

Financial Report 2020



Financial Report

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Management Report

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

Regulatory business model

Legal and regulatory environment

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

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

The Federal Electricity Commission ECom 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. ECom performs an ex post review of the chargeability of the costs for Swissgrid.

Chargeable costs include the operating and capital costs of maintaining a secure and efficient grid. Chargeable costs also include an adequate operating profit. As a result, this is referred to as “cost-plus” regulation: “cost” stands for the cost recovery principle and “plus” stands for the operating profit.

Chargeable operating and capital costs

Chargeable operating costs include the costs for services directly related to the operation of the grid. Examples include costs for maintaining the grid, costs for providing 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 ($WACC_{t+0}$). $WACC_{t+0}$ means that the WACC specified for this year also applies to the current financial year. In particular, the IOA consists of the transmission grid assets (including construction in progress), intangible assets as well as the net current assets determined on a monthly basis.

Volume- and tariff-related timing differences

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

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

Volume- and tariff-related timing differences are also subject to interest at the WACC rate and have an impact on capital costs. In contrast to the IOA, volume- and tariff-related timing differences are subject to interest at $WACC_{t+2}$. Deficits increase capital costs, while surpluses reduce them.

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) with the capital cost rate ($WACC_{t+0}$) and the interest applied to the volume- and tariff-related timing differences ($WACC_{t+2}$). 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 rates to be applied.

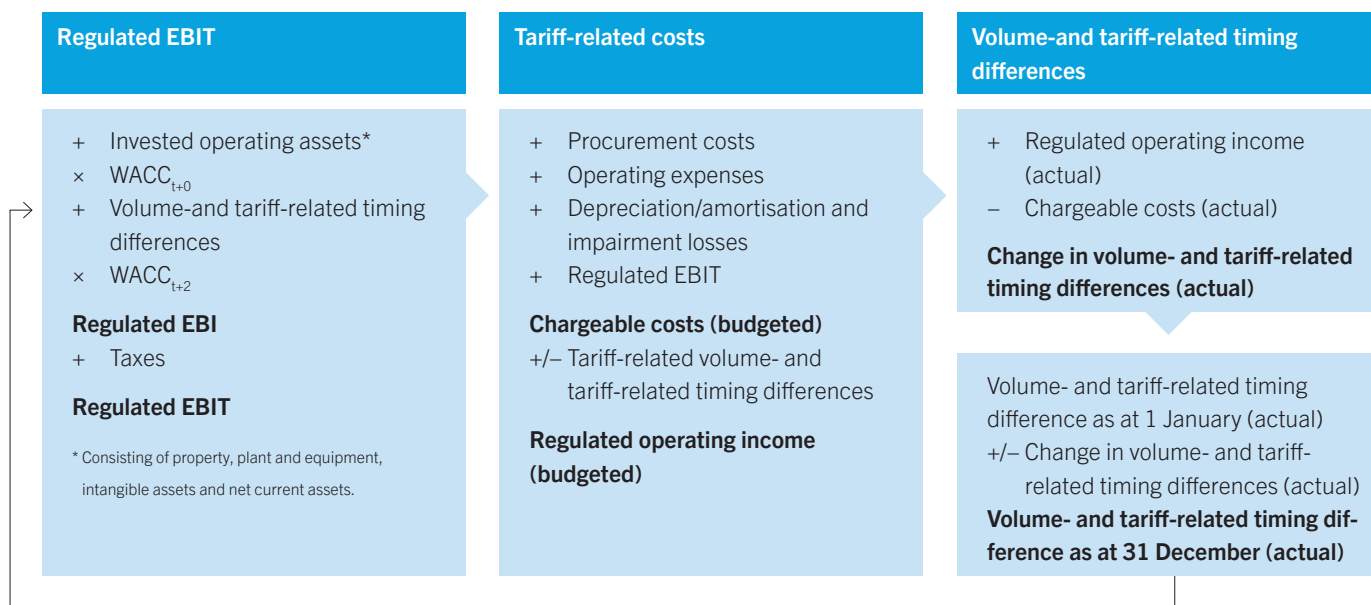
Imputed capital cost rate (WACC)

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

The WACC is calculated methodically taking account of the current Best Practice guidelines provided by the Federal Department of the Environment, Transport, Energy and Communications (DETEC). The methodology was developed specifically for the regulation of electricity grid operators and intends to ensure security of investment for these operators. With regard to the financing structure, the WACC calculation assumes an equity share of 40 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 228.5 million, procurement costs are CHF 3.6 million higher than the previous year's value of CHF 224.9 million. In the grid utilisation and reactive energy segments, the procurement costs increased by CHF 24 million and CHF 15.8 million respectively. In the grid utilisation segment, this increase is due to higher national redispatch costs of CHF 14.8 million as well as a rise in additional remuneration to former transmission system operators of CHF 9.2 million. In the reactive energy segment, the pro-rata voltage stability costs payable by this segment increased by CHF 15.8 million compared to 2019.

By contrast, the procurement costs in the general ancillary services and active power losses segments fell by CHF 25 million, and CHF 11.2 million respectively. In the general ancillary services segment, this was primarily due to the lower pro rata voltage stability costs of CHF 12.6 million and the fall in control power provision costs to CHF 11.7 million. The active power losses segment recorded lower procurement costs for active power loss.

Operating expenses and depreciation/amortisation

Operating expenses rose by CHF 23.9 million year on year, from CHF 200.9 million to CHF 224.8 million. CHF 12 million of the increase in operating costs is attributable to the materials and third-party supplies item, while personnel expenses account for CHF 11.8 million.

The increase in the costs for materials and third-party supplies was primarily due to the increase in the number of easements for which Swissgrid pays remuneration to property owners as well as the higher costs for procured third-party supplies.

The increase in personnel expenses can be explained by the growth in the workforce in the 2020 financial year. The annual average number of full-time equivalents amounts to 540.4 FTE (previous year: 498 FTE).

The scheduled depreciation/amortisation on property, plant and equipment and intangible assets amounted to CHF 154.8 million in 2020, a decrease of CHF 2.1 million on the previous year.

Revenue and volume- and tariff-related timing differences

For the 2020 financial year, net turnover across all segments amounts to CHF 588.2 million. Net turnover of CHF 672.7 million was recorded in the previous year. The decline in turnover is predominantly due to the CHF 33.2 million drop in tariff revenue in the grid utilisation segment as well as the CHF 50.7 million decline in the general ancillary services segment. The grid utilisation segment also reported a CHF 41.8 million decline in income from auctions for the reduction of chargeable grid costs compared to the previous year. By contrast, net turnover in the active power loss and reactive energy individual ancillary services segments increased by CHF 30.3 million and CHF 15.7 million respectively, particularly due to higher tariff income.

In the 2020 financial year, the operating business activities reported net deficits (cumulative deficits less cumulative surpluses) of CHF 107.9 million. In particular, the grid utilisation segment posted deficits of CHF 128.6 million due to the fall in turnover. As at 31 December 2020, a net deficit of CHF 55.1 million exists (previous year: net surplus of CHF 52.8 million).

EBIT, financial income and net income

Earnings before interest and taxes (EBIT) from activities relating to the Federal Electricity Supply Act (StromVG) are equivalent to the interest applied to the assets required to operate the transmission system using the weighted average cost of capital rate (WACC) for the current year under review (= $WACC_{t+0}$) and the interest applied to the volume- and tariff-related timing differences using the weighted average cost of capital rate of $WACC_{t+2}$ plus income taxes. The weighted average cost of capital rates for 2020 ($WACC_{t+0}$) and 2022 ($WACC_{t+2}$) defined by the Federal Department of the Environment, Transport, Energy and Communications (DETEC) for the 2020 financial year remain unchanged at 3.83%.

In 2020, EBIT increased by CHF 14.3 million from the previous year's value of CHF 102.4 million to CHF 116.7 million. The additional partial repayment of convertible loans at the start of the 2020 financial year and the refinancing under more favourable conditions in 2020 once again led to lower financial expenses compared to 2019.

Net income in 2020 amounts to CHF 75.7 million, an increase of CHF 28.8 million from the previous year. In 2019, EBIT and net income were impacted by the regulatory effects that had to be taken into account that year.

Balance sheet and cash flow statement

Total assets (excluding fiduciary positions) increased by CHF 78.3 million compared to the previous year to CHF 3.072 billion. The absolute equity base was strengthened by the positive net income less dividends paid. Adjusted for the balance sheet items held on a fiduciary basis and volume- and tariff-related timing differences, the equity ratio on 31 December 2020 amounts to 39.1%, as compared to 38.3% on 31 December 2019.

In 2020, cash flow from operating activities amounts to CHF 137.9 million, compared to the previous year's value of CHF 278.8 million, a decrease of CHF 140.9 million. This decrease is due to the lower net turnover year-on-year.

Cash flow from investing activities amounts to CHF 144.9 million in the year under review; a CHF 32.9 million increase on the previous year. This is attributable to a CHF 36.5 million increase in net investments in property, plant and equipment.

Cash flow from financing activities decreased by CHF 73.3 million compared to 2019 to a value of CHF 22.0 million. This was due to the refinancing measures implemented in 2020, with four bonds totalling CHF 555 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. The head of Enterprise Risk Management manages the risk management process, provides the methods and advises the operating units on risk management.

Process

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

Risk monitoring, including the effectiveness and level of implementation of the measures taken, is performed as part of regular risk updates. The Executive Board and the Board of Directors receive the results of the risk assessment and the risk updates in the form of a standardised report.

Risk situation

The coronavirus pandemic is not just a risk to employee health, but also to the operation of the transmission system. The risk drivers include a shortage of employees in critical functions and congestion amongst suppliers and service providers. In response, Swissgrid acted early to implement infection control measures and to secure supplies.

Besides the new risks stemming from COVID-19, the other risks remain relevant for Swissgrid. The drivers for these risks are natural influences, the national and international political and regulatory environment as well as personnel and technical factors. Digitisation is enabling more efficient operation of the transmission grid, but also involves risks to grid and system security and therefore to the security of supply, given the increasing dependence on systems.

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 a framework agreement as a prerequisite for the electricity agreement with the EU, the Swiss electricity system finds itself increasingly excluded from important processes affecting grid security in Europe.

This leads to unscheduled flows of electricity through the Swiss grid and jeopardises both system stability and import capacity in the medium term. There is also the risk of exclusion from the European control energy partnerships as well as from ENTSO-E, the European Network of Transmission System Operators. Swissgrid is developing technical solutions to ensure the stability of the grid, but is reliant on political support in this respect. Although there have been some encouraging signals from the EU regarding its openness to pragmatic solutions, the success of the technical integration is not guaranteed as there are political factors to resolve that fall outside the control of Swissgrid and Switzerland.

Implementation of the "Strategic Grid 2025"

Important activities relating to the "Strategic Grid 2025" continue to be hampered by protracted approval processes and numerous objections. This makes it more difficult to eliminate grid congestion. Swissgrid is striving to establish dialogue, particularly with local residents, during the approval process. However, given the ever-decreasing acceptance of overhead lines, Swissgrid still has to factor in objections and delayed approval processes.

Security of supply

A wide-scale supply outage would cause enormous economic damage. As a result, Swissgrid must ensure that the transmission grid is available to supply electricity at all times. It is therefore essential to have an intact grid infrastructure and to secure the availability of IT and communication systems.

Meeting these prerequisites can be jeopardised by, for example, technical problems, natural disasters, operating errors and criminal actions. Among other measures, Swissgrid mitigates these risks by implementing redundancies and processes to eliminate faults in grid systems and in system operations. Adequate training and development of personnel ensures that employees respond appropriately. Swissgrid takes precautions to protect the infrastructure and plants against physical attacks. These include reinforcing buildings, switchgears and construction sites as well as access control.

The threat of cyber-attacks is steadily rising due to the speed at which technology changes (which potential attackers also exploit), the countless possible modes of attack, as well as growing system integration across companies.

To reduce this risk, Swissgrid is continuously developing its processes and systems to detect cyber threats early and defend itself against them.

Security of supply also depends on the availability of control and redispatch services to balance short-term deviations between production and consumption, and to control grid congestion.

Swissgrid therefore works continuously to optimise the Swiss market for ancillary services, and cooperates with transmission system operators in neighbouring countries to increase market liquidity. Swissgrid has emergency procedures in place in the highly unlikely event that critical infrastructures or systems fail permanently or the grid can no longer be controlled.

Personnel safety

Swissgrid's operation and maintenance of the extra-high-voltage infrastructure involves risks to personnel safety. People can be seriously injured while performing their work.

To minimise this risk to the greatest extent possible, Swissgrid systematically identifies present dangers, implements targeted protective measures, trains its own employees and instructs contractor employees so they can independently identify the dangers posed at plants and respond accordingly.

Systematic controls on construction sites help to ensure compliance with site safety precautions. A company-wide awareness campaign boosts awareness of the risks to personnel safety. Another risk to personnel safety are physical attacks, an area in which Swissgrid also takes the necessary precautions.

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 ensured at all times by continuous planning and monitoring of the funding requirements, maintenance of minimum liquidity levels and the provision of confirmed bank credit facilities. Foreign currency risk is reduced through forward exchange transactions. The hedging strategy is reviewed periodically and updated as needed. The risk of interest rate changes is reduced by staggering the maturities and establishing a balanced financing mix. Derivative financial instruments are deployed for further mitigation if necessary. Financial counterparties are constantly reviewed, assigned individual limits and monitored. Operational counterparties are regularly monitored.

Future prospects

Strategic outlook

The energy sector in Switzerland is undergoing a transformation: key trends include the increase in electricity generation from renewable energies, the increase in efficiency due to the use of new technologies and digitisation, the electrification of consumption as well as sector coupling. Many of these changes are also being driven by energy policy, particularly in Europe where the EU is consistently working on the completion of the European internal electricity market.

Given its responsibility for the Swiss transmission grid, Swissgrid plays a key role in the supply of electricity and is closely monitoring the following developments: the changes to electricity generation are leading to new flows of electricity that present great challenges for the grid operation. At the same time, the grid infrastructure needs to adapt to the modified framework conditions in order to ensure the security of supply in the long term. Protracted approval procedures mean that grid projects can often only be implemented with significant time delays.

Due to Switzerland's close links with the European interconnected grid, it continues to be impacted by the European energy policy, while Swissgrid's cooperation in the European power markets is seriously threatened by the lack of an electricity agreement.

In 2018, Swissgrid launched Strategy 2022 to tackle these trends and challenges and achieve four long-term corporate objectives: a high level of safety and security for employees and the plants, a consistently stable and available transmission grid, efficient and effective business activities, as well as the optimisation of the future transmission grid by taking innovative technical, structural and market-based measures.

In the coming year, Swissgrid will continue implementing Strategy 2022 and start developing Strategy 2027. Security is once again the top priority in 2021. As a result, the company will take technical measures to continue to increase the level of protection in cyber-security and also continue its awareness campaigns for employees. Swissgrid has already introduced a number of steps to increase security in the substations, with implementation set to start in 2021.

The integration of plant and system operation is essential for a functional transmission grid. The associated processes between the market and grid operation will be further optimised to constantly increase efficiency and ensure security. Apart from this, Swissgrid will also focus on the continued development of plant management, as the implementation of the "Strategic Grid 2025" as well as optimal maintenance are prerequisites for secure grid operation in the long term. The intelligent use of new technologies allows Swissgrid to optimise the use of the existing infrastructure. Further measures to automate the grid operation will be introduced in 2021, while the long-term planning of the grid infrastructure is another area of focus: in 2021, Swissgrid will establish the foundation for developing the "Strategic Grid 2040". To ensure the overall

efficiency and effectiveness of its business activities, Swissgrid is moving forward with a company-wide transformation project that will lead to the replacement of the enterprise resource planning system with an intelligent, integrated “end-to-end” solution.

Close cooperation with partners in Switzerland and Europe is essential for Swissgrid. Within the scope of the SAFA (Synchronous Area Framework Agreement), the company will establish the relevant conditions in close cooperation with all partners involved. This will ensure the technical integration of the Swiss transmission grid into the European interconnected grid in the medium term. At the same time, Swissgrid will continue to develop the markets of relevance for the company, such as the control power market – both in Switzerland and with partners in Europe.

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 national and international partners.

Financial outlook

Grid investments

Investment volumes are expected to remain high due to the need to achieve a sustainable energy future and carry out the measures defined in the “Strategic Grid 2025” report.

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 investments in the grid to increase by between CHF 175 million and CHF 275 million a year 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 particularly dependent on the invested operating assets (IOA) and the weighted average capital cost rate (WACC). The WACC communicated by the Federal Department of the Environment, Transport, Energy and Communications (DETEC) for 2021 remains unchanged at 3.83%. The final remuneration for the assets acquired from the former transmission system owners since 2013 as part of the grid takeovers planned for 2021 will have an indirect positive effect on EBIT and the net income. Consequently, higher EBIT and a higher net income are expected in 2021 in comparison to 2020.

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

Grid acquisitions

The ECom ruling issued on 20 October 2016 definitively established the method for determining the assessed value of the transmission system. Swissgrid paid the first remuneration based on this method to the former transmission system owners on 3 January 2017. The final remuneration owed under this method could not yet be paid as proceedings relevant to the valuation were still pending. ECom has now issued rulings on all pending valuation proceedings and so provided a ruling on the final regulatory values of the transmission grid assets at the respective transaction date. The requirements for the equal treatment of all former transmission system owners for the final remuneration have therefore been met.

The final remuneration is planned for 2021 and will increase the value of Swissgrid’s non-current assets by an expected amount of CHF 100 to 150 million. Due to the regulatory business model, this will also indirectly lead to a higher net income. In addition, Swissgrid’s share capital will increase and the shareholdings of the shareholders will change slightly. The necessary amendment of Swissgrid’s Articles of Incorporation requires the approval of the Federal Council.

Financial statements

Swiss GAAP FER

Income statement

In millions of CHF	Notes	2020	2019
Net turnover	4, 5	588.2	672.7
Other operating income	4, 6	14.5	13.0
Change in volume- and tariff-related timing differences	4, 15	107.9	18.4
Capitalised self-constructed assets		14.2	12.6
Total operating income		724.8	716.7
Procurement costs	4, 5	228.5	224.9
Gross profit		496.3	491.8
Cost of materials and third-party supplies	7	94.5	82.5
Personnel expenses	8	101.5	89.7
Other operating expenses	9	28.8	28.7
Earnings before interest, income taxes, depreciation and amortisation		271.5	290.9
Depreciation on property, plant and equipment	13	125.4	125.1
Amortisation on intangible assets	13	29.4	31.8
Impairment losses	13	–	31.6
Earnings before interest and income taxes (EBIT)	4	116.7	102.4
Financial income	10	1.0	1.2
Financial expenses	11	26.0	33.6
Ordinary result		91.7	70.0
Extraordinary expenses		–	36.7
Earnings before income taxes		91.7	33.3
Income taxes	12	16.0	4.5
Net income		75.7	28.8

Earnings per share

CHF	2020	2019
Net income	75,735,726	28,821,764
Weighted average number of shares outstanding	320,398,149	319,374,832
Non-diluted earnings per share	0.24	0.09
Dilution from the conversion of the convertible loans	–0.03	–
Diluted earnings per share	0.21	0.09

The dilution arises from the potential conversion of the convertible loans to equity. Assuming that conversion had taken place on 1 January of the reporting year, the interest expense would have been reduced by CHF 15.7 million (previous year: CHF 21.9 million). Given that taxes are chargeable in Swissgrid's regulated business model, the conversion

would have increased net income by CHF 15.7 million (previous year: CHF 21.9 million). At the same time, the average number of shares outstanding would also have increased by 119,907,035 units (previous year: 165,521,412 units). This leads to a potential dilution of CHF –0.03 per share (previous year: no dilution effect).

Balance sheet

Assets

In millions of CHF	Notes	31.12.2020	31.12.2019
Property, plant and equipment	13	2,343.0	2,338.1
Intangible assets	13	136.8	150.9
Financial assets	14	8.7	8.8
Long-term deficits arising from volume- and tariff-related timing differences	15	168.0	62.0
Non-current assets		2,656.5	2,559.8
Assets held on a fiduciary basis	16	23.9	14.8
Short-term deficits arising from volume- and tariff-related timing differences	15	7.9	35.0
Inventory		1.2	1.2
Trade accounts receivable	17	125.5	119.0
Other receivables	18	14.2	1.7
Prepaid expenses and accrued income	19	66.9	48.2
Cash and cash equivalents		200.1	229.1
Current assets		439.7	449.0
Assets		3,096.2	3,008.8

Equity and liabilities

In millions of CHF	Notes	31.12.2020	31.12.2019
Share capital		320.4	320.4
Capital reserves		410.0	410.0
Retained earnings		423.7	379.5
Total equity		1,154.1	1,109.9
Non-current financial liabilities	20	1,423.1	1,040.5
Non-current provisions	21	25.4	26.8
Non-current surpluses arising from volume- and tariff-related timing differences	15	100.8	120.2
Non-current liabilities		1,549.3	1,187.5
Liabilities held on a fiduciary basis	16	23.9	14.8
Current financial liabilities	20	172.4	519.2
Trade accounts payable		94.4	67.2
Other liabilities	22	2.9	5.0
Accrued expenses and deferred income	23	77.0	72.3
Current provisions	21	2.2	3.3
Current surpluses arising from volume- and tariff-related timing differences	15	20.0	29.6
Current liabilities		392.8	711.4
Total liabilities		1,942.1	1,898.9
Equity and liabilities		3,096.2	3,008.8

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2020	2019
Net income		75.7	28.8
Financial expenses	11	26.0	33.6
Financial income	10	-1.0	-1.2
Current income taxes	12	17.3	7.1
Depreciation and amortisation	13	154.8	156.9
Impairment losses	13	-	31.6
Other expenses not affecting revenue and expenditure		0.1	38.6
Gains/losses on disposal of non-current assets		-	-0.2
Change in provisions	21	-2.5	-2.4
Change in inventory		-	0.1
Change in trade accounts receivable		-6.5	23.7
Change in other receivables		-12.5	-0.2
Change in prepaid expenses and accrued income		-18.7	8.8
Change in volume- and tariff-related timing differences	4, 15	-107.9	-18.4
Change in trade accounts payable		27.2	-2.8
Change in other current liabilities		-2.1	-1.4
Change in accrued expenses and deferred income		-3.3	-3.4
Income taxes paid		-8.7	-20.4
Cash flow from operating activities		137.9	278.8
Gross investments in property, plant and equipment		-165.5	-136.8
Congestion proceeds received for grid investments		32.3	40.1
Net investments in property, plant and equipment	13	-133.2	-96.7
Divestment in property, plant and equipment		0.2	0.2
Investments in intangible assets	13	-12.6	-16.2
Investments in financial assets		-	-0.2
Dividends received		0.7	0.9
Cash flow from investing activities		-144.9	-112.0
Change in current financial liabilities		-169.2	-154.4
Issuing of bonds		555.0	125.0
Repayment of bonds		-350.0	-
Interest paid		-26.3	-33.1
Dividends paid		-31.5	-32.8
Cash flow from financing activities		-22.0	-95.3
Change in cash and cash equivalents		-29.0	71.5
Composition			
Cash and cash equivalents at beginning of period		229.1	157.6
Cash and cash equivalents at end of period		200.1	229.1
Change in cash and cash equivalents		-29.0	71.5

Other expenses not affecting revenue and expenditure

This item is comprised of the employer contribution reserve used to pay employer contributions.

Statement of changes in equity

In millions of CHF	Share capital	Capital reserves	Retained earnings	Total equity
Balance at 31.12.2018	318.1	404.5	383.5	1,106.1
Allocation	–	–	–	–
Dividends paid	–	–	–32.8	–32.8
Capital increases (minus transaction costs)	2.3	5.5	–	7.8
Net income 2019	–	–	28.8	28.8
Balance at 31.12.2019	320.4	410.0	379.5	1,109.9
Allocation	–	–	–	–
Dividends paid	–	–	–31.5	–31.5
Capital increases (minus transaction costs)	–	–	–	–
Net income 2020	–	–	75.7	75.7
Balance at 31.12.2020	320.4	410.0	423.7	1,154.1

The share capital consists of 320,398,149 (previous year: 320,398,149) fully paid-up registered shares with a par value of CHF 1 per share. As at 31 December 2020, Swissgrid has conditional share capital of a maximum of CHF 127,036,489, divided into 127,036,489 registered shares with a par value of CHF 1 per share (previous year: CHF 127,036,489, divided into 127,036,489 registered shares with a par value of CHF 1 per share).

Notes

1. Accounting principles

General information

The 2020 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.

Conversion of foreign currency items

The accounting records are maintained in the 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 based on historical and statistical data, as well as on estimates necessary for the revenue recognition of these items.

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. 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 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 with the weighted average cost of capital rate (WACC) for the current year under review ($= WACC_{t+0}$) and the interest applied to the volume- and tariff-related timing differences with the weighted average cost of capital rate of $WACC_{t+2}$ plus income taxes.

Invested operating assets consist of net current assets calculated on a monthly basis as well as the property, plant and equipment and intangible assets as at the end of the financial year. The weighted average cost of capital rate (WACC) is based on the current international practice of the WACC capital cost concept with reference to the Capital Asset Pricing Model (CAPM). Besides considering the findings of financial market theory, the regulatory framework conditions in Switzerland and the current situation in the money and capital market are also taken into account. The official weighted average cost of capital rates for 2020 ($WACC_{t+0}$) and 2022 ($WACC_{t+2}$) based on this method of calculation are unchanged from the 3.83% used in the previous year.

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by ECom, which takes place ex post. In case of an ex post cost adjustment, an appeal can be lodged with the Federal Administrative Court 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 are 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 asset.

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
- Construction in progress 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: contract term
- Software and technical regulations: 3 to 5 years
- Intangible assets under development: 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 results of the period.

Construction in progress/intangible assets under development

Construction in progress and intangible assets under development 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 construction in progress or intangible assets under development 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 are ready for operation.

Financial assets

Financial assets 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 of the balance sheet date. A provision is reported if a cash outflow without a usable countervalue is probable and assessable. Otherwise, contingent liabilities are disclosed in the notes to the financial statements.

Interest on borrowed capital

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

Employee pension plan

Swissgrid is a member of an industry-wide retirement benefit plan (PKE, Pensionskasse Energie). This is a legally independent pension fund. All permanent employees of the company are included in this 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 and the possibility of exerting influence due to the shareholder structure). 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 market price 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 the following section.

3. Legal proceedings

In its letter dated 23 August 2019, EICOM reopened proceedings to calculate the volume- and tariff-related timing differences for 2011 and 2012 and has since combined these into a single proceeding. In November 2020, EICOM submitted the draft ruling to Swissgrid to seek its opinion. Swissgrid submitted its opinion to EICOM prior to the end of 2020.

EICOM has not yet initiated any proceedings to examine the volume- and tariff-related timing differences for the years from 2013 to 2020. These proceedings will examine the chargeability of Swissgrid's capital and operating costs. The outcome of these proceedings could result in a reduction of Swissgrid's chargeable costs.

As at 31 December 2020, Swissgrid estimates the cumulative risk for non-chargeable costs at CHF 78 million. As at 31 December 2019, the cumulative risk was estimated at CHF 75 million. Swissgrid's equity situation is therefore not jeopardised, even in the event that the maximum risk of CHF 78 million occurs.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2020 were incurred within the framework of Swissgrid's legal mandate and should therefore qualify as chargeable. Based on this assessment, Swissgrid has treated all operating and capital costs as chargeable and consequently recognised them in full in the volume- and tariff-related timing differences. If, contrary to Swissgrid's assessment, the costs claimed are ruled to be non-chargeable this would be reflected in future financial statements.

Third-party proceedings

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.

Congestion management is included in the other activities.

Segment report 2020

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	588.2	354.7	125.4	94.1	17.7	-3.7	588.2	-
Other operating income	14.5	1.6	0.3	-	-	-	1.9	12.6
Change in volume- and tariff-related timing differences	107.9	128.6	29.0	-51.4	1.7	-	107.9	-
Total operating income	710.6	484.9	154.7	42.7	19.4	-3.7	698.0	12.6
Procurement costs	-228.5	-42.8	-132.7	-39.3	-17.4	3.7	-228.5	-
Gross profit	482.1	442.1	22.0	3.4	2.0	-	469.5	12.6
Operating expenses	-210.6	-179.0	-18.9	-2.3	-0.7	-	-200.9	-9.7
Depreciation/amortisation and impairment losses	-154.8	-148.2	-3.2	-0.4	-0.1	-	-151.9	-2.9
Earnings before interest and income tax (EBIT)	116.7	114.9	-0.1	0.7	1.2	-	116.7	-

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

Movement 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	588.2	354.7	125.4	94.1	17.7	-3.7	588.2	-
Other operating income	14.5	1.6	0.3	-	-	-	1.9	12.6
Procurement costs	-228.5	-42.8	-132.7	-39.3	-17.4	3.7	-228.5	-
Operating expenses	-210.6	-179.0	-18.9	-2.3	-0.7	-	-200.9	-9.7
Depreciation/amortisation and impairment losses	-154.8	-148.2	-3.2	-0.4	-0.1	-	-151.9	-2.9
Imputed interest and income taxes (EBIT)	-116.7	-114.9	0.1	-0.7	-1.2	-	-116.7	-
Change in volume- and tariff-related timing differences	-107.9	-128.6	-29.0	51.4	-1.7	-	-107.9	-

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

Segment report 2019

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	672.7	434.5	176.1	63.8	2.0	-3.7	672.7	-
Other operating income	13.0	1.6	0.1	-	-	-	1.7	11.3
Change in volume- and tariff-related timing differences	18.4	21.6	4.0	-7.7	0.5	-	18.4	-
Total operating income	704.1	457.7	180.2	56.1	2.5	-3.7	692.8	11.3
Procurement costs	-224.9	-18.8	-157.7	-50.5	-1.6	3.7	-224.9	-
Gross profit	479.2	438.9	22.5	5.6	0.9	-	467.9	11.3
Operating expenses	-188.3	-159.5	-17.3	-2.6	-0.1	-	-179.5	-8.8
Depreciation/amortisation and impairment losses	-188.5	-180.6	-5.4	-0.4	-	-	-186.4	-2.1
Earnings before interest and income tax (EBIT)	102.4	98.8	-0.2	2.6	0.8	-	102.0	0.4

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

Movement 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	672.7	434.5	176.1	63.8	2.0	-3.7	672.7	-
Other operating income	13.0	1.6	0.1	-	-	-	1.7	11.3
Procurement costs	-224.9	-18.8	-157.7	-50.5	-1.6	3.7	-224.9	-
Operating expenses	-188.3	-159.5	-17.3	-2.6	-0.1	-	-179.5	-8.8
Depreciation/amortisation and impairment losses	-188.5	-180.6	-5.4	-0.4	-	-	-186.4	-2.1
Imputed interest and income taxes (EBIT)	-102.4	-98.8	0.2	-2.6	-0.8	-	-102.0	-0.4
Change in volume- and tariff-related timing differences	-18.4	-21.6	-4.0	7.7	-0.5	-	-18.4	-

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

Earnings before interest and taxes (EBIT) per segment within the StromVG-regulated activities correspond to the capital costs on the invested operating assets and the volume- and tariff-related timing differences plus taxes (cf. Note 1). The individual expense and income positions assigned to the four segments within the StromVG-regulated activities are listed in Note 5.

Grid utilisation The grid utilisation segment is predominantly financed by various charges for use of the grid. This segment is also assigned the income from auctioning bottleneck capacities at the national borders to reduce the chargeable grid costs, provided that this purpose is approved by ECom. This segment also includes part of the compensation for international transit flows (ITC); the other part flows to the active power losses segment.

Net turnover in this segment amounts to CHF 354.7 million in the 2020 financial year, CHF 79.8 million below the previous year. Lower tariff revenues of CHF 33.2 million and lower income from auctions for the reduction of chargeable grid costs of CHF 41.8 million are the reasons for this decline from the previous year.

The procurement costs in the 2020 financial year of CHF 42.8 million are CHF 24 million higher than the previous year (CHF 18.8 million), which is due to a CHF 14.8 million increase in national redispatch costs and a CHF 9.2 million increase in additional remuneration to former transmission system owners.

Lower net turnover and higher costs resulted in a deficit of CHF 128.6 million in the 2020 financial year.

General ancillary services/balance energy In 2020, net income in this segment declined from CHF 176.1 million to CHF 125.4 million, primarily due to the decrease in tariff revenue compared to the previous year.

The largest expense item for this segment is control power provision, i.e. the reservation of power plant capacity in the interests of balancing energy consumption and energy feed-in as well as the proportional voltage stability costs payable by this segment. The procurement costs of CHF 132.7 million in this segment are CHF 25 million lower than in 2019 due to the decrease in the pro-rata voltage stability costs (CHF 12.6 million) as well as the decline in control power provision costs (CHF 11.7 million).

In 2020, costs exceeded net turnover, resulting in a deficit of CHF 29.0 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.

Net turnover of CHF 94.1 million in this segment is CHF 30.3 million higher than in the previous year (CHF 63.8 million), primarily due to the CHF 33.1 million increase in tariff revenue.

In the financial year, this segment recorded procurement costs for active power loss of CHF 39.3 million, a decline of CHF 11.2 million from the previous year.

In 2020, revenue exceeded costs, resulting in a surplus of CHF 51.4 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.

Net turnover in this segment increased by CHF 15.7 million year on year, from CHF 2 million to CHF 17.7 million, due to the higher tariff revenue. By contrast, the procurement costs amount to CHF 17.4 million, CHF 15.8 million above the previous year's level of CHF 1.6 million. This increase is due to the higher pro-rata voltage stability costs payable by this segment.

In the 2020 financial year, higher revenue as well as costs led to a deficit of CHF 1.7 million.

5. Net turnover and procurement costs according to StromVG

In millions of CHF	Segment	2020	2019
Tariff income for grid utilisation	A	311.4	344.6
Net income from ITC	A/C	15.1	22.7
Income from auctions for the reduction of chargeable grid costs	A	39.7	81.5
Tariff income for general ancillary services (AS) and income from unintentional deviation	B	88.9	136.5
Income from balance group/balance energy	B	36.5	39.6
Tariff income for active power losses	C	82.6	49.5
Tariff income for reactive energy (incl. penalties)	D	17.7	2.0
Eliminations		-3.7	-3.7
Net turnover		588.2	672.7
Expenses for national redispatch	A	17.5	2.7
Additional remuneration to former transmission system owners	A	25.3	16.1
Expenses for AS control power provision and unintentional deviation	B	50.1	61.8
Expenses for automatic start-up/island operation capability	B	1.1	1.1
Expenses for grid enhancement	B	9.0	13.5
Expenses for AS energy	B	26.1	22.3
Expenses for compensation of active power losses	C	39.3	50.5
Expenses for reactive energy/voltage maintenance	B/D	63.8	60.6
Eliminations		-3.7	-3.7
Procurement costs		228.5	224.9

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 3.6 million (previous year: CHF 8.4 million)
- Compensation for active power losses (C) CHF 11.5 million (previous year: CHF 14.3 million)

The ITC compensation for grid utilisation and active power losses corresponds to 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 4.4 million) are deducted from the gross income of CHF 4.8 million for grid utilisation (previous year: CHF 10.0 million) and CHF 15.1 million for active power losses (previous year: CHF 17.1 million).

Expenses for reactive energy/voltage maintenance is comprised as follows:

- General AS (B): CHF 46.4 million (previous year: CHF 59.0 million)
- Reactive energy (D): CHF 17.4 million (previous year: CHF 1.6 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	2020	2019
Congestion management clearing	12.4	11.2
Other	2.1	1.8
	14.5	13.0

7. Materials and third-party supplies

In millions of CHF	2020	2019
Grid maintenance	19.1	21.3
Grid system control	0.4	0.5
Other services in the grid area	31.5	23.8
Expenses for projects, advisory and non-cash benefits	32.4	26.6
Hardware/software maintenance	11.1	10.3
	94.5	82.5

Other grid-related services include remuneration for easements, including easement management services performed by third parties and operating expenses for mixed-use plants. The number of easements for which Swissgrid pays remuneration to the property owners and therefore also the other services in the grid area item increased compared to the previous year. The increase in the expenses for projects, advisory services and non-cash benefits is due to higher costs for procured third-party services.

8. Personnel expenses

In millions of CHF	2020	2019
Salaries, bonuses, allowances	81.5	72.7
Employee insurance	16.3	13.3
Other personnel expenses	3.7	3.7
	101.5	89.7
Headcount at 31.12.		
Permanent employment:		
Number of employees	591.0	542.0
expressed as full-time equivalents:	558.0	513.7
Fixed-term employment:		
Number of employees	7.0	9.0
expressed as full-time equivalents:	5.5	7.1

The increase in personnel expenses can be explained by the growth in the workforce in the 2020 financial year. Other personnel expenses include, in particular, the costs of training and further education, recruitment, lump-sum expenses as well as allowances for external catering for employees.

Executive Board remuneration

In millions of CHF	2020	2019
Fixed remuneration (incl. lump-sum expenses)	1.78	1.46
Variable remuneration	1.06	0.81
Non-cash benefits ¹	0.03	0.02
Pension benefits ²	0.53	0.39
Total remuneration to the Executive Board	3.40	2.68
Of which to the highest-earning member of the Executive Board		
Fixed remuneration (incl. lump-sum expenses)	0.49	0.44
Variable remuneration	0.28	0.22
Pension benefits ²	0.14	0.11
Total remuneration to the highest-earning member of the Executive Board	0.91	0.77

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

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

The Long-Term Incentive Plan ("LTIP") that was part of the Executive Board's remuneration was discontinued as at 31 December 2019, and the base value was integrated into the fixed remuneration as at 1 January 2020. The credits acquired due to the achievement of the individual targets during the term of the LTIP were paid out as a one-time variable remuneration.

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	2020	2019
Rental and occupancy costs	8.7	9.1
Ground rents	6.5	4.5
Rental costs for communication equipment/telecommunication expense	3.1	3.3
Board of Directors' fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	0.9	2.2
Fees, dues and licences	4.4	4.5
Insurance	1.4	1.6
Other administrative costs	3.0	2.7
	28.8	28.7

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 57,500 and CHF 70,000 pro rata temporis for 2020, including lump-sum expenses (previous year: CHF 55,000 to CHF 65,000).

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	2020	2019
Other financial income	1.0	1.2
	1.0	1.2

Other financial income includes a dividend of CHF 0.7 million (previous year: CHF 0.9 million) from Holding des Gestionnaires de Réseau de Transport d'Électricité SAS (HGRT).

11. Financial expenses

In millions of CHF	2020	2019
Bond interest	9.7	10.3
Loans and convertible loans interest	15.7	22.3
Commitment fees	0.2	0.5
Other financial expenses	0.4	0.5
	26.0	33.6

The next partial repayment of convertible loans of CHF 169.2 million occurred at the start of the 2020 financial year, while the interest expense for convertible loans and loans declined accordingly.

12. Income taxes

In millions of CHF	2020	2019
Current income taxes	17.3	7.1
Change in deferred taxes	-1.3	-2.6
	16.0	4.5

The higher current income taxes compared to the previous year are a consequence of the higher net income in 2020 in relation to 2019. An average rate of 17.9% (previous year: 18.7%) was used to calculate the current income taxes and, in 2020, deferred taxes were calculated based on an expected rate of 17.65% (previous year: 18%). The effective average tax rate based on earnings before income tax amounts to 17.4% (previous year: 13.5%).

13. Non-current assets

Summary of property, plant and equipment – 2020

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2020	371.8	1,995.8	2,550.5	233.1	65.8	5,217.0
Additions	106.4	8.8	15.0	1.7	1.3	133.2
Disposals	-0.2	-13.4	-0.2	-	-13.6	-27.4
Reclassification	-152.6	28.0	101.0	18.3	2.6	-2.7
Acquisition cost at 31.12.2020	325.4	2,019.2	2,666.3	253.1	56.1	5,320.1
Accumulated depreciation and amortisation at 1.1.2020	5.4	1,194.3	1,557.6	72.0	49.6	2,878.9
Depreciation and amortisation	-	65.9	42.3	7.3	9.9	125.4
Impairment losses	-	-	-	-	-	-
Disposals	-0.2	-13.4	-	-	-13.6	-27.2
Reclassification	-	-	-	-	-	-
Accumulated depreciation and amortisation at 31.12.2020	5.2	1,246.8	1,599.9	79.3	45.9	2,977.1
Net book value at 1.1.2020	366.4	801.5	992.9	161.1	16.2	2,338.1
Net book value at 31.12.2020	320.2	772.4	1,066.4	173.8	10.2	2,343.0

Summary of property, plant and equipment – 2019

In millions of CHF	Advances and construction in progress	Substations	Lines	Properties and buildings	Other property, plant and equipment	Total
Acquisition cost at 1.1.2019	355.6	1,997.0	2,536.0	234.2	58.6	5,181.4
Additions	91.3	13.5	11.4	3.7	3.0	122.9
Disposals	-	-50.4	-19.6	-7.9	-7.7	-85.6
Reclassification	-75.1	35.7	22.7	3.1	11.9	-1.7
Acquisition cost at 31.12.2019	371.8	1,995.8	2,550.5	233.1	65.8	5,217.0
Accumulated depreciation and amortisation at 1.1.2019	4.9	1,165.4	1,518.4	72.2	48.4	2,809.3
Depreciation and amortisation	-	67.0	42.2	6.8	8.9	124.9
Impairment losses	0.5	12.1	16.6	0.9	-	30.1
Disposals	-	-50.2	-19.6	-7.9	-7.7	-85.4
Reclassification	-	-	-	-	-	-
Accumulated depreciation and amortisation at 31.12.2019	5.4	1,194.3	1,557.6	72.0	49.6	2,878.9
Net book value at 1.1.2019	350.7	831.6	1,017.6	162.0	10.2	2,372.1
Net book value at 31.12.2019	366.4	801.5	992.9	161.1	16.2	2,338.1

Gross investments in property, plant and equipment amounted to CHF 165.5 million (previous year: CHF 136.8 million). Thereof, CHF 32.3 million (prior year: CHF 40.1 million) was financed by proceeds from the auctioning of bottleneck capacities for cross-border supplies.

Project costs of CHF 2.7 million were reclassified from construction in progress to intangible assets under development in the year under review (previous year: CHF 1.7 million).

Property, plant and equipment of CHF 9.6 million (previous year: CHF 9.5 million) were purchased from related parties in 2020.

Summary of intangible assets – 2020

In millions of CHF	Intangible assets under development			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2020	10.3	2.9	13.2	158.4	–	158.4
Additions	5.1	0.7	5.8	–	–	–
Disposals	–0.3	–	–0.3	–0.2	–	–0.2
Reclassification	–7.0	–2.0	–9.0	2.5	–	2.5
Acquisition cost at 31.12.2020	8.1	1.6	9.7	160.7	–	160.7
Accumulated depreciation and amortisation at 1.1.2020	0.3	–	0.3	69.7	–	69.7
Depreciation and amortisation	–	–	–	5.2	–	5.2
Impairment losses	–	–	–	–	–	–
Disposals	–0.3	–	–0.3	–0.2	–	–0.2
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2020	–	–	–	74.7	–	74.7
Net book value at 1.1.2020	10.0	2.9	12.9	88.7	–	88.7
Net book value at 31.12.2020	8.1	1.6	9.7	86.0	–	86.0

Summary of intangible assets – 2019

In millions of CHF	Intangible assets under development			Usage rights		
	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2019	17.6	11.7	29.3	151.6	–	151.6
Additions	4.7	1.9	6.6	3.3	–	3.3
Disposals	–	–	–	–0.2	–	–0.2
Reclassification	–12.0	–10.7	–22.7	3.7	–	3.7
Acquisition cost at 31.12.2019	10.3	2.9	13.2	158.4	–	158.4
Accumulated depreciation and amortisation at 1.1.2019	–	–	–	64.6	–	64.6
Depreciation and amortisation	–	–	–	5.3	–	5.3
Impairment losses	0.3	–	0.3	–	–	–
Disposals	–	–	–	–0.2	–	–0.2
Reclassification	–	–	–	–	–	–
Accumulated depreciation and amortisation at 31.12.2019	0.3	–	0.3	69.7	–	69.7
Net book value at 1.1.2019	17.6	11.7	29.3	87.0	–	87.0
Net book value at 31.12.2019	10.0	2.9	12.9	88.7	–	88.7

In 2020, services for intangible assets of CHF 3,000 (previous year: CHF 63,000) were purchased from related parties.

Software			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
134.5	56.9	191.4	303.2	59.8	363.0
4.9	1.9	6.8	10.0	2.6	12.6
-4.6	-0.7	-5.3	-5.1	-0.7	-5.8
6.9	2.3	9.2	2.4	0.3	2.7
141.7	60.4	202.1	310.5	62.0	372.5
104.2	37.9	142.1	174.2	37.9	212.1
16.3	7.9	24.2	21.5	7.9	29.4
-	-	-	-	-	-
-4.7	-0.6	-5.3	-5.2	-0.6	-5.8
-	-	-	-	-	-
115.8	45.2	161.0	190.5	45.2	235.7
30.3	19.0	49.3	129.0	21.9	150.9
25.9	15.2	41.1	120.0	16.8	136.8

Software			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
124.1	43.5	167.6	293.3	55.2	348.5
3.9	2.4	6.3	11.9	4.3	16.2
-3.0	-0.2	-3.2	-3.2	-0.2	-3.4
9.5	11.2	20.7	1.2	0.5	1.7
134.5	56.9	191.4	303.2	59.8	363.0
89.9	27.7	117.6	154.5	27.7	182.2
17.3	9.2	26.5	22.6	9.2	31.8
-	1.2	1.2	0.3	1.2	1.5
-3.0	-0.2	-3.2	-3.2	-0.2	-3.4
-	-	-	-	-	-
104.2	37.9	142.1	174.2	37.9	212.1
34.2	15.8	50.0	138.8	27.5	166.3
30.3	19.0	49.3	129.0	21.9	150.9

14. Financial assets

In millions of CHF	31.12.2020	31.12.2019
Shareholdings	8.7	8.7
Employer contribution reserves	–	0.1
	8.7	8.8

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	7.1
Holding des Gestionnaires de Réseau de Transport d'Electricité SAS (HGRT)	D	52.119	5.0
Pronovo AG	E	0.100	100.0
ecmt AG	F	0.100	20.0
Equigy B.V.	G	0.040	25.0
AET NE1 SA	A	0.100	100.0
ALENA Aletsch Energie Netz AG	A	0.100	100.0
Alpiq Netz AG Gösgen/Aarau	A	0.100	100.0
Alpiq Réseau SA Lausanne/Aarau	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	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

F = Embrach (CH) | Currency CHF

G = Arnhem (NL) | Currency EUR

In the 2020 financial year, Swissgrid founded the joint venture Equigy together with the transmission system operators TenneT TSO B.V. (Netherlands), TenneT TSO GmbH (Germany) and TERNA S.p.A. (Italy). Equigy, the blockchain-based crowd balancing platform, intensifies collaboration at a European level and standardises the integration of small, decentralised units into the grid control process.

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 31.12.2018	3.9	-130.2	69.2	22.6	-34.5	-130.2	95.7
Change in 2019	-10.0	-23.6	-2.8	-0.3	-36.7	-	-
Reclassification	21.6	4.0	-7.7	0.5	18.4	-	-
Balance at 31.12.2019	15.5	-149.8	58.7	22.8	-52.8	-149.8	97.0
Change in 2020	128.6	29.0	-51.4	1.7	107.9	-	-
Balance at 31.12.2020	144.1	-120.8	7.3	24.5	55.1	-120.8	175.9
Current portion	-	-20.0	6.3	1.6	-12.1	-20.0	7.9

Negative figures represent surpluses, and positive figures deficits.

Further information on volume- and tariff-related timing differences (function, estimation uncertainties and current legal proceedings) can be found in Notes 1, 2 and 3.

16. Balance sheet items held on a 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 a fiduciary basis

In millions of CHF	31.12.2020	31.12.2019
Trade accounts receivable	11.5	4.0
Prepaid expenses and accrued income	3.3	0.4
Cash and cash equivalents	9.1	10.4
	23.9	14.8

Liabilities held on a fiduciary basis

In millions of CHF	31.12.2020	31.12.2019
Trade accounts payable	16.6	13.8
Other liabilities	0.4	–
Accrued expenses and deferred income	6.9	1.0
	23.9	14.8

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

In millions of CHF	2020	2019
Share of revenue Switzerland	91.4	127.7
Congestion management clearing	–13.5	–12.3
Net proceeds	77.9	115.4
Used for reduction of the chargeable grid costs	–39.1	–74.4
Used for grid investments	–32.0	–40.1
Undistributed income from auctions	6.8	0.9

Pursuant to the EICOM letter of approval issued on 7 February 2019, income from auctions in 2020 in the amount of CHF 71.1 million (previous year: CHF 114.5 million) was paid to Swissgrid.

As of the balance sheet date, derivative financial instruments (futures) in the nominal amount of EUR 70.2 million exist to partially hedge against the EUR/CHF currency risk from expected future income in euros. The negative replacement values as at 31 December 2020 amount to CHF 1.0 million (previous year: positive replacement values of CHF 1.5 million).

17. Trade receivables

In millions of CHF	31.12.2020	31.12.2019
Trade receivables	125.5	119.0
Specific valuation allowances	–	–
	125.5	119.0

18. Other receivables

In millions of CHF	31.12.2020	31.12.2019
Security deposits on blocked bank accounts	1.1	1.1
Other	13.1	0.6
	14.2	1.7

As of the cut-off date, "Other receivables" include the outstanding receivable for the 2020 enforcement costs for handling the congestion management in the amount of CHF 12.4 million. In 2019, the enforcement costs of CHF 11.2 million were reported in prepaid expenses and accrued income due to the different invoicing date.

19. Prepaid expenses and accrued income

In millions of CHF	31.12.2020	31.12.2019
Accrued revenue for supplies made	41.4	45.6
Other	25.5	2.6
	66.9	48.2

In particular, other prepaid expenses and accrued income include 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	31.12.2020	31.12.2019
Bonds	1,180.0	975.0
Convertible loans	415.4	584.6
Loans	0.1	0.1
Total financial liabilities	1,595.5	1,559.7
Current portion	172.4	519.2

Bonds

Nominal amount in CHF	Interest rate	Term	Expiration at nominal value
350 million	1.625%	2013–2025	30.01.2025
150 million	0.000%	2020–2028	30.06.2028
150 million	0.625%	2015–2030	25.02.2030
150 million	0.200%	2020–2032	30.06.2032
125 million	0.150%	2020–2034	30.06.2034
130 million	0.125%	2020–2036	30.06.2036
125 million	0.050%	2019–2050	30.06.2050

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 next partial repayment of convertible loans, amounting to CHF 169.2 million, was made at the start of the 2020 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	3,36–3,93%	172.4	237.2	5.8
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 200 million and remain unclaimed as at 31 December 2020.

21. Provisions

In millions of CHF	Restructuring	Dismantling	Employee incentive plan	Procedural costs	Deferred taxes	Total provisions
Balance at 31 December 2018	0.5	6.5	0.4	2.6	22.5	32.5
Provisions raised	–	–	0.2	1.9	–	2.1
Provisions used	0.3	0.3	0.3	0.2	2.6	3.7
Reversals	0.2	0.1	–	0.5	–	0.8
Balance at 31 December 2019	–	6.1	0.3	3.8	19.9	30.1
Provisions raised	–	–	–	1.5	–	1.5
Provisions used	–	–	0.3	1.5	1.3	3.1
Reversals	–	–	–	0.9	–	0.9
Balance at 31 December 2020	–	6.1	0.0	2.9	18.6	27.6
Current portion	–	–	–	2.2	–	2.2

Procedural costs

With the grid takeovers on 3 January 2013 and 5 January 2015 and the associated spin-offs of the procedural companies from the grid companies, contractual regulations mean that Swissgrid is responsible for the costs of proceedings attributable to the procedural companies.

The provision corresponds to Swissgrid's expected future expenses for party, court and legal costs that may arise for the procedural companies as part of their administrative procedures in conducting proceedings.

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

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

22. Other liabilities

In millions of CHF	31.12.2020	31.12.2019
Value-added tax	0.4	3.6
Security deposits on blocked bank accounts	0.8	0.8
Other	1.7	0.6
	2.9	5.0

The "Other" item contains outstanding obligations towards PKE Vorsorgestiftung Energie of CHF 1.3 million (previous year: CHF 0.4 million) as of the cut-off date.

23. Accrued expenses and deferred income

In millions of CHF	31.12.2020	31.12.2019
Accrued expenses for supplies made	49.8	52.8
Personnel expenses and employee insurance scheme	9.0	7.5
Accrued interest and premium from issued bonds	9.0	10.6
Taxes	9.2	1.4
	77.0	72.3

24. Contingent receivables

Billing method for the ancillary services (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

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. Swissgrid paid the first remuneration based on this method to the former transmission system owners on 3 January 2017. The final remuneration owed under this method could not yet be paid as proceedings relevant to the valuation were still pending. EICom has now issued rulings on all pending valuation proceedings and so provided a ruling on the final regulatory values of the transmission system assets at the respective transaction date. The requirements for the equal treatment of all former transmission system owners for the final remuneration have therefore been met.

The final remuneration is planned for 2021 and will increase the value of Swissgrid's non-current assets by an expected amount of CHF 100 to 150 million. Due to the regulatory business model, this will also indirectly lead to a higher net 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.

Equigy B.V.

As a shareholder of Equigy B.V., 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
31.12.2020	6.0	38.3	68.3	112.6
31.12.2019	6.0	39.3	72.1	117.4

The long-term rental obligations primarily include the rental commitments for Swissgrid's head office in Aarau.

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
31.12.2020	0.8	1.2	2.0
31.12.2019	0.7	0.6	1.3

26. Derivative financial instruments

Swissgrid made use of derivative financial instruments to partially hedge against market price risk from future procurement costs for active power losses. The nominal amount of these instruments is EUR 18.3 million (previous year: EUR 14.2 million), with negative replacement values of EUR 1.5 million as at 31 December 2020 (previous year: EUR 0.3 million).

27. Employee pension plan

Employer contribution reserve (ECR)	Nominal value		Renounced use		Balance sheet		Formation of ECR		Balance sheet		Result from ECR in personnel expenses	
	In millions of CHF		31.12.2020	pro 2020	31.12.2020	pro 2020	31.12.2019	2020	2019			
Pension fund (PKE)	–	–	–	–	–	0.1	0.1	1.9				
Total	–	–	–	–	–	0.1	0.1	1.9				

Economic benefit/economic obligation and pension benefit expenses	Shortfall/surplus funding		Economic share of the organisation		Change compared with previous year/ affecting income in FY	Accrued contributions	Pension benefit expenses within personnel expenses	
	In millions of CHF		31.12.2020	31.12.2020			31.12.2019	2020
Pension fund without shortfall/surplus funding (PKE)	–	–	–	–	–	9.6	9.6	7.5
Total	–	–	–	–	–	9.6	9.6	7.5

In this financial year, CHF 0.1 million of the employer contribution reserve was used to pay monthly employer contributions.

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 affiliation contract. The coverage ratio of the collective plan is 112.5% as at 31 December 2020 (previous year: 109.2%).

28. Transactions with related parties

Transactions with related parties in millions of CHF	2020	2019
Total operating activities		
Net turnover	320.9	293.5
thereof grid utilisation	216.2	221.1
thereof general ancillary services / balance energy	35.4	38.3
thereof active power losses	55.3	32.4
thereof reactive energy	14.0	1.7
Other operating income	0.1	0.6
Procurement costs and operating expenses		
Procurement costs	125.3	93.0
thereof grid utilisation	28.8	0.6
thereof general ancillary services / balance energy	80.5	51.7
thereof active power losses	7.8	5.2
thereof reactive energy	8.2	35.5
Cost of materials and third-party supplies	13.0	10.2
Other operating expenses	1.7	6.8
Financial result		
Financial expenses	6.9	9.7

Unsettled balances at balance sheet date with related parties in millions of CHF	2020	2019
Assets		
Trade receivables	63.3	56.6
Prepaid expenses and accrued income	15.3	8.7
Liabilities		
Convertible loans and loans	186.7	259.6
Trade accounts payable	27.3	21.5
Accrued expenses and deferred income	15.2	4.7

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

29. Events after the balance sheet date

There are no events after the balance sheet date that would require disclosure or recognition in the 2020 financial statements.

On 20 April 2021, the Board of Directors of Swissgrid Ltd approved the 2020 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 2020, 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 2020, 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 2020 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 116.7 million. The change in volume- and tariff-related timing differences amounts to CHF +107.9 million.

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

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 amortized 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) as well as under note "15. Volume- and tariff-related timing differences".

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 and volume- and tariff-related timing differences 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 2020 financial year Swissgrid reports a net turnover of CHF 588.2 Mio. CHF and the procurement costs amount to CHF 228.5 Mio. CHF.

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 2020) 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, 20 April 2021

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

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Statutory financial statements

Income statement

In millions of CHF	Notes	2020	2019
Net turnover	3	588.2	672.7
Other operating income	4	14.5	13.2
Change in volume- and tariff-related timing differences		109.2	21.0
Capitalised self-constructed assets		14.2	12.6
Total operating income		726.1	719.5
Procurement costs	3	228.5	224.9
Gross profit		497.6	494.6
Cost of materials and third-party supplies	5	94.5	82.5
Personnel expenses	6	101.5	89.7
Other operating expenses	7	28.8	28.7
Earnings before interest, income taxes, depreciation and amortisation		272.8	293.7
Depreciation on property, plant and equipment		121.9	121.0
Amortisation on intangible assets		37.5	40.0
Impairment losses		–	31.6
Earnings before interest and income taxes (EBIT)		113.4	101.1
Financial income		1.0	1.2
Financial expenses		26.0	33.3
Ordinary result		88.4	69.0
Extraordinary expenses		–	36.7
Profit for the year before taxes		88.4	32.3
Income taxes		17.3	7.1
Profit for the year		71.1	25.2

Balance sheet

Assets

In millions of CHF	Notes	31.12.2020	31.12.2019
Cash and cash equivalents		200.1	229.1
Trade accounts receivable	8	125.5	119.0
Other receivables	9	14.2	1.7
Inventory		1.2	1.2
Prepaid expenses and accrued income	10	66.9	48.2
Short-term deficits arising from volume-and tariff-related timing differences		7.9	35.0
Assets held on a fiduciary basis	11	23.9	14.8
Current assets		439.7	449.0
Financial assets	12	–	0.1
Shareholdings	13	8.7	8.7
Property, plant and equipment	14	2,258.0	2,249.6
Intangible assets	15	235.6	257.8
Long-term deficits arising from volume-and tariff-related timing differences		149.4	46.6
Non-current assets		2,651.7	2,562.8
Assets		3,091.4	3,011.8

Equity and liabilities

In millions of CHF	Notes	31.12.2020	31.12.2019
Trade accounts payable	16	94.4	67.2
Current financial liabilities	19	172.4	519.2
Other liabilities	17	2.9	5.0
Accrued expenses and deferred income	18	77.0	72.3
Current provisions	20	2.2	3.3
Current surpluses arising from volume-and tariff-related timing differences		20.0	29.6
Liabilities held on a fiduciary basis	11	23.9	14.8
Current liabilities		392.8	711.4
Non-current financial liabilities	19	1,423.1	1,040.5
Non-current provisions	20	6.8	6.9
Non-current surpluses arising from volume-and tariff-related timing differences		100.8	124.7
Non-current liabilities		1,530.7	1,172.1
Liabilities		1,923.5	1,883.5
Share capital	21	320.4	320.4
Legal capital reserves		409.0	409.0
Reserves from capital contributions		409.0	409.0
Legal retained earnings		1.6	1.6
General legal reserves		1.6	1.6
Voluntary retained earnings		436.9	397.3
Available earnings		436.9	397.3
Results carried forward		365.8	372.1
Profit for the year		71.1	25.2
Equity		1,167.9	1,128.3
Equity and liabilities		3,091.4	3,011.8

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2020	2019
Profit for the year		71.1	25.2
Financial expenses		26.0	33.3
Financial income		-1.0	-1.2
Current income taxes		17.3	7.1
Depreciation and amortisation		159.4	161.0
Impairment losses		-	31.6
Other expenses not affecting revenue and expenditure		0.1	38.6
Gains/losses on disposal of non-current assets		-	-0.4
Change in provisions		-1.2	0.2
Change in inventory		-	0.1
Change in trade accounts receivable		-6.5	23.7
Change in other receivables		-12.5	-0.2
Change in prepaid expenses and accrued income		-18.7	8.8
Change in volume- and tariff-related timing differences		-109.2	-21.0
Change in trade accounts payable		27.2	-2.8
Change in other current liabilities		-2.1	-1.4
Change in accrued expenses and deferred income		-3.3	-3.4
Income taxes paid		-8.7	-20.4
Cash flow from operating activities		137.9	278.8
Gross investments in property, plant and equipment		-165.5	-136.8
Congestion proceeds received for grid investments		32.3	40.1
Net investments in property, plant and equipment		-133.2	-96.7
Divestment in property, plant and equipment		0.2	0.2
Investments in intangible assets		-12.6	-16.2
Investments in shareholdings		-	-0.2
Dividends received		0.7	0.9
Cash flow from investing activities		-144.9	-112.0
Change in current financial liabilities		-169.2	-154.4
Issuing of bonds		555.0	125.0
Repayment of bonds		-350.0	-
Interest paid		-26.3	-33.1
Dividends paid		-31.5	-32.8
Cash flow from financing activities		-22.0	-95.3
Change in cash and cash equivalents		-29.0	71.5
Composition			
Cash and cash equivalents at beginning of period		229.1	157.6
Cash and cash equivalents at end of period		200.1	229.1
Change in cash and cash equivalents		-29.0	71.5

Other expenses not affecting revenue and expenditure

This item is comprised of the employer contribution reserve used to pay employer contributions.

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.

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 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 service provision at the earliest, thereby rendering accruals based on historical and statistical data, as well as on estimates necessary for the revenue recognition of these items.

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. 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 with the weighted average cost of capital rate (WACC) for the current year under review (= $WACC_{t+0}$) and the interest applied to the volume- and tariff-related timing differences with the weighted average cost of capital rate of $WACC_{t+2}$ plus income taxes.

Invested operating assets consist of net current assets calculated on a monthly basis as well as the property, plant and equipment and intangible assets as at the end of the financial year. The weighted average cost of capital rate (WACC) is based on the current international practice of the WACC capital cost concept with reference to the Capital Asset Pricing Model (CAPM). Besides considering the findings of financial market theory, the regulatory framework conditions in Switzerland and the current situation in the money and capital market are also taken into account. The official weighted average cost of capital rates for 2020 ($WACC_{t+0}$) and 2022 ($WACC_{t+2}$) based on this method of calculation are unchanged from the 3.83% used in the previous year.

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by ElCom, which takes place ex post. In case of an ex post cost adjustment, an appeal can be lodged with the Federal Administrative Court 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 are 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 asset.

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
- Construction in progress 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: contract term
- Software and technical regulations: 3 to 5 years
- Intangible assets under development: 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.

Construction in progress/intangible assets under development

Construction in progress and intangible assets under development 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 construction in progress or intangible assets under development 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 are 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 of 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 accrual basis.

Derivative financial instruments

Swissgrid uses derivative financial instruments to hedge against currency and market 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 comments in the sections on "Revenue recognition" and "Activities according to StromVG" in Note 1, as well as the comments in Note 25.

3. Net turnover and procurement costs

Net turnover

For the 2020 financial year, net turnover across all segments amounts to CHF 588.2 million. Net turnover of CHF 672.7 million was recorded in the previous year. The decline in turnover is predominantly due to the CHF 33.2 million drop in tariff revenue in the grid utilisation segment and as well as the CHF 50.7 million decline in the general ancillary services segment. The grid utilisation segment also reported a CHF 41.8 million decline in income from auctions for the reduction of chargeable grid costs compared to the previous year. By contrast, net turnover in the active power loss and reactive energy individual ancillary services segments increased by CHF 30.3 million and CHF 15.7 million respectively, particularly due to higher tariff income.

Procurement costs

At CHF 228.5 million, procurement costs are CHF 3.6 million higher than the previous year's value of CHF 224.9 million. In the grid utilisation and reactive energy segments, the procurement costs increased by CHF 24 million and CHF 15.8 million respectively. In the grid utilisation segment, this increase is due to higher national redispatch costs of CHF 14.8 million as well as a rise in additional remuneration to former transmission system operators of CHF 9.2 million. In the reactive energy segment, the pro-rata voltage stability costs payable by this segment increased by CHF 15.8 million compared to 2019.

By contrast, the procurement costs in the general ancillary services and active power losses segments fell by CHF 25 million, and CHF 11.2 million respectively. In the general ancillary services segment, this was primarily due to the lower pro rata voltage stability costs of CHF 12.6 million and the fall in control power provision costs to CHF 11.7 million. The active power losses segment recorded lower procurement costs for active power loss.

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	2020	2019
Congestion management clearing	12.4	11.2
Other	2.1	2.0
	14.5	13.2

5. Materials and third-party supplies

In millions of CHF	2020	2019
Grid maintenance	19.1	21.3
Grid system control	0.4	0.5
Other services in the grid area	31.5	23.8
Expenses for projects, advisory and non-cash benefits	32.4	26.6
Hardware/software maintenance	11.1	10.3
	94.5	82.5

Other grid-related services include remuneration for easements, including easement management services performed by third parties and operating expenses for mixed-use plants. The number of easements for which Swissgrid pays remuneration to the property owners and therefore also the other services in the grid area item increased compared to the previous year. The increase in the expenses for projects, advisory services and non-cash benefits is due to higher costs for procured third-party services.

6. Personnel expenses

In millions of CHF	2020	2019
Salaries, bonuses, allowances	81.5	72.7
Employee insurance	16.3	13.3
Other personnel expenses	3.7	3.7
	101.5	89.7

The increase in personnel expenses can be explained by the growth in the workforce in the 2020 financial year. Other personnel expenses include, in particular, the costs of training and further education, recruitment, lump-sum expenses as well as allowances for external catering for employees. The average number of full-time equivalents exceeded 250 in the reporting period, as was the case in the previous year.

7. Other operating expenses

In millions of CHF	2020	2019
Rental and occupancy costs	8.7	9.1
Ground rents	6.5	4.5
Rental costs for communication equipment/telecommunication expense	3.1	3.3
Board of Directors' fees and expenses, incl. social costs	0.8	0.8
Actual expenses for travel and subsistence for employees and third parties	0.9	2.2
Fees, dues and licences	4.4	4.5
Insurance	1.4	1.6
Other administrative costs	3.0	2.7
	28.8	28.7

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 57,500 and CHF 70,000 pro rata temporis for 2020, including lump-sum expenses (previous year: CHF 55,000 to CHF 65,000).

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 2020, trade receivables include CHF 23.1 million (previous year: CHF 15.3 million) in relation to companies with a direct or indirect shareholding in Swissgrid.

9. Other receivables

As of the cut-off date, "Other receivables" include the outstanding receivable for the 2020 enforcement costs for handling the congestion management in the amount of CHF 12.4 million. In 2019, the enforcement costs of CHF 11.2 million as of the cut-off date were reported in prepaid expenses and accrued income due to the different invoicing date.

10. Prepaid expenses and accrued income

In millions of CHF	31.12.2020	31.12.2019
Accrued revenue for supplies made	41.4	45.6
Other	25.5	2.6
	66.9	48.2

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

11. Balance sheet items held on a fiduciary basis

Pursuant to the ECom letter of approval issued on 7 February 2019, income from auctions in 2020 in the amount of CHF 71.1 million (previous year: CHF 114.5 million) was paid to Swissgrid.

At CHF 23.9 million, the balance sheet item is CHF 9.1 million above the previous year's value of CHF 14.8 million, primarily due to the CHF 5.9 million increase in unused income from auctions.

As of the balance sheet date, derivative financial instruments (futures) in the nominal amount of EUR 70.2 million exist to partially hedge against the EUR/CHF currency risk from expected future income in euros. The negative replacement values as at 31 December 2020 amount to CHF 1.0 million (previous year: positive replacement values of CHF 1.5 million).

12. Financial assets

In this financial year, CHF 0.1 million of the employer contribution reserve was used to pay monthly employer contributions.

13. Shareholdings

		Share capital in m.	Share in %
Joint Allocation Office (JAO)	B	0.100	5.0
TSCNET Services GmbH	C	0.033	7.1
Holding des Gestionnaires de Réseau de Transport d'Electricité SAS (HGRT)	D	52.119	5.0
Pronovo AG	E	0.100	100.0
ecmt AG	F	0.100	20.0
Equigy B.V.	G	0.040	25.0
AET NE1 SA	A	0.100	100.0
ALENA Aletsch Energie Netz AG	A	0.100	100.0
Alpiq Netz AG Gösigen/Aarau	A	0.100	100.0
Alpiq Réseau SA Lausanne/Aarau	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	A	0.100	100.0

Shareholdings 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

F = Embrach (CH) | Currency CHF

G = Arnhem (NL) | Currency EU

In the 2020 financial year, Swissgrid founded the joint venture Equigy together with the transmission system operators TenneT TSO B.V. (Netherlands), TenneT TSO GmbH (Germany) as well as TERNA S.p.A. (Italy). Equigy, the blockchain-based crowd balancing platform, intensifies collaboration at a European level and standardises the integration of small, decentralised units into the grid control process.

Swissgrid is not legally obliged to prepare consolidated financial statements. Either the control principle necessary to prepare a consolidated financial statement (Art. 963 of the Swiss Code of Obligations (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.

14. Property, plant and equipment

The book values of the individual categories are as follows:

In millions of CHF	31.12.2020	31.12.2019
Construction in progress	320.2	366.4
Substations	753.3	781.2
Lines	1,005.1	929.4
Properties and buildings	169.2	156.4
Other property, plant and equipment	10.2	16.2
	2,258.0	2,249.6

15. Intangible assets

The book values of the individual categories are as follows:

In millions of CHF	31.12.2020	31.12.2019
Intangible assets under development	9.7	12.9
Usage rights	84.3	86.7
Software	41.1	49.3
Merger losses (goodwill)	100.5	108.9
	235.6	257.8

16. Trade accounts payable

As at 31 December 2020, trade accounts payable include CHF 28.3 million (previous year: CHF 20.2 million) in relation to companies with a direct or indirect shareholding in Swissgrid. Liabilities amounting to CHF 62,646 (previous year: CHF 5,924) exist in relation to the external auditor as at 31 December 2020.

17. Other liabilities

In millions of CHF	31.12.2020	31.12.2019
Value-added tax	0.4	3.6
Security deposits on blocked bank accounts	0.8	0.8
Other	1.7	0.6
	2.9	5.0

The "Other" item contains outstanding obligations towards PKE Vorsorgestiftung Energie of CHF 1.3 million (previous year: CHF 0.4 million) as of the cut-off date.

18. Accrued expenses and deferred income

In millions of CHF	31.12.2020	31.12.2019
Accrued expenses for supplies made	49.8	52.8
Personnel expenses and employee insurance scheme	9.0	7.5
Accrued interest and premium from issued bonds	9.0	10.6
Taxes	9.2	1.4
	77.0	72.3

19. Financial liabilities

In millions of CHF	31.12.2020	31.12.2019
Bonds	1,180.0	975.0
Convertible loans	415.4	584.6
Loans	0.1	0.1
Total financial liabilities	1,595.5	1,559.7
Current portion	172.4	519.2

Bonds

Nominal amount in CHF	Interest rate	Term	Expiration at nominal value
350 million	1.625%	2013–2025	30.01.2025
150 million	0.000%	2020–2028	30.06.2028
150 million	0.625%	2015–2030	25.02.2030
150 million	0.200%	2020–2032	30.06.2032
125 million	0.150%	2020–2034	30.06.2034
130 million	0.125%	2020–2036	30.06.2036
125 million	0.050%	2019–2050	30.06.2050

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 next partial repayment of convertible loans, amounting to CHF 169.2 million, was made at the start of the 2020 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	3,36–3,93%	172.4	237.2	5.8
Loans	0.00%	–	–	0.1

Convertible loans and loans are assessed at their nominal value.

As at 31 December 2020, convertible loans of CHF 253.2 million (previous year: CHF 343.3 million) exist towards companies with a direct or indirect shareholding in Swissgrid.

20. Provisions

In millions of CHF	31.12.2020	31.12.2019
Dismantling	6.1	6.1
Employee incentive plan	–	0.3
Procedural costs	2.9	3.8
Total provisions	9.0	10.2
Current portion	2.2	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.

21. Share capital and reserves from capital contributions

The share capital consists of 320,398,149 (previous year: 320,398,149) fully paid-up registered shares with a par value of CHF 1 per share.

22. Derivative financial instruments

Swissgrid made use of derivative financial instruments to partially hedge against market price risk from future procurement costs for active power losses. The nominal amount of these instruments is EUR 18.3 million (previous year: EUR 14.2 million), with negative replacement values of EUR 1.5 million as at 31 December 2020 (previous year: EUR 0.3 million).

23. Contingent receivables

Billing method for ancillary services (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.

24. Other off-balance-sheet commitments

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. Swissgrid paid the first remuneration based on this method to the former transmission system owners on 3 January 2017. The final remuneration owed under this method could not yet be paid, as proceedings relevant to the valuation were still pending. EiCom has now issued rulings on all pending valuation proceedings and so provided a ruling on the final regulatory values of the transmission system assets at the respective transaction date. The requirements for the equal treatment of all former transmission system owners for the final remuneration have therefore been met.

The final remuneration is planned for 2021 and will increase the value of Swissgrid's non-current assets by an expected amount of CHF 100 to 150 million. Due to the regulatory business model, this will also indirectly lead to a higher net 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.

Equigy B.V.

As a shareholder of Equigy B.V., 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
31.12.2020	0.8	1.2	2.0
31.12.2019	0.7	0.6	1.3

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
31.12.2020	6.0	38.3	68.3	112.6
31.12.2019	6.0	39.3	72.1	117.4

The long-term rental obligations primarily include the rental commitments for Swissgrid's head office in Aarau.

25. Legal proceedings

In its letter dated 23 August 2019, EICom reopened proceedings to calculate the volume- and tariff-related timing differences for 2011 and 2012 and has since combined these into a single proceeding. In November 2020, EICom submitted the draft ruling to Swissgrid to seek its opinion. Swissgrid submitted its opinion to EICom prior to the end of 2020.

EICom has not yet initiated any proceedings to examine the volume- and tariff-related timing differences for the years from 2013 to 2020. These proceedings will examine the chargeability of Swissgrid's capital and operating costs. The outcome of these proceedings could result in a reduction of Swissgrid's chargeable costs.

As at 31 December 2020, Swissgrid estimates the cumulative risk for non-chargeable costs at CHF 78 million. As at 31 December 2019, the cumulative risk was estimated at CHF 75 million. Swissgrid's equity situation is therefore not jeopardised, even in the event that the maximum risk of CHF 78 million occurs.

Swissgrid's Board of Directors and Executive Board believe that all costs for the years 2011 to 2019 were incurred within the framework of Swissgrid's legal mandate and should therefore qualify as chargeable. Based on this assessment, Swissgrid has treated all operating and capital costs as chargeable and consequently recognised them in full in the volume- and tariff-related timing differences. If, contrary to Swissgrid's assessment, the costs claimed are ruled to be non-chargeable, this would be reflected in future financial statements.

Third-party proceedings

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.

26. Audit fees

In 2020, the fees for audit services amount to CHF 214,000 (previous year: CHF 219,000) and CHF 3,000 (previous year: CHF 16,000) for other services.

27. Events after the balance sheet date

There are no events after the balance sheet date that would require disclosure or recognition in the 2020 financial statements.

On 20 April 2021, the Board of Directors of Swissgrid Ltd approved the 2020 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	2020	2019
Balance carried forward from the previous year	365,815,233.71	372,091,648.69
Profit for the year	71,138,387.07	25,208,873.03
Retained earnings	436,953,620.78	397,300,521.72
Appropriation to the general legal reserves	–	–
Dividend payment	37,867,863.06	31,485,288.01
Balance to be carried forward	399,085,757.72	365,815,233.71
Total appropriation	436,953,620.78	397,300,521.72

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

Aarau, 20 April 2021

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 2020, 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 2020 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 2020 financial year Swissgrid reports an EBIT (earnings before interest and taxes) of CHF 113.4 million. The change in volume- and tariff-related timing differences amounts to CHF +109.2 million.

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

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 amortized 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" (Activities according to StromVG) as well as under note "25. 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 and volume- and tariff-related timing differences 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 2020 financial year Swissgrid reports a net turnover of CHF 588.2 million and the procurement costs amount to CHF 228.5 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, 20. April 2021

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