

Financial Report

<u>14</u>	Management Report
<u>14</u>	Regulatory business model
<u>16</u>	Business performance
<u>17</u>	Risk assessment
<u>18</u>	Future prospects
<u>20</u>	Financial statements Swiss GAAP FER
<u>20</u>	Income statement
<u>21</u>	Balance sheet
<u>22</u>	Cash flow statement
<u>23</u>	Statement of changes in equity
<u>24</u>	Notes
<u>47</u>	Report of the Independent Auditor
<u>52</u>	Statutory financial statements
<u>52</u>	Income statement
<u>53</u>	Balance sheet
<u>54</u>	Cash flow statement
<u>55</u>	Notes
<u>64</u>	Proposed appropriation of retained earnings
<u>65</u>	Report of the Statutory Auditor

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 Switzerland’s 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 relevant supervision by the regulator, Swissgrid’s business activities are overwhelmingly subject to strict regulation.

Business activity

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

Swissgrid 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 allowability 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 liabilities and return on equity (dividends and/or profit retention). The cost-plus regulation therefore leads to a return in the amount of the capital cost rate (WACC).

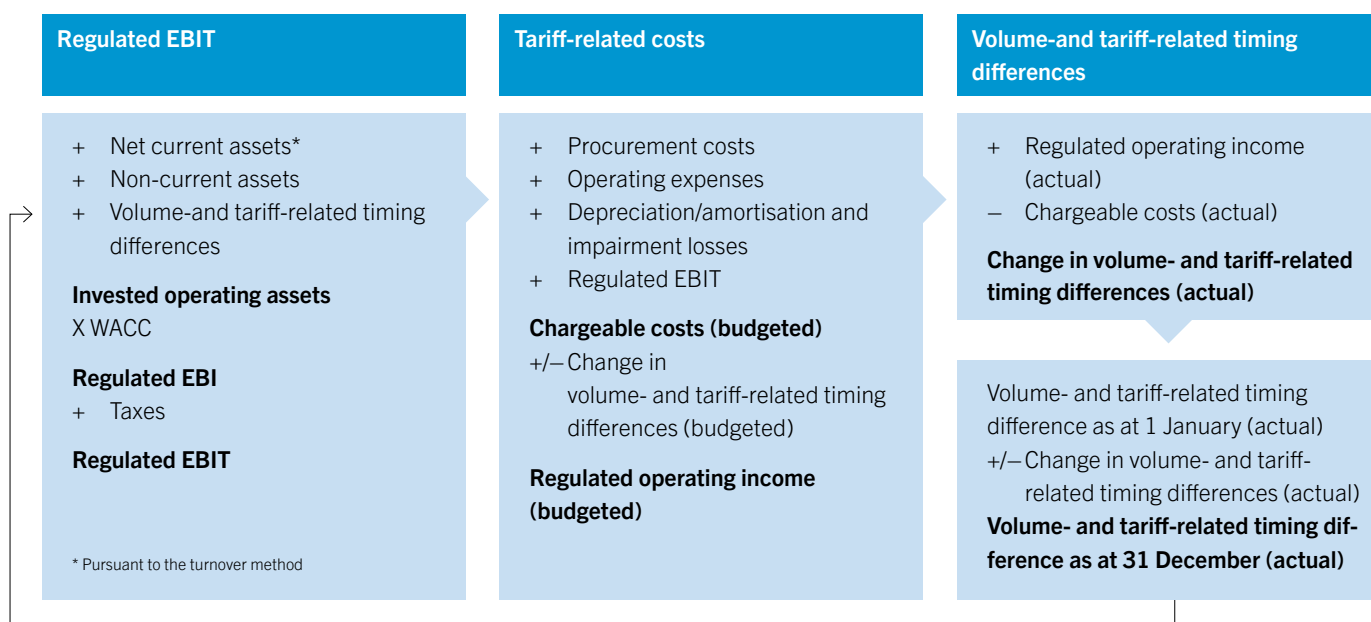
Imputed capital cost rate (WACC)

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 263.4 million, the cost of procurement is CHF 30.7 million lower than the previous year's value of CHF 294.1 million. This decrease is primarily due to the significantly lower costs for the provision of control power in the general ancillary services segment than was the case in 2017.

Costs in the grid utilisation and active power loss segments also fell in the year under review. In the grid utilisation segment, the additional remuneration for operating and capital costs paid to former transmission system owners was lower than in the previous year. By contrast, the cost of procurement in the reactive energy segment increased due to higher quantities being procured compared to the previous year.

Operating expenses and depreciation/amortisation

Operating expenses amounted to CHF 184.9 million, CHF 14.9 million below the previous year's value of CHF 199.8 million.

The decline in operating costs is primarily due to the materials and third-party supplies item, which fell by CHF 11.6 million from 2017. In the 2018 financial year, lower costs were reported for the grid maintenance and substation control services items as well as other services in the grid area than in the previous year. In particular, the connection of additional substations to Swissgrid's grid control system led to a further reduction in costs for substation control services.

Personnel expenses also contributed to a CHF 5.6 million reduction in operating expenses. Pronovo AG directly handled orders in accordance with the Energy Act and issued guarantees of origin for the very first time in 2018. Until 2017, these orders were processed by Swissgrid employees at the CRF Foundation.

This led to a headcount reduction that was reflected in lower personnel costs. The annual average number of full-time equivalents amounts to 460.8 FTE (previous year: 493.7 FTE, of which 40.0 FTE processed orders in accordance with the Energy Act).

Other operating expenses increased by CHF 2.3 million year-on-year. This is due to the costs incurred as a result of the relocation from Laufenburg and Frick to Aarau and the move into Swissgrid's new head office in Aarau in 2018, as well as the higher caps on capital and property tax.

The depreciation/amortisation on property, plant and equipment and intangible assets amounted to CHF 146.3 million in the financial year, an increase of CHF 3.1 million on the previous year. While depreciation/amortisation on property, plant and equipment was similar to last year, depreciation/amortisation of intangible assets amounted to CHF 3.0 million.

Revenue and volume- and tariff-related timing differences

For the 2018 financial year, net turnover across all segments amounts to CHF 907.9 million. Net turnover of CHF 948.2 million was recorded in the previous year.

While net turnover remained steady in the grid utilisation and active power loss segments, revenues fell year-on-year in the other two segments. In the general ancillary services segment, this was due to lower tariff revenues of CHF 24.8 million.

In the reactive energy segment, this drop was the result of a one-off effect: Swissgrid identified that the parties connected directly to the transmission grid had been charged an excessive reactive energy tariff for a number of years. As a result, in the 2018 financial year Swissgrid decided to reimburse the overpaid tariff revenues in the reactive energy segment to the specific invoice recipients affected. This reimbursement led to a CHF 17.5 million reduction in revenue in this segment. By contrast, the general ancillary services tariff in the general ancillary services segment was set too low. Viewed across both segments, this had no effect on Swissgrid's result.

In the 2018 financial year, net surpluses (cumulative surpluses less cumulative deficits) amounted to CHF 221.3 million (previous year: CHF 220.6 million). In particular, the grid utilisation segment recorded surpluses of CHF 219.3 million in 2018. This allowed the deficit of CHF 223.2 million reported at the end of 2017 to be almost entirely eliminated, with CHF 3.9 million now remaining.

The movement in volume- and tariff-related timing differences in the three other segments mutually offset each other: in the general ancillary services segment, the existing surplus increased by an additional CHF 45.3 million, while the existing deficits in the active power loss and reactive energy segments increased by CHF 39.3 million and CHF 4.0 million respectively.

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 WACC defined for 2018 by the Federal Department of Environment, Transport, Energy and Communications (DETEC) remains unchanged at 3.83%. The IOA fell year-on-year due to the net surpluses reported in the 2018 financial year. As a result, the 2018 EBIT of CHF 119.4 million is slightly below the previous year's CHF 124.9 million. The lower financial expenditure in 2018 compared to 2017 due to the first partial repayment of convertible loans resulted in net income of CHF 65.6 million; CHF 0.3 million higher than in the previous period.

Balance sheet and cash flow statement

Total assets (excluding fiduciary items) fell by CHF 90 million compared to the previous year to CHF 3.005 billion. As was the case in previous years, the absolute equity base was strengthened by the positive net income less the dividends paid. Adjusted for the balance sheet items held on a fiduciary basis and volume- and tariff-related timing differences, the equity ratio as at 31 December 2018 amounts to 38.0% (35.5% as at 31 December 2017). The reduction in financial liabilities caused by the first partial repayment of convertible loans of CHF 142.2 million at the start of the 2018 financial year had a positive effect on the equity ratio.

Cash flow from operating activities was very positive at CHF 451.2 million. The previous year's amount of CHF 13.9 million is impacted negatively by the monetary settlement of the CHF 417.4 million in remuneration following the implementation of the 20 October 2016 EICOM ruling. Adjusted for this amount, cash flow from operating activities increased by CHF 19.9 million compared to the previous year.

Cash flow from investing activities amounted to CHF 258.7 million in the year under review; a CHF 58.4 million increase on the previous year. This was due to larger investments in property, plant and equipment.

Cash flow from financing activities increased by CHF 145.5 million to CHF 211.1 million year-on-year. This was due to the first partial repayment of convertible loans in the amount of CHF 142.2 million.

Risk assessment

Risk management is an integral part of effective and prudent corporate management for Swissgrid. Swissgrid's risk management covers the entire organisation, not including its subsidiaries and shareholdings. It is based on the established ISO 31000 and COSO ERM standards and meets the requirements of corporate governance as well as the requirements under Swiss law.

Objectives

The Risk Management unit assists managers 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. Enterprise Risk Management was integrated into the Crisis Management & Business Continuity unit at the start of 2019. The head of Enterprise Risk Management manages the risk management process together with a team of local 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 the evaluation of risks based on the probability of their occurrence and the extent of their impact, as well as the definition of strategies to manage said risks.

Risk monitoring, including the effectiveness and level of implementation of the measures taken, is performed as part of regular risk updates. The Executive Board and the Board of Directors receive the results of the risk assessment and the risk updates 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 underlying economic conditions in the sector, and in European market structural developments.

Digitisation 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. Due to the lack of an electricity agreement with the EU, the Swiss electricity system finds itself increasingly excluded from important processes affecting grid security in Europe. This jeopardises system stability and import capacity in the medium term. There is also the risk of exclusion from the planned European control energy partnerships. Without an electricity agreement, it remains difficult to assert Swiss interests.

Implementation of the "Strategic Grid 2025"

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. And yet, 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.

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 grid 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 or insolvency on the part of market players, 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 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 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 is reduced through natural hedging and forward exchange transactions. The hedging strategy is periodically reviewed and updated as needed.

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

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 focus on implementing Strategy 2022. The company is implementing measures across four areas of focus: "Safety for people, systems and the environment", "Integrated plant and system operations", "Intelligent use of new technologies" and "Close cooperation with partners in Switzerland and Europe".

Swissgrid intends to concentrate on the following safety aspects in 2019: the company will lay the groundwork for better physical protection of substations. Personnel protection is also a top priority: high safety standards are integral to all of Swissgrid's operations as well as those of all its service providers. The company also consistently implements cyber security measures to reduce the risk of attacks.

With the implementation of Strategy 2022, Swissgrid is driving the integration of system operation and the market, for which it provided an organisational outline on 1 January 2019. All of the processes required to complete this integration will be implemented in the coming year. As part of system management, Swissgrid is implementing its fine-tuned business model to establish the foundation for necessary grid investments, and to increase efficiency.

Modernisation of the transmission grid does not just involve infrastructure expansion and upgrades, but also the use of new technologies. Digitisation and automation offer Swissgrid new opportunities to better use the existing grid infrastructure. In 2019, the company will be able to test dynamic line rating for the very first time. This process allows an increase in grid capacity, using temperature measurements to more accurately control the load on the lines. The company will also digitise its system documentation.

Collaborations with partners in Switzerland and Europe are an especially important element of Strategy 2022. The aim is to secure Switzerland's access to Europe's internal electricity market while simultaneously developing new markets. In 2019, Swissgrid will join forces with Italy to launch a new intraday auction for assigning capacities at their mutual border. At the same time, the company will consolidate all manually requested products for frequency control and redispatch in an integrated market.

Research and development

Swissgrid collaborates with national and international research institutions to ensure that it can 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

Swissgrid continues to implement its Strategy 2022 as communicated in the spring of 2018. This includes efficiency increases as well as measures to secure the supply of electricity and improve the safety of people, systems and the environment. Implementing these measures will lead to a rise in operating costs.

EBIT and net income

Based on the regulatory business model, EBIT is directly dependent on the invested operating assets (IOA) as well as the weighted average capital cost rate (WACC). The WACC communicated by the Federal Department of Environment, Transport, Energy and Communications (DETEC) for 2019 remains unchanged at 3.83%. As a result, EBIT and net income at the level achieved in 2018 is expected for 2019.

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

Grid acquisitions

A further transfer of individual grid assets took place at the start of 2019. These are transmission system assets that could not be transferred to Swissgrid earlier for various reasons. The first valuation adjustment of these transferred transmission systems will take place in autumn 2019, similar to previous grid acquisitions. However, any effects on Swissgrid's balance sheet (increase in non-current assets, equity and liabilities) 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	2018	2017
Net turnover	4, 5	907.9	948.2
Other operating income	4, 6	12.8	19.8
Change in volume- and tariff-related timing differences	4, 15	-221.3	-220.6
Capitalised self-constructed assets		14.6	14.6
Total operating income		714.0	762.0
Procurement costs	4, 5	263.4	294.1
Gross profit		450.6	467.9
Cost of materials and third-party supplies	7	72.9	84.5
Personnel expenses	8	82.6	88.2
Other operating expenses	9	29.4	27.1
Earnings before interest, income taxes, depreciation and amortisation		265.7	268.1
Depreciation on property, plant and equipment	13	116.2	116.1
Amortisation on intangible assets	13	30.1	27.1
Earnings before interest and income taxes (EBIT)	4	119.4	124.9
Financial income	10	0.8	0.4
Financial expenses	11	39.3	44.7
Earnings before income taxes		80.9	80.6
Income taxes	12	15.3	15.3
Net income		65.6	65.3

Earnings per share

CHF	2018	2017
Net income	65,636,044	65,336,297
Weighted average number of shares outstanding	318,134,905	317,917,131
Non-diluted earnings per share	0.21	0.21
Dilution from the conversion of the convertible loans	-0.03	-0.04
Diluted earnings per share	0.18	0.17

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 27.5 million (previous year: CHF 33.1 million). Given that income taxes are allowable in Swissgrid's regulated business model, the conversion would have increased net income by CHF 27.5 million

(previous year: CHF 33.1 million). At the same time, the average number of shares outstanding would have increased by 214,045,206 units (previous year: 267,223,122 units). This leads to a potential dilution of CHF -0.03 per share (previous year: CHF -0.04 per share).

Balance sheet

Assets

In millions of CHF	Notes	31.12.2018	31.12.2017
Property, plant and equipment	13	2,372.1	2,247.9
Intangible assets	13	166.3	174.9
Financial assets	14	10.7	10.9
Long-term deficits arising from volume- and tariff-related timing differences	15	91.8	132.8
Non-current assets		2,640.9	2,566.5
Assets held on fiduciary basis	16	17.9	46.6
Short-term deficits arising from volume- and tariff-related timing differences	15	3.9	138.9
Inventory		1.3	2.1
Trade accounts receivable	17	142.7	158.2
Other receivables	18	1.5	2.5
Prepaid expenses and accrued income	19	57.0	49.5
Cash and cash equivalents		157.6	176.2
Current assets		381.9	574.0
Assets		3,022.8	3,140.5

Equity and liabilities

In millions of CHF	Notes	31.12.2018	31.12.2017
Share capital		318.1	317.9
Capital reserves		404.5	404.0
Retained earnings		383.5	347.3
Total equity		1,106.1	1,069.2
Non-current financial liabilities	20	1,425.6	1,570.0
Non-current provisions	21	30.0	32.4
Non-current surpluses arising from volume- and tariff-related timing differences	15	123.9	83.0
Non-current liabilities		1,579.5	1,685.4
Liabilities held on fiduciary basis	16	17.9	46.6
Current financial liabilities	20	145.2	142.2
Trade accounts payable		70.0	53.5
Other liabilities	22	6.4	13.4
Accrued expenses and deferred income	23	88.9	125.0
Current provisions	21	2.5	3.3
Current surpluses arising from volume- and tariff-related timing differences	15	6.3	1.9
Current liabilities		337.2	385.9
Total liabilities		1,916.7	2,071.3
Equity and liabilities		3,022.8	3,140.5

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2018	2017
Net income		65.6	65.3
Financial expenses	11	39.3	44.7
Financial income	10	-0.8	-0.4
Current income taxes	12	17.0	26.4
Depreciation and amortisation	13	146.3	143.2
Change in provisions	21	-3.2	-13.3
Change in inventory		0.8	-
Change in trade accounts receivable		15.5	15.3
Change in other receivables		1.0	3.2
Change in prepaid expenses and accrued income		-7.5	-6.0
Change in volume- and tariff-related timing differences	4, 15	221.3	220.6
Change in trade accounts payable		16.5	-442.4
Change in other current liabilities		-7.0	1.1
Change in accrued expenses and deferred income		-29.0	-22.4
Income taxes paid		-24.6	-21.4
Cash flow from operating activities		451.2	13.9
Gross investments in property, plant and equipment		-238.2	-170.0
Congestion proceeds received for grid investments		-	-
Net investments in property, plant and equipment	13	-238.2	-170.0
Divestment in property, plant and equipment		1.0	-
Gross investments in intangible assets		-26.1	-30.5
Congestion proceeds received for grid investments		-	-
Net investments in intangible assets	13	-26.1	-30.5
Divestment in intangible assets		3.9	-
Investments in financial assets		-	-0.1
Divestment in financial assets		0.1	-
Dividends received		0.6	0.3
Cash flow from investing activities		-258.7	-200.3
Change in current financial liabilities		-143.1	-
Change in non-current financial liabilities		-	0.1
Interest paid		-38.6	-43.9
Dividends paid		-29.4	-21.8
Cash flow from financing activities		-211.1	-65.6
Change in cash and cash equivalents		-18.6	-252.0
Composition			
Cash and cash equivalents at beginning of period		176.2	428.2
Cash and cash equivalents at end of period		157.6	176.2
Change in cash and cash equivalents		-18.6	-252.0

Investing and financing activities not affecting cash

The purchase consideration of CHF 2.5 million for the transfer of additional parts of the transmission grid was settled 30% in Swissgrid shares and 70% in loans (cf. Note 13).

Statement of changes in equity

In millions of CHF	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 31.12.2016	317.9	404.0	303.7	1,025.6
Allocation	–	–	–	–
Dividends paid	–	–	–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
Allocation	–	–	–	–
Dividends paid	–	–	–29.4	–29.4
Capital increases (minus transaction costs)	0.2	0.5	–	0.7
Net income 2018	–	–	65.6	65.6
Balance at 31.12.2018	318.1	404.5	383.5	1,106.1

The share capital consists of 318,141,670 (previous year: 317,917,131) fully paid-up registered shares with a par value of CHF 1 per share. As at 31 December 2018, Swissgrid has conditional share capital of a maximum of CHF 128,400,912, divided into 128,400,912 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).

Capital increase based on contributions in kind

The share capital was increased by CHF 0.2 million to enable the transfer of additional parts of the transmission grid as of 3 January 2018. The issue price was CHF 0.7 million.

Capital increase from conditional capital

The change to the Articles of Association to create conditional share capital of CHF 128.4 million was entered into the commercial register on 3 January 2018. The conditional capital was created to exercise conversion rights to be assigned to creditors of convertible loans. In November 2018, conditional share capital was used to perform a capital increase with a nominal value of CHF 9,020 (valuation adjustment 1). The issue price was CHF 0.06 million. The amount of the capital increase corresponds to the value after recognising the equity transaction costs (CHF 0.03 million) as a reduction in capital reserves.

Notes

1. Accounting principles

General information

The 2018 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. Swissgrid's relocation of its head office from Laufenburg to Aarau was entered into the commercial register on 9 July 2018.

Changes in accounting estimates At the start of the 2018 financial year, Swissgrid updated its capitalisation policy in effect since 1 January 2013 as part of grid acquisitions. The policy applicable from 1 January 2018 resulted in additional capitalisation of approximately CHF 5 million for 2018 compared to the previous policy.

Changes to accounting principles Swissgrid uses futures to partially hedge the EUR/CHF currency risk from expected future income in euros. Up to the 2017 financial year, these futures were recognised at their market value immediately after conclusion and the subsequent measurements were reported in the income statement. This meant that the resulting effects from the underlying transaction and the hedging transaction were not simultaneously reported in the income statement. As a result, Swissgrid decided to apply hedge accounting from the 2018 financial year (cf. more information in the notes on the derivative financial instruments). The previous year's figures have been adjusted accordingly. For further information see Note 16.

Conversion of foreign currency items

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 grid or reported from downstream grid levels.

For certain revenue and procurement items, initial billing 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 of the Federal Electricity Supply Act (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 of 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 activities related to the Federal Electricity Supply Act (StromVG) 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, non-current assets as of the end of the financial year and the cumulative volume- and tariff-related timing differences. 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 2018, the applied WACC based on this calculation is unchanged from the previous year at 3.83%.

The allowability 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 with the possibility of appeal to the Federal Supreme 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 service life. The service 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 service life.

The service 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 indication of an impairment loss, the book value is reduced to the realisable value and an impairment loss is charged to the result of the period.

Plants under construction/intangible assets in progress

Plants under construction and intangible assets in progress are non-current 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 investments are measured at acquisition costs less any impairment losses. 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 impairment losses required for business reasons.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at banks and deposits at banks maturing in 90 days or less. They are recognised at their nominal 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 deferrals 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 counter-value 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 pension fund 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).

Derivative financial instruments

Swissgrid uses derivative financial instruments to hedge against currency and interest rate risks. If the conditions are met, Swissgrid will apply hedge accounting to hedge expected future cash flows. The instruments used for this purpose will be disclosed in the notes to the financial statements until the underlying transaction is realised.

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/acrued 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 items 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

EICOM launched proceedings to examine the 2011 and 2012 volume- and tariff-related timing differences on 5 February 2013 and 18 June 2013 respectively. The proceedings were suspended until the legally binding conclusion of the 2009 to 2012 cost and tariff proceedings. EICOM has not yet initiated any proceedings to examine the volume- and tariff-related timing differences for the years from 2013 to 2018. These proceedings will include an examination of the allowability of Swissgrid's capital and operating costs. The outcome of these proceedings could result in a reduction of Swissgrid's allowable costs.

In the previous year, Swissgrid estimated the cumulative risk for non-allowable costs at CHF 209.8 million. This is primarily based on the last available cost basis approved by EICOM from 2010.

Swissgrid updated its risk assessment and the approach for quantifying the risk on 31 December 2018, which resulted in a cumulative risk for non-allowable costs for 2011 to 2018 of CHF 110 million. Swissgrid's equity situation is therefore not jeopardised, even in the event that the maximum risk of CHF 110 million occurs.

Moreover, EICOM ruled that it would systematically examine Swissgrid's capital costs from 2013 to 2015, the volume- and tariff-related timing differences in the grid utilisation segments from 2013 to 2015, and the ancillary services from 2011 to 2015. This process will not include an examination of the cost amount, but rather will investigate the compatibility of the processes and operations with electricity supply legislation and enact corrections where necessary. However, any corrections ordered by EICOM could have an impact on costs. At the start of December 2018, EICOM submitted a test report on Swissgrid's processes and operations to calculate the capital costs and the volume- and tariff-related timing differences, requesting that Swissgrid provide an opinion. A statement as to whether, and the extent to which, this systematic examination will result in a reduction of Swissgrid's allowable costs was not possible at the time the financial statements were prepared.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2018 were incurred within the framework of Swissgrid's legal mandate and should therefore qualify as allowable. Equally, Swissgrid believes that its processes and operations relating to the calculation of the capital and volume- and tariff-related timing differences are compatible with electricity supply legislation. Based on this assessment, Swissgrid has treated all operating and capital costs as allowable 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-allowable, this would be reflected no earlier than in the 2020 financial statements.

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.

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 2018

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	907.9	619.4	228.1	34.3	32.6	-6.5	907.9	-
Other operating income	12.8	2.3	0.3	0.1	0.1	-	2.8	10.0
Volume- and tariff-related timing differences	-221.3	-219.3	-62.8	39.3	21.5	-	-221.3	-
Total operating income	699.4	402.4	165.6	73.7	54.2	-6.5	689.4	10.0
Procurement costs	-263.4	-3.2	-147.8	-68.6	-50.3	6.5	-263.4	-
Gross profit	436.0	399.2	17.8	5.1	3.9	-	426.0	10.0
Operating expenses	-170.3	-143.1	-14.6	-2.2	-2.5	-	-162.4	-7.9
Depreciation/amortisation and impairment losses	-146.3	-139.7	-4.3	-0.3	-0.3	-	-144.6	-1.7
Earnings before interest and income tax (EBIT)	119.4	116.4	-1.1	2.6	1.1	-	119.0	0.4

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	907.9	619.4	228.1	34.3	32.6	-6.5	907.9	-
Other operating income	12.8	2.3	0.3	0.1	0.1	-	2.8	10.0
Procurement costs	-263.4	-3.2	-147.8	-68.6	-50.3	6.5	-263.4	-
Operating expenses	-170.3	-143.1	-14.6	-2.2	-2.5	-	-162.4	-7.9
Depreciation/amortisation and impairment losses	-146.3	-139.7	-4.3	-0.3	-0.3	-	-144.6	-1.7
Return on operating assets (EBIT)	-119.4	-116.4	1.1	-2.6	-1.1	-	-119.0	-0.4
Volume- and tariff-related timing differences	221.3	219.3	62.8	-39.3	-21.5	-	221.3	-

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

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	0.0

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 items 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 is also assigned the income from auctioning bottleneck capacities at the national borders to reduce the allowable grid costs, provided that this purpose is approved by ElCom. This segment also includes part of the compensation for international transit flows (ITC); the other part flows to the active power losses segment.

The net turnover in this segment of CHF 619.4 million is close to the CHF 621.4 million reported in the previous year. However, the following shifts have occurred in the income sources previously mentioned: firstly, tariff revenues fell by CHF 41.4 million compared to 2017 and secondly, Swissgrid was able to increase income from auctions by CHF 34.1 million to CHF 170.1 million in 2018 compared to the previous year. The income from the compensation for ITC increased by CHF 5.3 million year-on-year.

The cost of procurement in the 2018 financial year is CHF 3.2 million below the previous year's value of CHF 15.1 million, which is due to the lower additional remuneration for operating and capital costs to former transmission system owners.

In 2018, the total costs for this segment were once again well below the income generated. The CHF 223.2 million deficit that existed on 31 December 2017 was largely eliminated by CHF 219.3 million, leaving a residual deficit of CHF 3.9 million.

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 of CHF 147.8 million are CHF 29.3 million below the level reported in 2017. This decrease is due to a significant drop in the costs for control power provision. The expenses relating to general ancillary services (AS) are primarily covered by tariff revenues. In 2018, net turnover fell from the previous year due to a decline in tariff revenues from CHF 240.8 million to CHF 228.1 million.

Despite the decline in revenue, the fact that costs fell further than net turnover in the year under review resulted in a surplus of CHF 62.8 million. As at 31 December 2018, the surplus in this segment amounts to CHF 130.2 million.

Active power losses (individual ancillary services) This segment reports expenses and income for active power losses in the transmission grid. In addition to tariff revenues, part of the income from ITC flows into this segment. 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 68.6 million (previous year: CHF 80.4 million). In the previous year, this item was also negatively affected by the inclusion of supplemental compensation of CHF 10 million. Adjusted for this one-off effect, the procurement costs in 2018 are similar to those reported the previous year.

Net turnover of CHF 34.3 million in this segment is only marginally higher than in the previous year (CHF 34.0 million). In 2018, the costs in this segment were once again well above income, which is the reason for the CHF 39.3 million increase in the deficit to CHF 69.2 million.

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

In this segment, net turnover declined by CHF 40.1 million year-on-year. The reasons for this include lower income of CHF 22.5 million via the general AS tariff as well as the negative tariff income for reactive energy of CHF –13.3 million in the financial year (previous year: CHF 4.3 million). The negative tariff income for reactive energy was the result of a reversal in excess reactive energy tariffs charged to parties that were directly connected to the transmission grid in the past and during the 2018 financial year. By contrast, the calculated general AS tariff in the general ancillary services/balance energy segment was too low. As a result, in the 2018 financial year Swissgrid decided to reimburse the overpaid tariff revenues in the reactive energy segment to the specific invoice recipients affected. Accordingly, the reversal led to a CHF 17.5 million reduction in turnover from the tariff income for reactive energy. The resulting deficit of the same amount will be transferred to the general ancillary services/balance energy segment to reduce the existing surplus (cf. Note 15). Viewed across both segments, this had no effect on Swissgrid's result.

The reactive energy segment recorded a deficit of CHF 21.5 million in 2018. Less the aforementioned CHF 17.5 million deficit transfer to the general ancillary services/balance energy segment, this resulted in a deficit of CHF 22.6 million as at 31 December 2018.

5. Net turnover and cost of procurement according to StromVG

In millions of CHF	Segment	2018	2017
Tariff income for grid utilisation	A	434.4	475.8
Net income from ITC	A/C	19.1	12.3
Income from auctions for the reduction of chargeable grid costs	A	170.1	136.0
Tariff income for general ancillary services (AS) and income from unintentional deviation	B/D	183.3	229.4
Income from balance group/balance energy	B	90.7	79.8
Tariff income for active power losses	C	30.1	31.3
Tariff income for reactive energy	D	-13.3	4.3
Eliminations		-6.5	-20.7
Net turnover		907.9	948.2
Operating expenses for transmission system	A	1.8	1.6
Capital expenses for transmission system	A	1.4	13.5
Expenses for AS control power provision and unintentional deviation	B	79.0	135.4
Expenses for automatic start-up/island operation capability	B	1.1	1.1
Expenses for grid enhancement	B	20.5	13.0
Expenses for AS energy	B	47.2	27.6
Expenses for compensation of active power loss	C	68.6	80.4
Expenses for reactive energy/voltage maintenance	D	50.3	42.2
Eliminations		-6.5	-20.7
Procurement costs		263.4	294.1

Letters used for segment allocation:

- A = Grid utilisation
- B = General ancillary services/balance energy
- C = Active power losses (individual ancillary services)
- D = Reactive energy (individual ancillary services)

Segment reporting is provided in Note 4.

Income from ITC consists of the following:

- Compensation for grid utilisation (A) CHF 14.9 million (previous year: CHF 9.6 million)
- Compensation for active power losses (C) CHF 4.2 million (previous year: CHF 2.7 million)

The ITC compensation for grid utilisation and active power losses corresponds to the net income. Supervision charges paid to ElCom and to the Swiss Federal Office of Energy (SFOE) in the amount of CHF 4.8 million (previous year: CHF 4.5 million) are deducted from the gross income of CHF 18.6 million for grid utilisation (previous year: CHF 13.1 million) and CHF 5.3 million for active power loss (previous year: CHF 3.7 million).

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

- General AS (B): CHF 137.4 million (previous year: CHF 161.0 million)
- Reactive energy (D): CHF 45.9 million (previous year: CHF 68.4 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	2018	2017
Handling the orders in accordance with the Energy Act	–	6.6
Congestion management clearing	10.0	7.3
Issuance of guarantees of origin for renewable energies	–	4.9
Other	2.8	1.0
	12.8	19.8

Pronovo AG directly handled orders in accordance with the Energy Act and issued guarantees of origin for the very first time in 2018.

7. Cost of materials and third-party supplies

In millions of CHF	2018	2017
Grid maintenance	24.6	29.4
Grid system control	4.2	5.4
Other services in the grid area	8.7	14.9
Expenses for projects, advisory and non-cash benefits	25.5	25.6
Hardware/software maintenance	9.9	9.2
	72.9	84.5

Overall, lower costs were reported in relation to the grid than in the previous year. Besides lower costs for grid maintenance and other services, the connection of additional substations to Swissgrid's grid control system also allowed for a reduction in the costs for substation control services.

Other grid-related services include, in particular, easement management services performed by third parties and operating expenses for mixed-use systems.

8. Personnel expenses

In millions of CHF	2018	2017
Salaries, bonuses, allowances	67.2	71.3
Employee insurance	12.1	13.1
Other personnel expenses	3.3	3.8
	82.6	88.2
Headcount at 31.12.		
Permanent employment:		
Number of employees		
for core business (StromVG)	482	459
for the handling of the orders in accordance with the Energy Act (EnG)	0	44
	482	503
expressed as full-time equivalents:		
for core business (StromVG)	464.0	442.1
for the handling of the orders in accordance with the Energy Act (EnG)	0.0	41.1
	464.0	483.2
Fixed-term employment:		
Number of employees		
for core business (StromVG)	8	14
for the handling of the orders in accordance with the Energy Act (EnG)	0	1
	8	15
expressed as full-time equivalents:		
for core business (StromVG)	7.0	12.9
for the handling of the orders in accordance with the Energy Act (EnG)	0.0	0.8
	7.0	13.7

Pronovo AG directly handled orders in accordance with the Energy Act and issued guarantees of origin for the very first time in 2018. Pronovo AG took on the employees required for processing from Swissgrid.

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

Executive Board remuneration

In millions of CHF	2018	2017
Fixed remuneration (incl. lump-sum expenses)	1.25	1.27
Variable remuneration	0.64	0.65
Non-cash benefits ¹	0.01	0.01
Pension benefits ²	0.25	0.31
Total remuneration to the Executive Board	2.15	2.24
Of which to the highest-earning member of the Executive Board		
Fixed remuneration (incl. lump-sum expenses)	0.43	0.42
Variable remuneration	0.22	0.21
Pension benefits ²	0.11	0.10
Total remuneration to the highest-earning member of the Executive Board	0.76	0.73

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	2018	2017
Rental and occupancy costs	9.4	7.3
Ground rents	4.1	4.4
Rental costs for communication equipment/telecommunication expense	4.0	3.7
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	2.0
Fees, dues and licences	5.0	4.0
Insurance	1.5	2.1
Other administrative costs	2.6	2.8
	29.4	27.1

The comparatively higher costs in the rental and occupancy costs item compared to the previous year are due to the costs of relocating from Laufenburg and Frick to Aarau, as well as those costs associated with the move into Swissgrid's new head office in Aarau. 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 65,000 pro rata temporis for 2018, 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	2018	2017
Interest income	–	–
Other financial income	0.8	0.4
	0.8	0.4

Other financial income includes a dividend of CHF 0.6 million (previous year: CHF 0.3 million) from Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT).

11. Financial expenses

In millions of CHF	2018	2017
Bond interest	10.3	10.3
Loans and convertible loans interest	27.6	33.1
Commitment fees	0.5	0.5
Other financial expenses	0.9	0.8
	39.3	44.7

The first partial repayment of convertible loans of CHF 142.2 million occurred at the start of the 2018 financial year, while the interest expense for convertible loans and loans declined accordingly.

12. Income taxes

In millions of CHF	2018	2017
Current income taxes	17.0	26.4
Change in deferred taxes	–1.7	–11.1
	15.3	15.3

Valuation differences, which arose as part of the transfer of transmission systems as at 3 January 2013, between the valuations according to Swiss GAAP FER and the applicable tax values were recorded in the previous year. In 2018, the current and deferred income taxes normalised once again. The average tax rate based on the ordinary result amounts to 18.9% (previous year: 19.0%).

13. Non-current assets

Summary of plant, property and equipment – 2018

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2018	303.9	1,932.3	2,490.5	175.5	60.6	4,962.8
Additions	151.9	18.1	17.2	48.2	5.2	240.6
Disposals	–	–1.7	–0.8	–10.1	–10.2	–22.8
Reclassification	–100.2	48.3	29.1	20.6	3.0	0.8
Acquisition cost at 31.12.2018	355.6	1,997.0	2,536.0	234.2	58.6	5,181.4
Accumulated depreciation and amortisation at 1.1.2018	4.9	1,103.6	1,476.7	76.7	53.0	2,714.9
Depreciation and amortisation	–	63.1	42.2	5.5	5.4	116.2
Impairment losses	–	–	–	–	–	–
Disposals	–	–1.3	–0.5	–10.0	–10.0	–21.8
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2018	4.9	1,165.4	1,518.4	72.2	48.4	2,809.3
Net book value at 1.1.2018	299.0	828.7	1,013.8	98.8	7.6	2,247.9
Net book value at 31.12.2018	350.7	831.6	1,017.6	162.0	10.2	2,372.1

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

In 2018, Swissgrid acquired additional tangible assets as part of the transmission grid amounting to CHF 2.4 million (previous year: no grid asset transfers) and remunerated this amount with 30% in shares and 70% in loans.

In addition, gross investment in property, plant and equipment amounted to CHF 238.2 million (previous year: CHF 170.0 million). Of this, no investments were financed by proceeds from the auctioning of

bottleneck capacities for cross-border supplies, as was the case in the previous year.

In the year under review, project costs of CHF 0.8 million were reclassified from intangible assets in progress to plants under construction (previous year: CHF 2.3 million were reclassified from plants under construction to intangible assets in progress).

Property, plant and equipment of CHF 20.0 million (previous year: CHF 32.3 million) was purchased from related parties in 2018.

Summary of intangible assets – 2018

In millions of CHF	Intangible assets under development			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2018	19.9	9.2	29.1	144.7	–	144.7
Additions	9.6	5.4	15.0	4.3	–	4.3
Disposals	–	–	–	–	–	–
Reclassification	–11.9	–2.9	–14.8	2.6	–	2.6
Acquisition cost at 31.12.2018	17.6	11.7	29.3	151.6	–	151.6
Accumulated depreciation and amortisation at 1.1.2018	–	–	–	59.3	–	59.3
Depreciation and amortisation	–	–	–	5.3	–	5.3
Impairment losses	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2018	–	–	–	64.6	–	64.6
Net book value at 1.1.2018	19.9	9.2	29.1	85.4	–	85.4
Net book value at 31.12.2018	17.6	11.7	29.3	87.0	–	87.0

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

In 2018, Swissgrid acquired additional intangible assets as part of the transmission grid amounting to CHF 0.1 million (previous year: no grid asset transfers) and remunerated this amount with 30% in shares and 70% in loans.

Gross investments in intangible assets amounted to CHF 26.1 million (previous year: CHF 30.5 million). Of this, no investments were financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies, as was the case the previous year.

In 2018, services for intangible assets of CHF 0.6 million (previous year: CHF 1.2 million) were purchased from related parties.

Software			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
127.9	41.0	168.9	292.5	50.2	342.7
5.3	1.6	6.9	19.2	7.0	26.2
-18.3	-1.3	-19.6	-18.3	-1.3	-19.6
9.2	2.2	11.4	-0.1	-0.7	-0.8
124.1	43.5	167.6	293.3	55.2	348.5
87.8	20.7	108.5	147.1	20.7	167.8
16.8	8.0	24.8	22.1	8.0	30.1
-	-	-	-	-	-
-14.7	-1.0	-15.7	-14.7	-1.0	-15.7
-	-	-	-	-	-
89.9	27.7	117.6	154.5	27.7	182.2
40.1	20.3	60.4	145.4	29.5	174.9
34.2	15.8	50.0	138.8	27.5	166.3

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

14. Financial assets

In millions of CHF	31.12.2018	31.12.2017
Shareholdings	8.7	8.9
Employer contribution reserves	2.0	2.0
	10.7	10.9

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

		Share capital in m.	Share in %
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/Aarau ¹	A	0.100	100.0
Alpiq Réseau SA Lausanne/Aarau ²	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/Aarau AG ³	A	0.100	100.0

Letters used for locations and currencies:

A = Aarau (formerly Laufenburg, CH) | Currency: CHF

B = Luxembourg (Lux) | Currency: EUR

C = Munich (D) | Currency: EUR

D = Paris (F) | Currency: EUR

E = Frick (CH) | Currency: CHF

¹ formerly Alpiq Netz AG Gösgen/Laufenburg

² formerly Alpiq Réseau SA Lausanne/Laufenburg

³ formerly Übertragungsnetz Basel/Laufenburg AG

Swissgrid's relocation also involved moving the head office for all the procedural companies from Laufenburg to Aarau (cf. letter A). CESOC AG was also liquidated in the year under review.

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 met, 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 31.12.2016	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
Change in 2018	-219.3	-62.8	39.3	21.5	-221.3		
Reclassification	-	17.5	-	-17.5	-		
Balance at 31.12.2018	3.9	-130.2	69.2	22.6	-34.5	-130.2	95.7
Current portion	3.9	-6.3	-	-	-2.4	-6.3	3.9

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.

Explanations on the transfers item are provided in Note 4 on the reactive energy segment (individual ancillary services).

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	31.12.2018	31.12.2017 restated*
Trade accounts receivable	6.4	11.0
Other receivables	0.2	0.2
Cash and cash equivalents	11.3	35.4
	17.9	46.6

Liabilities held on fiduciary basis

In millions of CHF	31.12.2018	31.12.2017 restated*
Trade accounts payable	9.9	8.3
Other liabilities	–	0.1
Accrued expenses and deferred income	8.0	38.2
	17.9	46.6

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

In millions of CHF	2018	2017 restated*
Share of revenue Switzerland	151.1	166.3
Congestion management clearing	–11.5	–7.8
Net proceeds	139.6	158.5
Used for reduction of the chargeable grid costs	–132.6	–121.0
Undistributed income from auctions	7.0	37.5

* As explained in Note 1, the futures open on the cut-off date are now only recognised in the accounts at the time the underlying transaction is realised. The previous year must be adapted accordingly: in the 2017 income statement, the “Share of revenue Switzerland” and consequently the provisional result “Net proceeds” items reported an increase of CHF 5.7 million, while the used for reduction of the allowable grid costs item reported a reduction of CHF 1.0 million. This resulted in an increase in the undistributed income from auctions item of CHF 4.7 million. Consequently, the accrued expenses and deferred income in the balance sheet increased by CHF 4.7 million, as this includes the undistributed income from auctions amount. By contrast, other liabilities fell by CHF 4.7 million, as the negative replacement values are no longer recognised in the accounts.

Pursuant to the EICOM letter of approval issued on 9 February 2017, CHF 132.6 million (previous year: CHF 121.0 million) in income from auctions in 2018 was paid to Swissgrid in the financial year to cover the allowable costs of the transmission system. CHF 7.0 million (previous year: CHF 37.5 million) in undistributed income from auctions collected by Swissgrid in 2018 to cover the allowable costs of the transmission system will be carried forward to 2019.

To partially hedge the EUR/CHF currency risk from expected future income in euros, derivative financial instruments (futures) in the nominal amount of EUR 66.5 million exist as at the balance sheet date. The positive replacement values amount to CHF 1.7 million as at 31 December 2018 (previous year: negative replacement values of CHF 4.7 million).

17. Trade receivables

In millions of CHF	31.12.2018	31.12.2017
Trade receivables	142.7	158.2
Specific valuation allowances	–	–
	142.7	158.2

18. Other receivables

In millions of CHF	31.12.2018	31.12.2017
Security deposits on blocked bank accounts	1.1	2.4
Other	0.4	0.1
	1.5	2.5

19. Prepaid expenses and accrued income

In millions of CHF	31.12.2018	31.12.2017
Accrued revenue for supplies made	54.1	46.4
Other	2.9	3.1
	57.0	49.5

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. Financial liabilities

In millions of CHF	31.12.2018	31.12.2017
Bonds	850.0	850.0
Convertible loans	720.7	862.1
Loans	0.1	0.1
Total financial liabilities	1,570.8	1,712.2
Current portion	145.2	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 nine years and one-fifth of the loans become payable annually from year five. As a result, the first partial repayment of convertible loans, amounting to CHF 142.2 million, was made at the start of the 2018 financial year. 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%	145.2	544.4	31.1
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 2018.

21. Provisions

In millions of CHF	Restructuring	Dismantling	Employee incentive plan	Procedural costs	Deferred taxes	Total provisions
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
Provisions raised	–	–	0.2	0.5	–	0.7
Provisions used	0.8	0.1	0.2	0.2	1.7	3.0
Dissolving	0.4	0.1	–	0.4	–	0.9
Balance at 31 December 2018	0.5	6.5	0.4	2.6	22.5	32.5
Current portion	0.5	0.4	0.2	1.4	–	2.5

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 their complex subject matters, mean that numerous reassessments are required over time that will influence the provision amount as well as the provisions raised, dissolved and the expected current portion within the statement of provisions.

22. Other liabilities

In millions of CHF	31.12.2018	31.12.2017
Value-added tax	4.6	9.4
Security deposits on blocked bank accounts	0.8	2.1
Other	1.0	1.9
	6.4	13.4

The "Other" item contains outstanding obligations towards PKE Vorsorgestiftung Energie of CHF 0.9 million (previous year: CHF 1.0 million) as at the cut-off date.

23. Accrued expenses and deferred income

In millions of CHF	31.12.2018	31.12.2017
Accrued expenses for supplies made	54.8	81.5
Personnel expenses and employees' insurance scheme	6.8	8.5
Accrued interest and premium from issued bonds	10.7	10.8
Taxes	16.6	24.2
	88.9	125.0

24. Contingent receivables

Billing method for the AS surcharge

EICom defined the billing method for the AS surcharge in its 4/2018 directive. 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.

25. 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	Up to 1 year	Year 2–10	More than 10 years	Total
31.12.2018	7.4	40.4	74.2	122.0
31.12.2017	50.4	41.6	39.6	131.6

The long-term rental obligations primarily include the rental commitments 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 took place in the year under review.

Off-balance-sheet lease commitments

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

In millions of CHF	Up to 1 year	2–5 years	Total
31.12.2018	0.7	1.2	1.9
31.12.2017	0.5	1.2	1.7

26. Derivative financial instruments

As at the balance sheet date, derivative financial instruments exist to hedge the risk of a change in interest rates for future borrowing. The nominal amount of these instruments is CHF 250 million, with negative replacement values of CHF 5.8 million as at 31 December 2018.

27. Employee pension plan

Employer contribution reserve	Nominal value	Renounced use	Balance sheet	Formation of REC	Balance sheet	Result from REC in personnel expenses	
	31.12.2018	pro 2018	31.12.2018	pro 2018	31.12.2017	2018	2017
In millions of CHF							
Pension fund (PKE)	2.0	–	2.0	–	2.0	–	–
Total	2.0	–	2.0	–	2.0	–	–

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		
					2018	2017	
In millions of CHF	31.12.2018	31.12.2018	31.12.2017				
Pension fund without shortfall/surplus funding (PKE)	–	–	–	–	6.9	6.9	7.2
Total	–	–	–	–	6.9	6.9	7.2

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 104.4% as at 31 December 2018 (previous year: 116.5%).

28. Transactions with related parties

Transactions with related parties in millions of CHF	2018	2017
Total operating activities		
Net turnover	373.6	402.6
thereof grid utilisation	282.5	298.2
thereof general ancillary services/ balance energy	59.2	57.7
thereof active power losses	19.9	19.8
thereof reactive energy	12.0	26.9
Other operating income	0.3	0.8
Procurement costs and operating expenses		
Procurement costs	125.6	151.9
thereof grid utilisation	2.9	6.5
thereof general ancillary services/ balance energy	87.4	113.6
thereof active power losses	6.8	8.6
thereof reactive energy	28.5	23.2
Cost of materials and third-party supplies	15.8	23.7
Other operating expenses	4.4	5.0
Financial result		
Financial expenses	11.8	13.8

Unsettled balances at balance sheet date with related parties in millions of CHF	2018	2017
Assets		
Trade receivables	68.7	77.2
Prepaid expenses and accrued income	17.2	15.0
Liabilities		
Convertible loans and loans	312.3	364.2
Trade accounts payable	24.2	21.5
Accrued expenses and deferred income	13.2	27.1

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

29. Events after the balance sheet date

Takeover of additional parts of the transmission system

On 3 January 2019, Swissgrid took over transmission grid assets from an in-kind contributor. The transfer relates to assets that could not be transferred to Swissgrid earlier for various reasons.

The share capital of CHF 318.1 million increased to CHF 319.0 million in this respect. The former owner was remunerated 30% in Swissgrid shares worth CHF 3.0 million and 70% in loans of CHF 7.0 million, where 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 2019, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

Otherwise, there are no events after the balance sheet date that would require disclosure or recognition in the 2018 financial statements. On 2 April 2019, the Board of Directors of Swissgrid Ltd approved the 2018 financial statements for submission to the General Assembly and for publication.



Independent Auditor's Report

To the General Meeting of Swissgrid Ltd, Aarau

Opinion

We have audited the financial statements of Swissgrid Ltd, which comprise the balance sheet as at 31 December 2018, 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 20 to 46) give a true and fair view of the financial position of the Company as at 31 December 2018, 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

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 2018 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 119.4 million. The change in volume- and tariff-related timing differences amounts to CHF -221.3 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), under note "3. Legal proceedings" 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 2018 financial year Swissgrid reports a net turnover of CHF 907.9 million and the procurement costs amount to CHF 263.4 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 2018) 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.



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, 2 April 2019

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

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Statutory financial statements

Income statement

In millions of CHF	Notes	2018	2017
Net turnover	3	907.9	948.2
Other operating income	4	12.9	19.8
Change in volume- and tariff-related timing differences		-219.6	-171.1
Capitalised self-constructed assets		14.6	14.6
Total operating income		715.8	811.5
Procurement costs	3	263.4	294.1
Gross profit		452.4	517.4
Cost of materials and third-party supplies	5	72.9	84.5
Personnel expenses	6	82.6	88.2
Other operating expenses	7	29.4	27.1
Earnings before interest, income taxes, depreciation and amortisation		267.5	317.6
Depreciation on property, plant and equipment		110.1	108.9
Amortisation on intangible assets		38.2	35.3
Earnings before interest and income taxes (EBIT)		119.2	173.4
Financial income		0.8	0.4
Financial expenses		39.1	45.2
Profit for the year before taxes		80.9	128.6
Income taxes		17.0	26.4
Profit for the year		63.9	102.2

Balance sheet

Assets

In millions of CHF	Notes	31.12.2018	31.12.2017
Cash and cash equivalents		157.6	176.2
Trade accounts receivable	8	142.7	158.2
Other receivables		1.5	2.5
Inventory		1.3	2.1
Prepaid expenses and accrued income	9	57.0	49.5
Short-term deficits arising from volume-and tariff-related timing differences		–	138.9
Assets held on fiduciary basis	10	17.9	46.6
Current assets		378.0	574.0
Financial assets	11	2.0	2.0
Shareholdings	12	8.4	8.4
Property, plant and equipment	13	2,279.2	2,148.7
Intangible assets	14	281.4	298.1
Long-term deficits arising from volume-and tariff-related timing differences		91.8	108.6
Non-current assets		2,662.8	2,565.8
Assets		3,040.8	3,139.8

Equity and liabilities

In millions of CHF	Notes	31.12.2018	31.12.2017
Trade accounts payable	15	70.0	53.5
Current financial liabilities	18	145.2	142.2
Other liabilities	16	6.4	13.4
Accrued expenses and deferred income	17	88.9	125.0
Current provisions	19	2.5	3.3
Current surpluses arising from volume-and tariff-related timing differences		6.3	1.9
Liabilities held on fiduciary basis	10	17.9	46.6
Current liabilities		337.2	385.9
Non-current financial liabilities	18	1,425.6	1,570.0
Non-current provisions	19	7.5	8.2
Non-current surpluses arising from volume-and tariff-related timing differences		142.5	83.0
Non-current liabilities		1,575.6	1,661.2
Liabilities		1,912.8	2,047.1
Share capital	20	318.1	317.9
Legal capital reserves		403.4	402.9
Reserves from capital contributions		403.4	402.9
Legal retained earnings		1.6	1.6
General legal reserves		1.6	1.6
Voluntary retained earnings		404.9	370.3
Available earnings		404.9	370.3
Results carried forward		341.0	268.1
Profit for the year		63.9	102.2
Equity		1,128.0	1,092.7
Equity and liabilities		3,040.8	3,139.8

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2018	2017
Profit for the year		63.9	102.2
Financial expenses		39.1	45.2
Financial income		-0.8	-0.4
Current income taxes		17.0	26.4
Depreciation and amortisation		148.3	144.2
Gains/losses on disposal of non-current assets		-0.1	-
Change in provisions		-1.5	-2.2
Change in inventory		0.8	-
Change in trade accounts receivable		15.5	15.3
Change in other receivables		1.0	3.2
Change in prepaid expenses and accrued income		-7.5	-6.0
Change in volume- and tariff-related timing differences		219.6	171.1
Change in trade accounts payable		16.5	-442.4
Change in other current liabilities		-7.0	1.1
Change in accrued expenses and deferred income		-29.1	-22.4
Income taxes paid		-24.6	-21.4
Cash flow from operating activities		451.1	13.9
Gross investments in property, plant and equipment		-238.2	-170.0
Congestion proceeds received for grid investments		-	-
Net investments in property, plant and equipment		-238.2	-170.0
Divestment in property, plant and equipment		1.1	-
Gross investments in intangible assets		-26.1	-30.5
Congestion proceeds received for grid investments		-	-
Net investments in intangible assets		-26.1	-30.5
Divestment in intangible assets		3.9	-
Investments in shareholdings		-	-0.1
Divestments in shareholdings		0.1	-
Dividends received		0.6	0.3
Cash flow from investing activities		-258.6	-200.3
Change in current financial liabilities		-143.1	-
Change in non-current financial liabilities		-	0.1
Interest paid		-38.6	-43.9
Dividends paid		-29.4	-21.8
Cash flow from financing activities		-211.1	-65.6
Change in cash and cash equivalents		-18.6	-252.0
Composition			
Cash and cash equivalents at beginning of period		176.2	428.2
Cash and cash equivalents at end of period		157.6	176.2
Change in cash and cash equivalents		-18.6	-252.0

Investing and financing activities not affecting cash

The purchase consideration of CHF 2.5 million for the transfer of additional parts of the transmission grid was settled 30% in Swissgrid shares and 70% in loans.

Notes

1. Accounting principles

General information

The financial statements for Swissgrid Ltd, Aarau, 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. Swissgrid's relocation of its head office from Laufenburg to Aarau was entered into the commercial register on 9 July 2018.

Changes in accounting estimates At the start of the 2018 financial year, Swissgrid updated its capitalisation policy in effect since 1 January 2013 as part of grid acquisitions. The policy applicable from 1 January 2018 resulted in additional capitalisation of approximately CHF 5 million for 2018 compared to the previous policy.

Changes to accounting principles Swissgrid uses futures to partially hedge the EUR/CHF currency risk from expected future income in euros. Up to the 2017 financial year, these futures were recognised at their market value immediately after conclusion and the subsequent measurements were reported in the income statement. This meant that the resulting effects from the underlying transaction and the hedging transaction were not simultaneously reported in the income statement. As a result, Swissgrid decided to apply hedge accounting from the 2018 financial year (cf. more information under the notes on the derivative financial instruments).

Conversion of foreign currency items

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 grid or reported from downstream grid levels.

For certain revenue and procurement items, initial billing 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 of the Electricity Supply Act (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, resulting in surpluses and deficits. 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 of 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, the non-current assets as at the end of the financial year, and the accumulated volume- and tariff-related timing differences. 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 2018, the applied WACC based on this calculation is unchanged from the previous year at 3.83%.

The allowability 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 with the possibility of appeal to the Federal Supreme 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 service life. The service 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 service life.

The service 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 indication of an impairment loss, 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 non-current 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 impairment losses. Employer contribution reserves without conditional renounced use are also recognised in financial assets.

Shareholdings

Shareholdings are measured at acquisition costs less any impairment losses. 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 impairment losses required for business reasons.

Cash and cash equivalents

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

Derivative financial instruments

Swissgrid uses derivative financial instruments to hedge against currency and interest rate risks. If the conditions are met, Swissgrid will apply hedge accounting to hedge expected future cash flows. The instruments used for this purpose will be disclosed in the notes to the financial statements until the underlying transaction is realised.

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 items 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 24.

3. Net turnover and procurement costs

Net turnover

For the 2018 financial year, net turnover across all segments amounts to CHF 907.9 million. Net turnover of CHF 948.2 million was recorded in the previous year. While net turnover remained steady in the grid utilisation and active power loss segments, income fell year-on-year in the other two segments. In the general ancillary services segment, this was due to lower tariff revenues of CHF 24.8 million.

In the reactive energy segment, this drop was the result of a one-off effect: Swissgrid identified that the parties connected directly to the transmission grid had been charged an excessive reactive energy tariff for a number of years. As a result, in the 2018 financial year Swissgrid decided to reimburse the overpaid tariff revenues in the reactive energy segment to the specific invoice recipients affected. This reimbursement led to a reduction in revenue of CHF 17.5 million in this segment. By contrast, the general ancillary services tariff in the general ancillary services segment was set too low. Viewed across both segments, this had no effect on Swissgrid's result.

Procurement costs

At CHF 263.4 million, procurement costs are CHF 30.7 million lower than the previous year's value of CHF 294.1 million. This decrease is primarily due to the significantly lower costs for the provision of control power in the general ancillary services segment than was the case in 2017. Costs in the grid utilisation and active power loss segments also fell in the year under review.

In the grid utilisation segment, the additional remuneration for operating and capital costs paid to former transmission system owners was lower than in the previous year. By contrast, the cost of procurement in the reactive energy segment increased due to higher quantities being procured compared to the previous year.

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	2018	2017
Handling the orders in accordance with the Energy Act	–	6.6
Congestion management clearing	10.0	7.3
Issuance of guarantees of origin for renewable energies	–	4.9
Other	2.9	1.0
	12.9	19.8

Pronovo AG directly handled orders in accordance with the Energy Act and issued guarantees of origin for the very first time in 2018.

5. Cost of materials and third-party supplies

In millions of CHF	2018	2017
Grid maintenance	24.6	29.4
Grid system control	4.2	5.4
Other services in the grid area	8.7	14.9
Expenses for projects, advisory and non-cash benefits	25.5	25.6
Hardware/software maintenance	9.9	9.2
	72.9	84.5

Overall, lower costs were reported in relation to the grid than in the previous year. Besides lower costs for grid maintenance and other services, the connection of additional substations to Swissgrid's grid control system also allowed for a reduction in the costs for substation control services.

Other grid-related services include, in particular, easement management services performed by third parties and operating expenses for mixed-use systems.

6. Personnel expenses

In millions of CHF	2018	2017
Salaries, bonuses, allowances	67.2	71.3
Employee insurance	12.1	13.1
Other personnel expenses	3.3	3.8
	82.6	88.2

Other personnel expenses include, in particular, the costs of allowances for external catering for employees, 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	2018	2017
Rental and occupancy costs	9.4	7.3
Ground rents	4.1	4.4
Rental costs for communication equipment/telecommunication expense	4.0	3.7
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	2.0
Fees, dues and licences	5.0	4.0
Insurance	1.5	2.1
Other administrative costs	2.6	2.8
	29.4	27.1

The comparatively higher costs in the rental and occupancy costs item compared to the previous year are due to the costs of relocating from Laufenburg and Frick to Aarau, as well as those costs associated with the move into Swissgrid's new head office in Aarau.

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 Executive Board members of the Board of Directors received remuneration of between CHF 55,000 and CHF 65,000 pro rata temporis for 2018, 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. Trade receivables

As at 31 December 2018, trade receivables include CHF 27.5 million (previous year: CHF 66.9 million) in relation to companies with a direct or indirect shareholding in Swissgrid.

9. Prepaid expenses and accrued income

In millions of CHF	31.12.2018	31.12.2017
Accrued revenue for supplies made	54.1	46.4
Other	2.9	3.1
	57.0	49.5

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.

10. Balance sheet items held on fiduciary basis

Pursuant to the ECom letter of approval issued on 9 February 2017, income from auctions in 2018 was paid to Swissgrid in the financial year. In total, income from auctions of CHF 170.1 million was paid out to Swissgrid to cover allowable costs for the transmission grid in 2018. Undistributed income from auctions collected by Swissgrid in 2018 to cover the allowable costs for the transmission grid will be carried forward to 2019.

As at the balance sheet date, derivative financial instruments (futures) in the nominal amount of EUR 66.5 million exist to partially hedge against the EUR/CHF currency risk from expected future income in euros. The positive replacement values as at 31 December 2018 amount to CHF 1.7 million (previous year: negative replacement values of CHF 4.7 million).

11. Financial assets

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

12. Shareholdings

		Share capital in m.	Share in %
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/Aarau ¹	A	0.100	100.0
Alpiq Réseau SA Lausanne/Aarau ²	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/Aarau AG ³	A	0.100	100.0

Letters used for locations and currencies:

A = Aarau (formerly Laufenburg, CH) | Currency: CHF

B = Luxembourg (Lux) | Currency: EUR

C = Munich (D) | Currency: EUR

D = Paris (F) | Currency: EUR

E = Frick (CH) | Currency: CHF

¹ formerly Alpiq Netz AG Gösigen/Laufenburg

² formerly Alpiq Réseau SA Lausanne/Laufenburg

³ formerly Übertragungsnetz Basel/Laufenburg AG

Swissgrid's relocation also involved moving the head office for all the procedural companies from Laufenburg to Aarau (cf. letter A). CESOC AG was also liquidated in the year under review.

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 met, 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.

13. Property, plant and equipment

The book values of the individual categories are as follows:

In millions of CHF	31.12.2018	31.12.2017
Construction in progress	350.7	299.1
Substations	809.5	803.7
Lines	951.6	944.5
Properties and buildings	157.2	93.8
Other property, plant and equipment	10.2	7.6
	2,279.2	2,148.7

The increase in the reporting period is attributable to the high level of investment (investments of CHF 238.2 million).

14. Intangible assets

The book values of the individual categories are as follows:

In millions of CHF	31.12.2018	31.12.2017
Intangible assets under development	29.3	29.1
Usage rights	84.8	82.9
Software	50.0	60.4
Merger losses (goodwill)	117.3	125.7
	281.4	298.1

15. Trade accounts payable

As at 31 December 2018, trade accounts payable include CHF 23.1 million (previous year: CHF 19.6 million) in relation to companies with a direct or indirect shareholding in Swissgrid. Liabilities amounting to CHF 10,770 exist in relation to the external auditor as at 31 December 2018.

16. Other liabilities

In millions of CHF	31.12.2018	31.12.2017
Value-added tax	4.6	9.4
Security deposits on blocked bank accounts	0.8	2.1
Other	1.0	1.9
	6.4	13.4

The item Other contains obligations towards PKE Vorsorgestiftung Energie of CHF 0.9 million (previous year: CHF 1.0 million) as at 31 December 2018.

17. Accrued expenses and deferred income

In millions of CHF	31.12.2018	31.12.2017
Accrued expenses for supplies made	54.8	81.5
Personnel expenses and employees' insurance scheme	6.8	8.5
Accrued interest and premium from issued bonds	10.7	10.8
Taxes	16.6	24.2
	88.9	125.0

18. Financial liabilities

In millions of CHF	31.12.2018	31.12.2017
Bonds	850.0	850.0
Convertible loans	720.7	862.1
Loans	0.1	0.1
Total financial liabilities	1,570.8	1,712.2
Current portion	145.2	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 nine years and one-fifth of the loans become payable annually from year five. As a result, the first partial repayment of convertible loans, amounting to CHF 142.2 million, was made at the start of the 2018 financial year. 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%	145.2	544.4	31.1
Loans	0.00%	–	–	0.1

Convertible loans and loans are assessed at their nominal value.

As at 31 December 2018, convertible loans of CHF 400.5 million (previous year: CHF 480.6 million) exist towards companies with a direct or indirect shareholding in Swissgrid.

19. Provisions

In millions of CHF	31.12.2018	31.12.2017
Restructuring	0.5	1.7
Dismantling	6.5	6.7
Employee incentive plan	0.4	0.4
Procedural costs	2.6	2.7
Total provisions	10.0	11.5
Current portion	2.5	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.

20. Share capital and reserves from capital contributions

The share capital consists of 318,141,670 (previous year: 317,917,131) fully paid-up registered shares with a par value of CHF 1 per share.

21. Contingent receivables

Billing method for AS

EICom defined the billing method for the AS surcharge in its 4/2018 directive. 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.

22. 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	Up to 1 year	2–5 years	Total
31.12.2018	0.7	1.2	1.9
31.12.2017	0.5	1.2	1.7

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	Up to 1 year	Year 2–10	More than 10 years	Total
31.12.2018	7.4	40.4	74.2	122.0
31.12.2017	50.4	41.6	39.6	131.6

The long-term rental obligations primarily include the rental commitments 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 took place in the year under review.

23. Derivative financial instruments

As at the balance sheet date, derivative financial instruments exist to hedge the risk of a change in interest rates for future borrowing. The nominal amount of these instruments is CHF 250 million, with negative replacement values of CHF 5.8 million as at 31 December 2018.

24. Legal proceedings

EICom launched proceedings to examine the 2011 and 2012 volume- and tariff-related timing differences on 5 February 2013 and 18 June 2013 respectively. The proceedings were suspended until the legally binding conclusion of the 2009 to 2012 cost and tariff proceedings. EICom has not yet initiated any proceedings to examine the volume- and tariff-related timing differences for the years from 2013 to 2018. These proceedings will include an examination of the allowability of Swissgrid's capital and operating costs. The outcome of these proceedings could result in a reduction of Swissgrid's allowable costs.

In the previous year, Swissgrid estimated the cumulative risk for non-allowable costs at CHF 209.8 million. This is primarily based on the last available cost basis approved by the EICom in 2010.

Swissgrid updated its risk assessment and the approach for quantifying the risk on 31 December 2018, which resulted in a cumulative risk for non-allowable costs for 2011 to 2018 of CHF 110 million. Swissgrid's equity situation is therefore not jeopardised, even in the event that the maximum risk of CHF 110 million occurs.

Moreover, EICom ruled that it would systematically examine Swissgrid's capital costs from 2013 to 2015, the volume- and tariff-related timing differences in the grid utilisation segments from 2013 to 2015, and the ancillary services from 2011 to 2015. This process will not include an examination of the cost amount, but rather will investigate the compatibility of the processes and operations with electricity supply legislation and enact corrections where necessary. However, any corrections ordered by EICom can have an impact on costs. At the start of December 2018, EICom submitted a test report on Swissgrid's processes and operations to calculate the capital costs and the volume- and tariff-related timing differences, requesting that Swissgrid provide an opinion. A statement as to whether, and the extent to which, this systematic examination will result in a reduction of Swissgrid's allowable costs was not possible at the time the financial statements were prepared.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2018 were incurred within the framework of Swissgrid's legal mandate and should therefore qualify as allowable. Equally, Swissgrid believes that its processes and operations relating to the calculation of the capital and volume- and tariff-related timing differences are compatible with electricity supply legislation. Based on this assessment, Swissgrid has treated all operating and capital costs as allowable 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-allowable, this would be reflected no earlier than in the 2020 financial statements.

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.

25. Audit fees

In 2018, the fees for audit services amount to CHF 0.18 million (previous year: CHF 0.17 million) and CHF 0.09 million (previous year: CHF 0.01 million) for other services.

26. Events after the balance sheet date

Takeover of additional parts of the transmission system

On 3 January 2019, Swissgrid took over transmission grid assets from an in-kind contributor. The transfer relates to assets that could not be transferred to Swissgrid earlier for various reasons.

The share capital of CHF 318.1 million increased to CHF 319.0 million in this respect. The former owner was remunerated 30% in Swissgrid shares worth CHF 3.0 million and 70% in loans of CHF 7.0 million, where 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 2019, and the second and last one after the value and scope of the entire transmission grid have been conclusively determined.

Otherwise, there are no events after the balance sheet date that would require disclosure or recognition in the 2018 financial statements.

On 2 April 2019, the Board of Directors of Swissgrid Ltd approved the 2018 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	2018	2017
Balance carried forward from the previous year	340,932,702.88	268,085,749.24
Profit for the year	63,976,968.02	102,248,287.30
Retained earnings	404,909,670.90	370,334,036.54
Appropriation to the general legal reserves	–	–
Dividend payment	32,818,022.21	29,401,333.66
Balance to be carried forward	372,091,648.69	340,932,702.88
Total appropriation	404,909,670.90	370,334,036.54

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 2019 for the parts of the grid integrated as of 3 January 2019, 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 2018 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.

Aarau, 2 April 2019

For the Board of Directors:
Adrian Bult, Chairman



Statutory Auditor's Report

To the General Meeting of Swissgrid Ltd, Aarau

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 2018, 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 63) for the year ended 31 December 2018 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

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 2018 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 119.2 million. The change in volume- and tariff-related timing differences amounts to CHF -219.6 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 under note "1. Accounting principles" (paragraph Activities according to StromVG) and under note "24. Legal proceedings".

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 (EiCom) 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 2018 financial year Swissgrid reports a net turnover of CHF 907.9 million and the procurement costs amount to CHF 263.4 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 under note "2. Estimation uncertainty" and under note "3. Net turnover and procurement costs".

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.



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, 2 April 2019

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

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