

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).

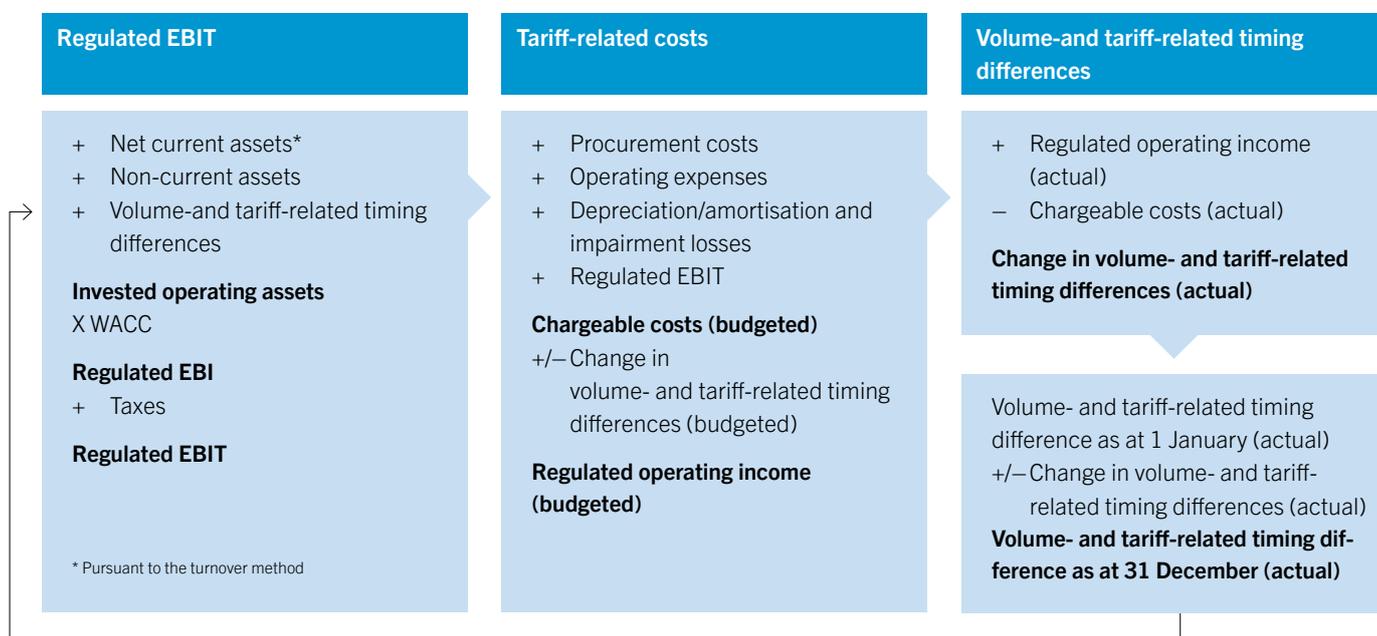
Imputed capital cost rate (WACC)

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

Property, plant and equipment

Property, plant and equipment is recognised at 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, 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. 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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