress), the intangible assets, the net current assets determined on a monthly basis and the accumulated volume- and tariff-related timing differences.

Cost and volume variances between the actual costs and income for a year and the costs and income pre-determined in advance at tariff level for the same year lead to so-called volume- and tariff-related timing differences. These are deferred separately as surpluses or deficits in the balance sheet and must be amortised over the coming years. The yearly change is recorded separately in the income statement under "Change in volume- and tariff-related timing differences".

There is a risk that the EBIT and the volume- and tariff-related timing differences are not calculated according to the applicable legal and regulatory provisions and that, consequently, the EBIT and the volume- and tariff-related timing differences are not presented correctly in the financial statements.

For further information on the calculation of the regulated EBIT and volume- and tariff-related timing differences refer to the notes of the financial statements Swiss GAAP FER under note "1. Accounting principles" (paragraph Activities according to StromVG) and under note "4. Segment reporting" (paragraph Change in volume- and tariff-related timing differences per segment).

Our response

We have performed mainly the following audit procedures:

- Identification of the key controls and verification of their effectiveness using sampling;
- Reconciliation of the method used for calculating the regulated EBIT and volume- and tariff-related timing differences with the legal, administrative and regulatory requirements;
- Recalculation of the interest on the various components of the RAB using the interest rates according to the legal base (StromVG/StromVV) as well as to the decisions and directives of the Swiss Federal Electricity Commission (ElCom) and comparison with the recorded values;
- Evaluation of the completeness and transparency of the disclosures presented in the financial statements.



Completeness and accuracy of the net turnover and procurement costs

Key Audit Matter

For the 2017 financial year Swissgrid reports a net turnover of CHF 948.2 million and the procurement costs amount to CHF 294.1 million.

The calculation of the net turnover (performance) and procurement costs is based mainly on the energy data directly metered on the transmission system or reported from downstream grid levels. For the measurement of performance, regulated tariffs must mainly be taken into account; for the procurement costs the applicable market prices.

Swissgrid's regulated activities are characterized by a high volume of IT-based transactions.

For certain turnover and procurement costs positions, no volume base exists at the closing date yet, which requires to make estimates and assumptions.

Due to the transaction volume, the various IT-interfaces and the estimates / assumptions, there is a risk that the performance and costs are not calculated completely and correctly.

For further information on the net turnover and the procurement costs refer to the notes of the financial statements Swiss GAAP FER under note "2. Estimation uncertainty" and under note "4. Segment reporting" (paragraph Segment report 2017) as well as under note "5. Net turnover and procurement costs according to the electricity supply act (StromVG)".

Our response

We have analyzed the process relative to the calculation of the net turnover and procurement costs and we have determined whether the energy data have been recorded completely and correctly. In this respect, we have among others identified the key controls and we have then verified their effectiveness using sampling. We have considered the high degree of integration of the provision and recording of services by the various IT-systems by testing the effectiveness of the general IT-controls and application controls of the relevant IT-systems for accounting purposes with the assistance of our IT-specialists.

In order to assess the completeness and accuracy, we have also critically examined the main assumptions and evaluated the accuracy of the forecasts regarding the presented accruals, in particular by comparing retrospectively the accrued amounts and the actual amounts.

Furthermore, we have assessed the appropriateness of the disclosures in the financial statements concerning the corresponding positions of the balance sheet and income statement.



Correct recording of investments in property, plant and equipment

Key Audit Matter

Property, plant and equipment used for operating activities and the related construction in progress cover approx. 72 % (CHF 2 247.9 million) of total assets.

As part of the necessary modernization of the transmission grid in order to ensure the secure supply of electricity, investments aiming to optimize, reinforce and develop the transmission grid are of strategic importance for Swissgrid.

In this regard, there is among others a risk that the maintenance and repair costs that do not create additional value are capitalized in the balance sheet assets instead of being expensed in the income statement. Regarding construction in progress, there is also a risk that depreciations are not made from the moment when the item of property, plant and equipment is used.

For further information on property, plant and equipment refer to the notes of the financial statements Swiss GAAP FER under note "1. Accounting principles" (paragraph Property, plant and equipment) and under note "13. Non-current assets".

Our response

We have performed mainly the following audit procedures:

- Identification of the key controls concerning property, plant and equipment and verification of the controls' effectiveness (including general IT-controls) using sampling;
- Evaluation whether the new investments recorded under construction in progress qualify for capitalization, using sampling, including reconciliation of the amounts capitalized with the invoices received and for the self-constructed assets with the corresponding detailed documents;
- Critical assessment of the moment of the transfer of completed projects / partial projects from construction in progress to the corresponding investment category;
- Analysis of the attribution of installations to the correct investment category and reconciliation of the attributed useful life with Swissgrid's finance manual.



Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with Swiss GAAP FER, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert

Beatriz Vazquez
Licensed Audit Expert

Basel, 23 April 2018

KPMG AG, Viaduktstrasse 42, PO Box 3456, 4002 Basel

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Statutory financial statements

Income statement

In millions of CHF	Notes	2017	2016
Net turnover	3	948.2	1,250.8
Other operating income	4	19.8	18.2
Change in volume- and tariff-related timing differences		- 171.1	- 15.3
Capitalised self-constructed assets		14.6	13.6
Total operating income		811.5	1,267.3
Procurement costs	3	294.1	767.3
Gross profit		517.4	500.0
Cost of materials and third-party supplies	5	84.5	97.9
Personnel expenses	6	88.2	86.6
Other operating expenses	7	27.1	24.7
Earnings before interest, income taxes, depreciation and amortisation		317.6	290.8
Depreciation on property, plant and equipment		108.9	111.6
Amortisation on intangible assets		35.3	26.3
Earnings before interest and income taxes (EBIT)		173.4	152.9
Financial income		0.4	0.7
Financial expenses		45.2	44.6
Profit for the year before taxes		128.6	109.0
Income taxes		26.4	23.3
Profit for the year		102.2	85.7

Balance sheet

Assets

In millions of CHF	Notes	31.12.2017	31.12.2016
Cash and cash equivalents	8	176.2	428.2
Trade accounts receivable	9	158.2	173.5
Other receivables		2.5	5.7
Inventory		2.1	2.1
Prepaid expenses and accrued income	10	49.5	43.5
Short-term deficits arising from volume-and tariff-related timing differences		138.9	139.0
Assets held on fiduciary basis	11	46.6	34.4
Current assets		574.0	826.4
Financial assets	12	2.0	2.0
Shareholdings	13	8.4	8.3
Property, plant and equipment	14	2,148.7	2,090.0
Intangible assets	15	298.1	300.6
Long-term deficits arising from volume-and tariff-related timing differences		108.6	257.4
Non-current assets		2,565.8	2,658.3
Assets		3,139.8	3,484.7

Equity and liabilities

In millions of CHF	Notes	31.12.2017	31.12.2016
Trade accounts payable	16	53.5	495.9
Current financial liabilities	19	142.2	–
Other liabilities	17	13.4	12.3
Accrued expenses and deferred income	18	125.0	141.3
Current provisions	20	3.3	3.4
Current surpluses arising from volume-and tariff-related timing differences		1.9	5.0
Liabilities held on fiduciary basis	11	46.6	34.4
Current liabilities		385.9	692.3
Non-current financial liabilities	19	1,570.0	1,712.1
Non-current provisions	20	8.2	10.3
Non-current surpluses arising from volume-and tariff-related timing differences		83.0	57.7
Non-current liabilities		1,661.2	1,780.1
Liabilities		2,047.1	2,472.4
Share capital	21	317.9	317.9
Legal capital reserves		402.9	402.9
Reserves from capital contributions		402.9	402.9
Legal retained earnings		1.6	1.6
General legal reserves		1.6	1.6
Voluntary retained earnings		370.3	289.9
Available earnings		370.3	289.9
Results carried forward		268.1	204.2
Profit for the year		102.2	85.7
Equity		1,092.7	1,012.3
Equity and liabilities		3,139.8	3,484.7

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2017	2016
Profit for the year		102.2	85.7
Financial expenses		45.2	44.6
Financial income		-0.4	-0.7
Current income taxes		26.4	23.3
Depreciation and amortisation		144.2	137.9
Gains/losses on disposal of non-current assets		-	-0.2
Change in employer contribution reserves	12	-	-0.2
Change in provisions	20	-2.2	-2.6
Change in inventory		-	0.8
Change in trade accounts receivable		15.3	-14.9
Change in other receivables		3.2	-2.3
Change in prepaid expenses and accrued income		-6.0	6.5
Change in volume- and tariff-related timing differences		171.1	15.3
Change in trade accounts payable		-442.4	422.8
Change in other current liabilities		1.1	-2.8
Change in accrued expenses and deferred income		-22.4	32.2
Income taxes paid		-21.4	-26.8
Cash flow from operating activities		13.9	718.6
Gross investments in property, plant and equipment		-170.0	-183.0
Congestion proceeds received for grid investments		-	-
Net investments in property, plant and equipment		-170.0	-183.0
Divestment in property, plant and equipment		-	0.2
Gross investments in intangible assets		-30.5	-29.7
Congestion proceeds received for grid investments		-	-
Net investments in intangible assets		-30.5	-29.7
Investments in shareholdings		-0.1	-0.1
Dividends received		0.3	0.5
Cash flow from investing activities		-200.3	-212.1
Change in current financial liabilities		-	-40.8
Change in non-current financial liabilities		0.1	-
Interest paid		-43.9	-43.9
Dividends paid		-21.8	-21.5
Cash flow from financing activities		-65.6	-106.2
Change in cash and cash equivalents		-252.0	400.3
Composition			
Cash and cash equivalents at beginning of period		428.2	27.9
Cash and cash equivalents at end of period		176.2	428.2
Change in cash and cash equivalents		-252.0	400.3

Notes

1. Accounting principles

General information

The financial statements for Swissgrid Ltd, Laufenburg, have been prepared in accordance with the Swiss Law on Accounting and Financial Reporting (Title 32 of the Swiss Code of Obligations). The valuation principles applied are described below.

Conversion of foreign currency positions

The accounting records are maintained in local currency (Swiss francs, CHF). All short-term 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 the 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 volumes 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 expenses 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 expenses incurred during the same period. These volume- and tariff-related timing differences are transferred to the balance sheet and taken into account in cost and revenue calculations for future tariff periods. The expected reduction in volume- and tariff-related timing differences within 12 months after the balance sheet date is 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 income taxes. Accordingly, invested operating assets consist of net current assets determined on a monthly basis and non-current assets as of the end of the financial year. 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 2017, the applied WACC based on this calculation is 3.83% (previous year: 4.7%).

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 the cost of acquisition or production less accumulated 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/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:

- 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
- Plants under construction and properties: only applicable in the case of an impairment loss

Intangible assets

Intangible assets are recognised at the cost of acquisition or production less accumulated amortisation and any impairment losses. Depreciation/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 in progress: only applicable in the case of an impairment loss

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.

Impairment losses

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

Plants under construction/intangible assets in progress

Plants under construction and intangible assets in progress are property, plant and equipment 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 plants under construction or intangible assets in progress have to be impaired. These are recognised as impairment losses in the year of completion. 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.

Shareholdings

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

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 impairments 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 value.

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 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 reported if a cash outflow without a usable countervalue is probable and assessable. 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 Note 25.

3. Net turnover and procurement costs

Net turnover

Net turnover in the grid utilisation segment fell considerably by approx. CHF 290 million compared to the previous year. Swissgrid was able to generate considerably less income from auctioning off bottleneck capacities at the national borders compared to the previous year. In the year under review, Swissgrid used auction income received in 2017 and undistributed income from auctions in 2016 of CHF 136.0 million to cover the chargeable costs of the transmission system. In 2016, income from auctions of CHF 433.8 million was received for 2013 to 2016.

The general ancillary services (CHF –14.7 million) and active power loss (CHF –11.1 million) segments also reported lower net turnovers year-on-year due to the decline in tariff revenues. On the other hand, net turnover in the reactive energy segment rose by CHF 26.7 million. The reason for this is the higher allocation from the tariff income for general AS of CHF 26.2 million compared to the previous year.

Overall, net turnover declined from CHF 1,250.8 million to CHF 948.2 million year-on-year, primarily due to the sharp fall in net proceeds in the grid utilisation segment.

Procurement costs

At CHF 294.1 million, the cost of procurement is well below the previous year's value of CHF 767.3 million. The previous year's value contains the remuneration of CHF 417.4 million resulting from the ruling issued by ECom on 20 October 2016 on the method for establishing the assessed value of the transmission system. Even after adjusting for this value, the cost of procurement fell significantly compared to the previous year.

In the grid utilisation segment in 2017, additional remuneration for operating and capital costs paid to former transmission system owners was CHF 52.2 million lower than in the previous year. The procurement costs in the general ancillary services segment also declined from the previous year. This CHF 30.2 million drop was due a reduction in provision costs for control power on the previous financial year.

By contrast, the cost of procurement in the individual ancillary services (active power loss and reactive energy) increased by CHF 41.0 million year-on-year. Besides the higher quantities of active power loss energy procured compared to the previous year, the significant increase in energy prices was the main influencing factor on the cost of procurement in 2017.

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

4. Other operating income

In millions of CHF	2017	2016
Handling the orders in accordance with the Energy Act	6.6	5.4
Congestion management clearing	7.3	7.7
Issuance of guarantees of origin for renewable energies	4.9	3.9
Other	1.0	1.2
	19.8	18.2

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. Materials and third-party supplies

In millions of CHF	2017	2016
Grid maintenance	29.4	25.9
Grid system control	5.4	10.7
Other services in the grid area	14.9	17.0
Expenses for projects, advisory and non-cash benefits	25.6	34.7
Hardware/software maintenance	9.2	9.6
	84.5	97.9

As at the end of 2017, the commissioning of the new grid control system already allows Swissgrid to control half of all switchgears internally. This allowed substation control contracts to be terminated during the financial year, which was reflected in a corresponding decrease in the grid system control item in a year-on-year comparison.

The expenses for projects, advisory and non-cash benefits also fell compared to the previous year. This is due to the lower costs for project activities and a generally lower demand for third-party services compared to 2016.

Other services in the grid area particularly include easement management services performed by third parties and the operating expense for mixed-use systems.

6. Personnel expenses

In millions of CHF	2017	2016
Salaries, bonuses, allowances	71.3	70.4
Employee insurance	13.1	12.2
Other personnel expenses	3.8	4.0
	88.2	86.6

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	2017	2016
Rental and occupancy costs	7.3	7.2
Ground rents	4.4	1.5
Rental costs for communication equipment/telecommunication expense	3.7	3.9
Board of Directors' fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	2.0	1.9
Fees, dues and licences	4.0	5.0
Insurance	2.1	2.2
Other administrative costs	2.8	2.2
	27.1	24.7

In its ruling on 20 October 2016 on the method for establishing the assessed value of the transmission system, EICom also defined higher amounts for recurring ground rent remuneration. In the previous year, the remuneration for the higher ground rents during 2013–2016 was part of the remuneration resulting from the ruling issued by EICom and was therefore included in the procurement costs item. This resulted in an increase in the ground rents item compared to the previous year.

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, including lump-sum expenses (previous year: CHF 250,000). The remaining members of the Board of Directors received remuneration of between CHF 55,000 and CHF 70,000 pro rata temporis for 2017, including lump-sum expenses (previous year: CHF 55,000 to CHF 70,000).

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

8. Cash and cash equivalents

As at 31 December 2017, cash and cash equivalents had already been provided for the repayment of convertible loans of CHF 142.2 million on 3 January 2018. In the previous year, as at 31 December 2016, cash and cash equivalents included funds of CHF 417.4 million for the first payment, on 3 January 2017, of the remuneration resulting from the EICom ruling on 20 October 2016.

9. Trade receivables

On 31 December 2017, trade receivables include CHF 66.9 million (previous year: CHF 70.9 million) in relation to companies with a direct or indirect shareholding in Swissgrid.

10. Prepaid expenses and accrued income

In millions of CHF	31.12.2017	31.12.2016
Accrued revenue for supplies made	46.4	39.4
Other	3.1	4.1
	49.5	43.5

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.

11. Balance sheet items held on fiduciary basis

Pursuant to the ECom letter of approval issued on 16 November 2017, CHF 120.0 million in income from auctions in 2017 was paid to Swissgrid in the financial year to cover the allowable costs of the transmission system. CHF 32.8 million (previous year: CHF 15.7 million) in undistributed income from auctions collected by Swissgrid in 2017 to cover the allowable costs of the transmission system will be carried forward to 2018.

12. Financial assets

As in the previous year, financial assets contain the employer contribution reserves without renounced use of CHF 2.0 million (previous year: CHF 2.0 million).

13. Shareholdings

		Share capital in m.	Share in %
CESOC AG	A	0.100	50.0
Joint Allocation Office (JAO)	B	0.100	5.0
TSCNET Services GmbH	C	0.033	7.7
Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT)	D	52.119	5.0
Pronovo AG	E	0.100	100.0
AET NE1 SA	A	0.100	100.0
ALENA Aletsch Energie Netz AG	A	0.100	100.0
Alpiq Netz AG Gösigen/Laufenburg	A	0.100	100.0
Alpiq Réseau SA Lausanne/Laufenburg	A	0.100	100.0

BKW Übertragungsnetz AG	A	0.100	100.0
CKW Grid AG	A	0.100	100.0
EGL Grid AG	A	0.100	100.0
ewb Übertragungsnetz AG	A	0.100	100.0
ewz Übertragungsnetz AG	A	0.100	100.0
FMV Réseau SA	A	0.100	100.0
Kraftwerke Hinterrhein Netz AG	A	0.100	100.0
LENA Lonza Energie Netz AG	A	0.100	100.0
Nordostschweizerische Kraftwerke Grid AG	A	0.100	100.0
Ofible Rete SA	A	0.100	100.0
Ofima Rete SA	A	0.100	100.0
Repower Transportnetz AG	A	0.100	100.0
SN Übertragungsnetz AG	A	0.100	100.0
Übertragungsnetz Basel/Laufenburg AG	A	0.100	100.0

Letters used for locations and currencies:

A = Laufenburg (CH) | Currency: CHF

B = Luxembourg (Lux) | Currency: EUR

C = Munich (D) | Currency: EUR

D = Paris (F) | Currency: EUR

E = Frick (CH) | Currency: CHF

Pronovo AG was founded as a wholly-owned subsidiary of Swissgrid on 3 November 2017 as a consequence of the revised Energy Act. It commenced its operational activities on 3 January 2018, which include the processing of federal funding programmes for renewable energies as well as guarantees of origin.

Swissgrid is not legally obliged to prepare consolidated financial statements. Either the control principle necessary to prepare a consolidated financial statement (Art. 963 OR) is not satisfied, or the subsidiaries do not have a material influence on Swissgrid's financial statements. In particular, Pronovo AG is regulated by the Swiss Federal Office of Energy (SFOE) and is explicitly excluded from any consolidation with Swissgrid based on Art. 64 (5) of the Energy Act (EnG).

Otherwise, the information is unchanged from the previous year.

14. Property, plant and equipment

The book values of the individual categories are as follows:

In millions of CHF	31.12.2017	31.12.2016
Construction in progress	299.1	298.0
Substations	803.7	758.8
Lines	944.5	940.1
Properties and buildings	93.8	87.3
Other property, plant and equipment	7.6	5.8
	2,148.7	2,090.0

The increase in the reporting period is attributable to the high level of investment (investments of CHF 170.0 million).

15. Intangible assets

The book values of the individual categories are as follows:

In millions of CHF	31.12.2017	31.12.2016
Intangible assets under development	29.1	67.1
Usage rights	82.9	77.8
Software	60.4	21.6
Merger losses (goodwill)	125.7	134.1
	298.1	300.6

Investments of just under CHF 40 million were reclassified from assets under development to the software category, primarily due to the commissioning of the new grid control system.

16. Trade accounts payable

In the previous year, the remuneration of CHF 417.4 million resulting from the ECom ruling issued on 20 October 2016 was included in trade accounts payable.

As at 31 December 2017, trade accounts payable include CHF 19.6 million (previous year: CHF 347.9 million) in relation to companies with a direct or indirect shareholding in Swissgrid.

17. Other liabilities

In millions of CHF	31.12.2017	31.12.2016
Value-added tax	9.4	4.5
Security deposits on blocked bank accounts	2.1	4.7
Other	1.9	3.1
	13.4	12.3

As at 31 December 2017, the other item includes obligations of CHF 1.0 million toward PKE Vorsorgestiftung Energie (previous year: the CHF 0.9 million owed to PKE were included in accrued expenses and deferred income).

18. Accrued expenses and deferred income

In millions of CHF	31.12.2017	31.12.2016
Accrued expenses for supplies made	81.5	99.9
Personnel expenses and employees' insurance scheme	8.5	12.0
Accrued interest and premium from issued bonds	10.8	10.9
Taxes	24.2	18.5
	125.0	141.3

19. Financial liabilities

In millions of CHF	31.12.2017	31.12.2016
Bonds	850.0	850.0
Convertible loans	862.1	862.1
Loans	0.1	–
Total financial liabilities	1,712.2	1,712.1
Current portion	142.2	–

Bonds

Nominal amount in CHF	Interest rate	Term	Expiry at nominal value
350 million	1.000%	2013–2020	30.01.2020
350 million	1.625%	2013–2025	30.01.2025
150 million	0.625%	2015–2030	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 p.a. (range)	Year 1	Year 2–5	More than 5 years
Convertible loans	3.405%–3.93%	142.2	659.3	60.6
Loans	0.00%	–	–	0.1

Convertible loans and loans are assessed at their nominal value. As at 31 December 2017, convertible loans of CHF 480.6 million (previous year: CHF 480.6 million) exist towards companies with a direct or indirect shareholding in Swissgrid.

20. Provisions

In millions of CHF	31.12.2017	31.12.2016
Restructuring	1.7	3.3
Dismantling	6.7	6.7
Employee incentive plan	0.4	0.3
Procedural costs	2.7	3.4
Total provisions	11.5	13.7
Current portion	3.3	3.4

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.

21. Share capital and reserves from capital contributions

The share capital consists of 317,917,131 (previous year: 317,917,131) fully paid-up registered shares with a par value of CHF 1 per share.

22. Contingent receivables

Billing method for AS and EnG surcharges

EICom provided a refined billing method for AS tariffs and Energy Act (EnG) surcharges in its 3/2016 directive on the billing method for AS and EnG surcharges. Under this method, Swissgrid and the distribution system operators wait until the subsequent year to finally settle payments of AS tariffs for the previous financial year.

The settlement will result in receivables owed to Swissgrid by the distribution system operators. However, since the amount of these receivables could not be reliably determined when the financial statements were prepared, they were recognised as contingent receivables. The final settlement of EnG surcharges for 2017 will be handled by the CRF Foundation or Pronovo AG and the distribution system operators.

23. Guarantees

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 2017, there were guarantees totalling CHF 56.6 million (previous year: CHF 56.6 million) in favour of AGEPP SA (CHF 8.8 million) and Geo-Energie Suisse AG (CHF 47.8 million).

Upon entry into force of the revised Energy Act on 1 January 2018, the existing guarantees and the future issuance of new guarantees transfer to the Swiss Federal Office of Energy (SFOE).

24. Other off-balance-sheet commitments

Grid costs

As stipulated by EICom, the former owners are entitled to allowable operating and capital costs from the period between 2009 until the transfer date for the grid elements included in the transmission system. Several proceedings are pending in this respect. Moreover, former owners have submitted applications to EICom for an 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 annual 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 20.0 million and CHF 60.0 million.

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

Assessed transaction value for the transmission system

The EICom ruling issued on 20 October 2016 definitively established the method for determining the assessed value of the transmission system. The first remuneration based on this method was issued on 3 January 2017. The final remuneration owed under this method cannot be determined until all valuation proceedings related to valuation adjustment 2 have been finally adjudicated. The financial consequences are difficult to predict at this time. 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.

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
31.12.2017	0.5	1.2	1.7
31.12.2016	0.3	0.2	0.5

Long-term rental contracts

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

In millions of CHF	Year 1	Year 2–10	More than 10 years	Total
31.12.2017	50.4	41.6	39.6	131.6
31.12.2016	4.8	80.8	43.2	128.8

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 the move can take place in mid-2018. The current locations in Frick and Laufenburg will be vacated at this time.

25. Legal proceedings

The cumulative risk for non-allowable costs amounts to CHF 209.8 million as at 31 December 2017 (previous year: CHF 194.2 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.

26. Audit fees

In 2017, the fees for audit services amount to CHF 0.17 million (previous year: CHF 0.19 million) and CHF 0.01 million (previous year: CHF 0.07 million) for other services.

27. Events after the balance sheet date

Takeover of additional parts of the transmission system

On 3 January 2018, Swissgrid took over transmission system assets from an in-kind contributor. The transfer relates to assets that could not be transferred to Swissgrid earlier for various legal reasons.

The share capital of CHF 317.9 million increased to CHF 318.1 million in this respect. The former owner was remunerated 30% in Swissgrid shares worth CHF 0.7 million and 70% in loans of CHF 1.6 million, while half of the loan amounts can be converted into equity.

Two valuation adjustments are planned for this grid takeover as well. The first one is likely to take place in the autumn of 2018, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

Asset transfer to Pronovo AG

As at 3 January 2018, Swissgrid transferred the assets required for Pronovo AG's business activities and obligations to be taken over by Pronovo AG, which existed at the time, by way of an asset transfer agreement.

Liquidation of CESOC AG

At the extraordinary General Assembly on 15 January 2018, CESOC AG shareholders resolved to liquidate CESOC AG. The company will be liquidated in 2018 in compliance with the legal regulations. CESOC AG does not employ any staff.

Otherwise, there are no events after the balance sheet date that would require disclosure or recognition in the 2017 financial statements.

On 23 April 2018, the Board of Directors of Swissgrid Ltd approved the 2017 financial statements for submission to the General Assembly and for publication.

Proposed appropriation of retained earnings

The Board of Directors proposes to the General Assembly that the retained earnings be appropriated as follows:

CHF	2017	2016
Balance carried forward from the previous year	268,085,749.24	204,215,678.38
Profit for the year	102,248,287.30	85,679,186.05
Retained earnings	370,334,036.54	289,894,864.43
Appropriation to the general legal reserves	–	–
Dividend payment	29,401,333.66	21,809,115.19
Balance to be carried forward	340,932,702.88	268,085,749.24
Total appropriation	370,334,036.54	289,894,864.43

Since legal capital reserves and legal retained earnings have reached 50% of the share capital, no more funds will be allocated to these accounts.

In view of valuation adjustment 1 planned in the autumn of 2018 for the parts of the grid integrated as of 3 January 2018, 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 2017 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, 23 April 2018

For the Board of Directors:
Adrian Bult, Chairman



Statutory Auditor's Report

To the General Meeting of Swissgrid Ltd, Laufenburg

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swissgrid Ltd, which comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 52 to 64) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



Accuracy of the calculation of the regulated EBIT and volume- and tariff-related timing differences



Completeness and accuracy of the net turnover and procurement costs



Correct recording of investments in property, plant and equipment

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Accuracy of the calculation of the regulated EBIT and volume- and tariff-related timing differences

Key Audit Matter

For the 2017 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 173.4 million. The change in volume- and tariff-related timing differences amounts to CHF -171.1 million.

The EBIT presented in Swissgrid's financial statements is legally defined as the multiplication of the invested operating assets (regulatory asset base, "RAB") by the applicable regulatory interest rates plus taxes. The RAB consists of the transmission grid assets (incl. construction in progress), the intangible assets, the net current assets determined on a monthly basis and the accumulated volume- and tariff-related timing differences.

Cost and volume variances between the actual costs and income for a year and the costs and income pre-determined in advance at tariff level for the same year lead to so-called volume- and tariff-related timing differences. These are deferred separately as surpluses or deficits in the balance sheet and must be amortised over the coming years. The yearly change is recorded separately in the income statement under "Change in volume- and tariff-related timing differences".

There is a risk that the EBIT and the volume- and tariff-related timing differences are not calculated according to the applicable legal and regulatory provisions and that, consequently, the EBIT and the volume- and tariff-related timing differences are not presented correctly in the financial statements.

For further information on the calculation of the regulated EBIT and volume- and tariff-related timing differences refer to the notes of the financial statements under note "1. Accounting principles" (paragraph Activities according to StromVG).

Our response

We have performed mainly the following audit procedures:

- Identification of the key controls and verification of their effectiveness using sampling;
- Reconciliation of the method used for calculating the regulated EBIT and volume- and tariff-related timing differences with the legal, administrative and regulatory requirements;
- Recalculation of the interest on the various components of the RAB using the interest rates according to the legal base (StromVG/StromVV) as well as to the decisions and directives of the Swiss Federal Electricity Commission (ElCom) and comparison with the recorded values;
- Evaluation of the completeness and transparency of the disclosures presented in the financial statements.



Completeness and accuracy of the net turnover and procurement costs

Key Audit Matter

For the 2017 financial year Swissgrid reports a net turnover of CHF 948.2 million and the procurement costs amount to CHF 294.1 million.

The calculation of the net turnover (performance) and procurement costs is based mainly on the energy data directly metered on the transmission system or reported from downstream grid levels. For the measurement of performance, regulated tariffs must mainly be taken into account; for the procurement costs the applicable market prices.

Swissgrid's regulated activities are characterized by a high volume of IT-based transactions.

For certain turnover and procurement costs positions, no volume base exists at the closing date yet, which requires to make estimates and assumptions.

Due to the transaction volume, the various IT-interfaces and the estimates / assumptions, there is a risk that the performance and costs are not calculated completely and correctly.

Our response

We have analyzed the process relative to the calculation of the net turnover and procurement costs and we have determined whether the energy data have been recorded completely and correctly. In this respect, we have among others identified the key controls and we have then verified their effectiveness using sampling. We have considered the high degree of integration of the provision and recording of services by the various IT-systems by testing the effectiveness of the general IT-controls and application controls of the relevant IT-systems for accounting purposes with the assistance of our IT-specialists.

In order to assess the completeness and accuracy, we have also critically examined the main assumptions and evaluated the accuracy of the forecasts regarding the presented accruals, in particular by comparing retrospectively the accrued amounts and the actual amounts.

Furthermore, we have assessed the appropriateness of the disclosures in the financial statements concerning the corresponding positions of the balance sheet and income statement.

For further information on the net turnover and the procurement costs refer to the notes of the financial statements under note "2. Estimation uncertainty" and under note "3. Net turnover and procurement costs".



Correct recording of investments in property, plant and equipment

Key Audit Matter

Property, plant and equipment used for operating activities and the related construction in progress cover approx. 68 % (CHF 2 148.7 million) of total assets.

As part of the necessary modernization of the transmission grid in order to ensure the secure supply of electricity, investments aiming to optimize, reinforce and develop the transmission grid are of strategic importance for Swissgrid.

In this regard, there is among others a risk that the maintenance and repair costs that do not create additional value are capitalized in the balance sheet assets instead of being expensed in the income statement. Regarding construction in progress, there is also a risk that depreciations are not made from the moment when the item of property, plant and equipment is used.

For further information on property, plant and equipment refer to the notes of the financial statements under the note "1. Accounting principles" (paragraph property, plant and equipment) and under the note "14. Property, plant and equipment".

Our response

We have performed mainly the following audit procedures:

- Identification of the key controls concerning property, plant and equipment and verification of the controls' effectiveness (including general IT-controls) using sampling;
- Evaluation whether the new investments recorded under construction in progress qualify for capitalization, using sampling, including reconciliation of the amounts capitalized with the invoices received and for the self-constructed assets with the corresponding detailed documents;
- Critical assessment of the moment of the transfer of completed projects / partial projects from construction in progress to the corresponding investment category;
- Analysis of the attribution of installations to the correct investment category and reconciliation of the attributed useful life with Swissgrid's finance manual.



Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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

Beatriz Vazquez
Licensed Audit Expert

Basel, 23 April 2018

KPMG AG, Viaduktstrasse 42, PO Box 3456, 4002 Basel

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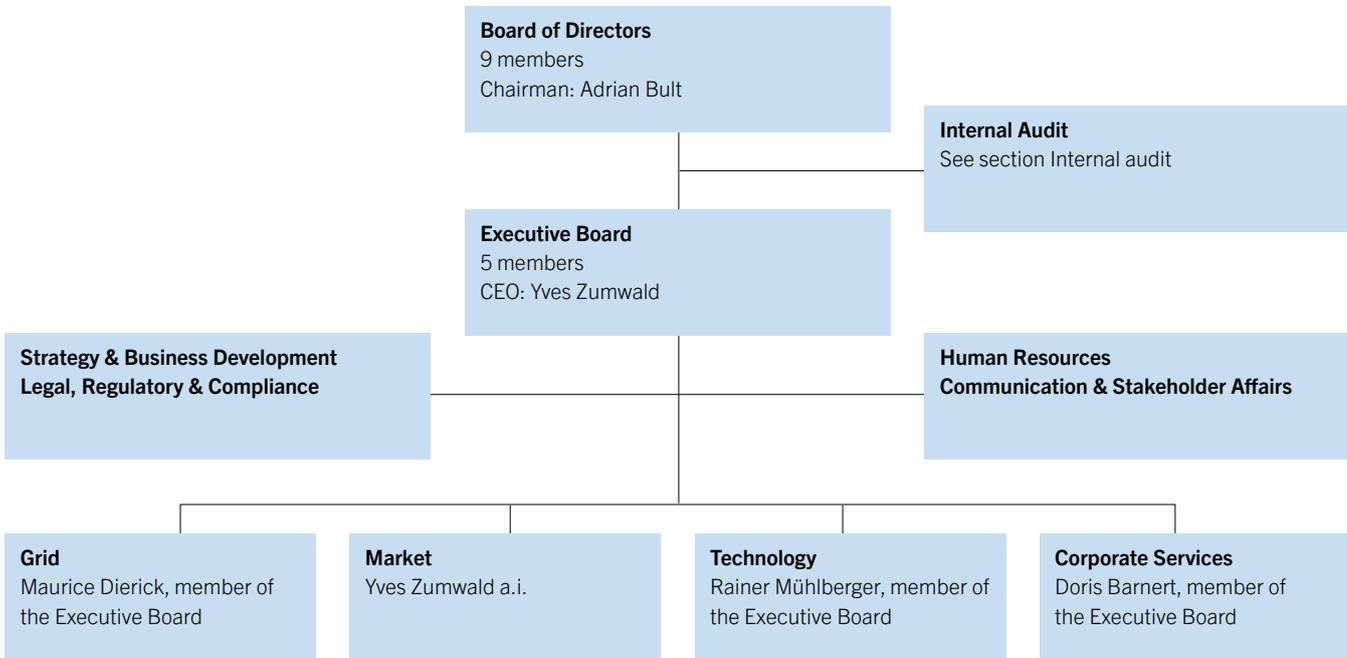
Corporate Governance

The Board of Directors and Executive Board of Swissgrid Ltd (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 the reporting date 31 December 2017, unless specified otherwise.

Corporate structure and shareholders

Corporate structure

The operational structure of Swissgrid is shown below:



The shareholdings of Swissgrid are listed in paragraph 13 of the notes on the statutory financial statements. Information on the non-consolidated subsidiary Pronovo AG, founded in 2017, is provided in the annual review.

Cross shareholdings

No cross shareholdings currently exist.

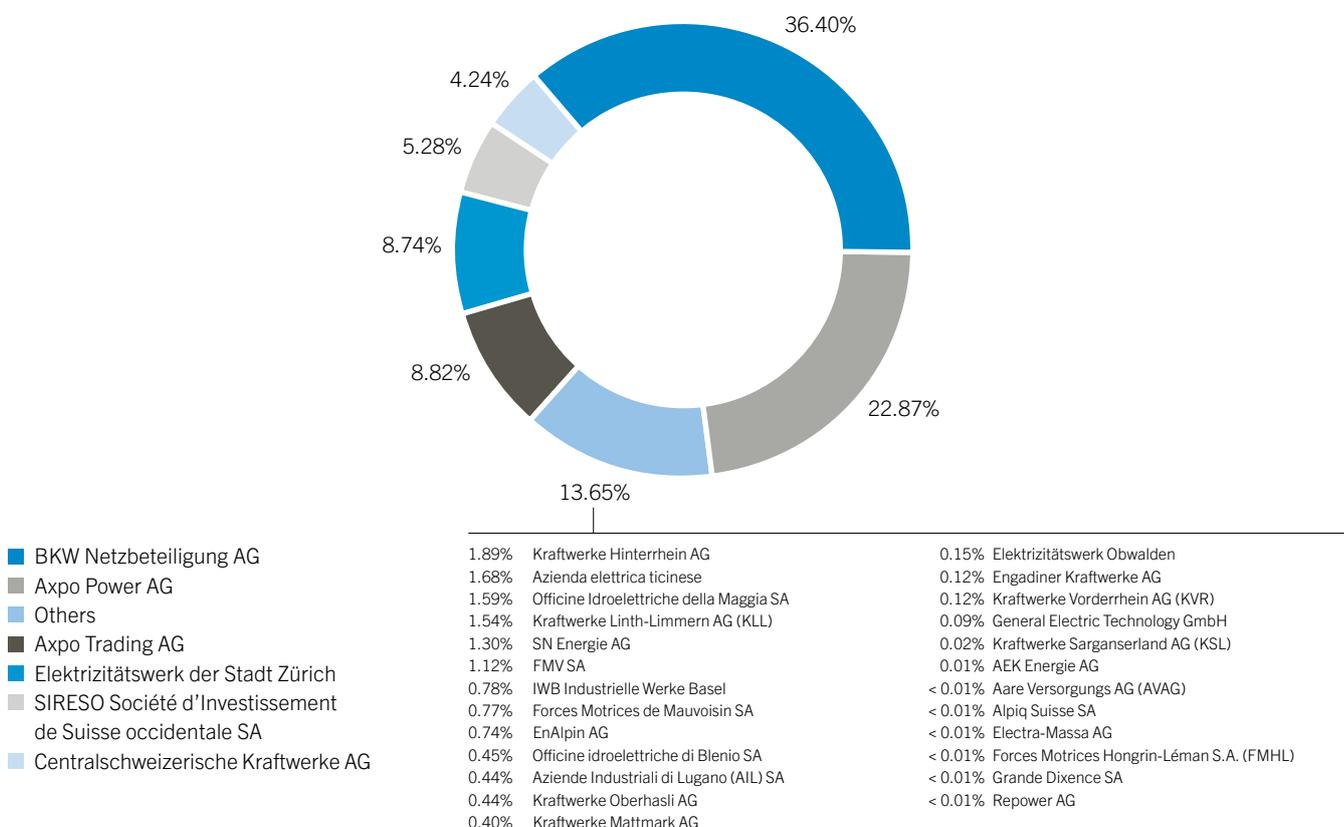
Shareholders

The following companies are Swissgrid shareholders as at 31 December 2017: Aare Versorgungs AG (AVAG), AEK Energie AG, Alpiq Suisse AG, 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, Electra-Massa AG, EnAlpin AG, Engadiner Kraftwerke AG, FMV SA, Forces Motrices Hongrin-Léman S.A. (FMHL), Forces Motrices de Mauvoisin SA, General Electric Technology GmbH, Grande Dixence SA, IWB Industrielle Werke Basel, Kraftwerke Hinterrhein AG, Kraftwerke Linth-Limmern AG (KLL), Kraftwerke Mattmark AG, Kraftwerke Oberhasli AG, Kraftwerke Sarganserland AG (KSL), Kraftwerke Vorderrhein AG (KVR), Officine Idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA, Repower AG, SIRESO Société d'Investissement de Suisse occidentale SA and SN Energie AG. Together, they hold 100% of Swissgrid's share capital as at 31 December 2017. Swissgrid is directly or indirectly majority-owned by the cantons and the municipalities. The current shareholder structure can be viewed online at www.swissgrid.ch.

Swissgrid ownership structure

As at 31 December 2017

All figures rounded



Capital structure

Capital and restriction on transferability

The ordinary share capital as at 31 December 2017 consists of 317,917,131 registered shares with a nominal value of CHF 1 per share (divided into 158,958,566 A registered shares and 158,958,565 B registered shares). The conditional share capital as of 31 December 2017 consists of a maximum of 128,409,932 fully paid-up registered shares (half A registered shares and half B registered shares), each with a nominal value of CHF 1. The conditional share capital relates to received convertible bonds that Swissgrid uses 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 grid companies transferred as contributions in kind or individual system elements, or the simple and rapid improvement of Swissgrid's capital resources.

Upon entry in the commercial register on 3 January 2018, Swissgrid also took over additional transmission grid assets and raised its share capital accordingly by CHF 215,519 (by 107,760 A registered shares and 107,759 B registered shares) in accordance with the resolution taken at the Extraordinary General Meeting on 4 December 2017 (see also paragraph 27 of the notes on the statutory financial statements).

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 equity in the financial statements Swiss GAAP FER.

Board of Directors



From left to right: Regula Wallimann, Andreas Rickenbacher, Dominique Gachoud, Marcel Frei, Adrian Bult, Ronald Trächsel, Isabelle Moret, Kerem Kern, Claude Nicati

Members of the Board of Directors, additional activities and affiliations

Adrian Bult

Chairman, independent member
Born in 1959, Swiss

Adrian Bult, lic. oec., has been a member of the Board of Directors since 2006 and its Chairman since 2012. From 2007 to 2012, he was a member of the Executive Board (COO) at Avaloq Evolution AG. Until 2007, he was the Head of IT Telecom PTT and was later a member of the Group management of Swisscom, initially as CIO, then as CEO Swisscom Fixnet and finally as CEO Swisscom Mobile. Before this, he sat on the Executive Board of IBM Switzerland.

Affiliations President of the Bank Council at Basler Kantonalbank, Chairman of the Board of Directors at AdNovum AG and Garaio AG, Board of Directors at Alfred Müller AG and SWICA, Chairman of the Board of Directors at Regent AG and Chairman of the CRF Foundation.

Marcel Frei

Board of Directors, industry representative
Born in 1959, Swiss

Marcel Frei, a Swiss-certified expert in accounting and financial controlling, has been a member of the Board of Directors since 2012. He has been the Director of ewz (the electricity power supplier to the City of Zurich) since 2012. Before this, he was the CFO and, from 2009 onwards, also the Deputy Director of ewz.

Affiliations Board of Directors at Energie Naturelle Mollendruz SA, Kernkraftwerk Gösgen-Däniken AG, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern, Kraftwerke Oberhasli AG, Energiepark Sisslerfeld AG as well as LaZur Energie SA. Marcel Frei is also the Director of ewz (Deutschland) GmbH and a member of the Executive Board at asut (Swiss Telecommunications Association) as well as at Glasfasernetz Schweiz (Swiss Fibre-Optic Network).

Dominique Gachoud

Board of Directors, industry representative
Born in 1954, Swiss

Dominique Gachoud, holder of a degree in electrical engineering from the EPFL, has been a member of the Board of Directors since 2017. He has been Director General of Groupe E since 2012. Prior to this, he managed the Energy Distribution division at Groupe E. From 1982 to 2005, he held various managerial roles at Entreprises Electriques Fribourgeoises (Groupe E from 2005).

Affiliations Chairman of the Board of Directors at Groupe E Connect SA and Groupe E Celsius SA, Board member at Groupe E Greenwatt SA, EOS Holding SA, Gaznat SA, Unigaz SA, Fingaz SA, Swiss Gaz Invest AG, SIRESO SA and Capital Risque Fribourg SA. Chairman of the regiogrid association, Vice-Chairman of the Association of Swiss Electricity Companies. Board member at the Neunburg Chamber of Industry and Commerce.

Kerem Kern

Board of Directors, industry representative
Born in 1974, Swiss

Kerem Kern, Dr. iur., lawyer, has been a member of the Board of Directors since 2017. He has headed the Corporate Regulatory Management and Legal Grid division at Axpo Holding AG since 2012. Prior to this, he was employed as Legal Counsel at Axpo Holding AG. From 2007 to 2010, he worked as a lawyer at the Baur Hürlimann law firm in Zurich.

Affiliations Board member of the Association of Swiss Electricity Companies.

Isabelle Moret

Board of Directors, independent member
Born in 1970, Swiss

Isabelle Moret, lic. jur., LL.M, lawyer, has been a member of the Board of Directors since 2012. She runs her own law firm. She has been a member of the National Council since 2006. Prior to this, she was a member of the Grand Council of the Canton of Vaux and from 2008 to April 2016 Vice Chairwoman of the liberal party FDP.

Affiliations Foundation Board of the ECA-RP pension fund, Vice Chairwoman of the Board of Directors of Retraites Populaires, member of the Executive Committee of *economiesuisse* (association of Swiss companies), Chairwoman of the Federation of Swiss Food Industries and of H+, the association of Swiss hospitals.

Claude Nicati

Board of Directors, cantonal representative
Born in 1957, Swiss

Claude Nicati, lic. iur., lawyer, has been a member of the Board of Directors since 2014. He works as an independent lawyer at the Etude d'avocat-e-s NVB (Nicati, Vara, Bigler) law firm. From 2009 to 2013, he served as Councillor of the Canton of Neuenburg and Head of the Regional Planning department. From 1997 to 2009, he was examining magistrate for the Canton of Neuenburg and finally Deputy Federal Public Prosecutor. Before this, he held various senior positions in municipal and cantonal police departments.

Affiliations Board member at Caritas, Fondation SolarPlanet as well as Ordre des Avocats Neuchâtois.

Andreas Rickenbacher

Board of Directors, cantonal representative
Born in 1968, Swiss

Andreas Rickenbacher, MSc in business administration and political sciences, has been a member of the Board of Directors since 2016. He is the owner of Andreas Rickenbacher Management AG. From 2006 to 2016, he served as Councillor of the Canton of Bern and Director of the Department of Economic Affairs. Prior to this, he worked as an independent business consultant; among other things, he founded *rickenbacher projekte gmbh*. From 1992 to 1998, he worked as project assistant and later as project director at the GfS research institute. From 1994 to 2006, he was a member of the Grand Council of the Canton of Bern.

Affiliations Chairman of the Board of Directors of BE! Tourismus AG and Bigla Care AG, Board of Directors of Aebi Schmidt Holding AG, Bantel&Partner AG, Bernexpo Holding AG and HRS Real Estate AG, Vice Chairman of the Switzerland Innovation foundation and member of the organising committee of FIS World Cup Wengen (international Lauberhorn ski races).

Ronald Trächsel

Board of Directors, industry representative
Born in 1959, Swiss

Ronald Trächsel, lic. rer. pol., has been a member of the Board of Directors since 2015. He has served as the CFO of BKW AG since 2014. He was CFO of the Sika Group from 2008 to 2014. Before this, he served as CEO and CFO of *vitra* for eight years. From 1995 to 1999, he was CFO of Ringier International.

Affiliations Chairman of the Board of Directors of Wyss Samen und Pflanzen AG, Board of Directors of ContourGlobal plc and Création Baumann AG. In addition, Ronald Trächsel is Chairman of the Board of Directors of AEK Onyx AG and a member of the Board of Directors of Kraftwerke Oberhasli AG.

Regula Wallimann

Board of Directors, independent member
Born in 1967, Swiss

Regula Wallimann, lic.oec. HSG, has been a member of the Board of Directors since 2017. She has been an independent financial advisor since April 2017. Prior to this, she worked for KPMG for 24 years. Between 2003 and 2007, she was the Global Lead Partner responsible for auditing international companies and managed audit teams in the areas of income taxes, IT and treasury and compliance, among others.

Affiliations Board of Directors of the Straumann Group, member of the Executive Committee of the Institute for Accounting, Controlling and Auditing ACA HSG at the University of St. Gallen, Head of the Swiss Chapter of the WCD (WomenCorporateDirectors).

Resignations in the reporting period

Doris Russi Schurter, on 2 May 2017
 Michael Wider, on 2 May 2017
 Andrew Walo, on 2 May 2017

New elections in the reporting period

Dominique Gachoud, on 2 May 2017
 Kerem Kern, on 2 May 2017
 Regula Wallimann, on 2 May 2017

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 Meeting 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 Meeting. All cantons together have the right to delegate and recall two members to/from the company's Board of Directors (Article 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 (Article 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 eight times during the last financial year.

Board committees

In order to incorporate the specialist knowledge and broad range of experience of the individual members in 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 six times during the last financial year.

Members:

- Adrian Bult (Chairman, since 2012)
- Marcel Frei (since 2 May 2017)
- Kerem Kern (since 2 May 2017)
- Claude Nicati (since 2014)

Changes in the reporting period:

- Marcel Frei (switched from the Finance and Audit Committee on 2 May 2017)
- Kerem Kern (newly elected on 2 May 2017)
- Andrew Walo (resigned on 2 May 2017)
- Michael Wider (resigned on 2 May 2017)

Finance and Audit Committee The Finance and Audit Committee supports the Board of Directors in its supervisory role, i.e. with regard to the integrity of the accounts, the fulfilment of legal provisions, and the competence and services 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.

Members:

- Regula Wallimann (Chairwoman, since 2 May 2017)
- Dominique Gachoud (since 2 May 2017)
- Ronald Trächsel (since 2015)

Changes in the reporting period:

- Doris Russi Schurter (resigned on 2 May 2017)
- Regula Wallimann (newly elected on 2 May 2017)
- Marcel Frei (switched to the Strategy Committee on 2 May 2017)
- Dominique Gachoud (newly elected on 2 May 2017)

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 members of the Executive Board, and submits a proposal to the Board of Directors accordingly. The committee defines the remuneration 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 during the last financial year.

Members:

- Isabelle Moret (Chairwoman, since 2014)
- Adrian Bult (since 2012)
- Andreas Rickenbacher (since 2016)

Changes in the reporting period: None

Ad hoc committees The Board of Directors may appoint ad hoc committees for specific tasks. It did not set up any such committee in the last financial year.

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 in section External audit).

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. 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 aimed at creating added value and reviewing the business processes to ensure proper conduct and compliance with statutory and regulatory requirements as well as efficiency, and makes corresponding proposals for improvements. The Internal Audit division assists the organisation in fulfilling its tasks by systematically and objectively evaluating and improving the effectiveness of risk management, the controls and the management and monitoring processes (governance). 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, one special assignment and was involved in one project support measure 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. An external quality assessment (EQA) of the Internal Audit division was also performed in the year under review.

Risk management Risk management is an integral part of effective and prudent corporate management for Swissgrid. Swissgrid's risk management covers the entire organisation, takes account of established standards (ISO 31000, COSO Enterprise Risk Management Framework) 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.

Executive Board



From left to right: Doris Barnert, Rainer Mülhberger, Maurice Dierick, Yves Zumwald

Members of the Executive Board, additional activities and affiliations

Yves Zumwald

CEO and Head of Market a.i.
Born in 1967, Swiss

Yves Zumwald, Dipl.-Ing., dipl. EPG-EPF in Energy, has been CEO of Swissgrid since March 2016 and interim Head of Market since June 2017. From 2014 to March 2016, he was a member of the Executive Board and Head of Grid. From 2009 to 2014, he was a Board member and Director of the Sales division at the Romande Énergie Group. Before this, he worked at EOS Holding (Énergie Ouest Suisse), where he was responsible for grid usage and grid access, before serving as a member of the Executive Board with responsibility for the Infrastructure department at EOS Réseau. Early on in his professional career, he worked at EOS and Orange Communications.

Affiliations Head of the Electricity department in the Energy division of the Federal Office for National Economic Supply until 28 February 2017, Board member of the European Network of Transmission System Operators (ENTSO-E) since mid-2017 and a member of the Board of Directors of procedural companies (see also section 13 of the statutory financial statements).

Doris Barnert

CFO, Head of Corporate Services
Born in 1969, Swiss

Doris Barnert, architect (ETH Zurich), Master's degree in Corporate Finance and an Executive MBA from the University of St. Gallen (HSG), has been a member of the Executive Board since April 2017. From 2008 to 2017, she was the CFO and member of the Executive Board of Solothurner Spitäler AG. From 2006 to 2008, she was the Head of Finances for the Western Switzerland route in the SBB's Infrastructure division. Prior to this, she managed various projects in the Infrastructure division. She began her professional career in the architectural sector.

Affiliations Foundation Board of CRF Foundation and Board of Directors of procedural companies

Maurice Dierick

Head of Grid
Born in 1964, Dutch

Maurice Dierick, graduate mechanical engineer, has been a member of the Executive Board since June 2016. Prior to this, he was the Head of the Grid Infrastructure department at Swissgrid. From 2012 to 2015, he worked on behalf of Ernst & Young at Western Power in Australia, among others. From 2004 to 2012, he worked as an independent consultant, sometimes in cooperation with consulting companies such as Pöyry, supporting various transformation projects in the area of asset management at German, French and Swiss power supply companies. Before this, he worked as an engineer at major industrial companies in France and Germany until he switched to consulting in 1998, finally for Cap Gemini Ernst & Young in the Netherlands.

Affiliations Deputy Chairman of the Specialist Commission for High Voltage Issues

Rainer Mühlberger

Head of Technology

Born in 1958, Swiss and German

Rainer Mühlberger, graduate mechanical engineer, has been a member of the Executive Board since 2013. Initially, he was in charge of the Strategy & Development department before being appointed Head of the new Technology department in February 2016. He joined Swissgrid in 2011 as Head of Strategy. From 2008 to 2011, he was CEO of Swisscom Directories Ltd. From 2002 to 2007, he served as a member of the Executive Board at Swisscom Fixnet AG – first as Head of Business Development and finally as Head of IT. Before this, he was Project Manager for Corporate Strategy at Swisscom AG.

Affiliations Chairman of the Board of Directors of CESOC AG (in liquidation) and member of the Board of Directors of JAO S.A.

Resignation in the reporting period

Jörg Spicker, Head of Market, on
31 May 2017

Appointment in the reporting period

Doris Barnert, CFO and Head of Corporate Services, on 1 April 2017

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 in paragraphs 8 and 9 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. The Articles of Association can be viewed online at www.swissgrid.ch. There are no statutory regulations that differ from the legal provisions.

External audit

Mandate and fees

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 Annual General Meeting for a one-year term. For its function as auditor, KPMG received remuneration of CHF 169,500 for the last financial year. The total remuneration for additional services amounted to CHF 7,200.

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.

Imprint

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