swissgrid

Annual Report 2011

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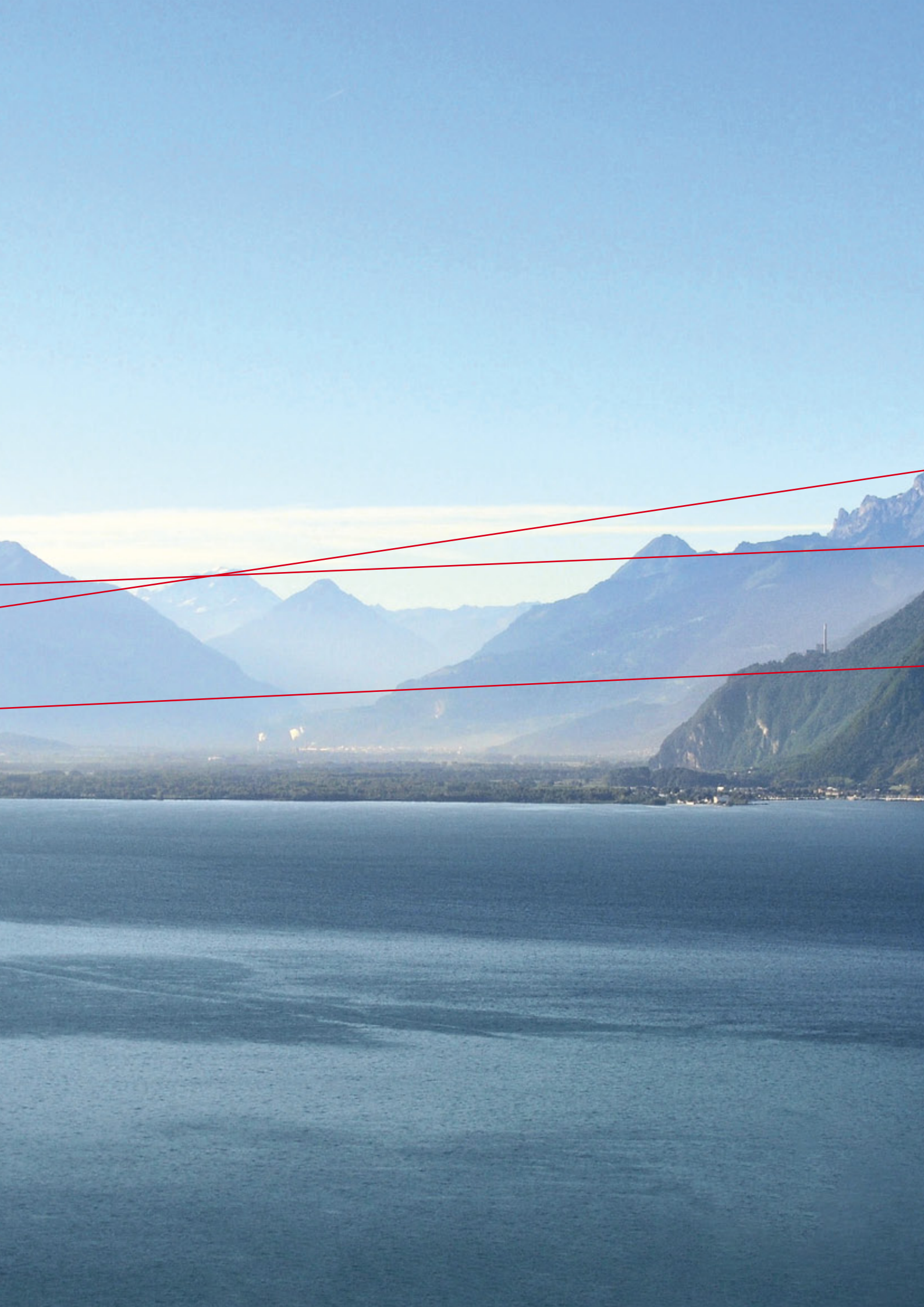


At a glance!

Swissgrid – the national grid company

As the national grid company, Swissgrid is responsible for the secure, reliable and cost-effective operation of the country's transmission system. As the new owner, it will also be responsible in future for the grid's maintenance, renewal and appropriate expansion.

Swissgrid employs about 360 highly qualified people from 12 countries at its sites in Frick (AG), Laufenburg (AG) and Vevey (VD).

As a member of the European Network of Transmission System Operators for Electricity (ENTSO-E), Swissgrid is also responsible for coordination and grid usage in the cross-border exchange of electricity in Europe.

Swissgrid is wholly owned by the eight Swiss electricity companies: Alpiq AG, Alpiq Suisse SA, Axpo AG, BKW FMB Energie AG, CKW AG, EGL AG, Stadt Zürich ewz and Repower.

Figures for the Swiss transmission system in 2011

Grid length (in km)	6,700
Electricity pylons	15,000
Substation	130
Necessary grid renewal (in km)	1,000
Necessary grid construction (in km)	300
Grid expansion in the last 10 years (in km)	150
Investment costs for expansion and renewal in CHF billions	4–6
Blackout costs per minute in Switzerland in CHF millions	8–30

Pioneer for Switzerland's energy future

Report of the Chairman of the Board of Directors and the CEO

Dear Reader

2011 was a year of groundbreaking developments for Swissgrid in terms of operational business, the grid takeover project and the ramifications of the new Swiss energy strategy.

Security and stability in a dynamic environment

Swissgrid operated the transmission system securely and without interruption in the past financial year despite being subject to major strain and strongly fluctuating transit flows following the shutdown of the eight nuclear power plants in Germany. Following a minor rise in the volume of energy transported, to 80.7 terawatt hours, the operational situation in the transmission system remained under pressure.

Just in time, before the severe winter of 2011/12 set in, Swissgrid took a number of precautionary measures in cooperation with neighbouring countries aimed at avoiding any precarious grid situations. These included mutual compensation for any loss in power plant capacity and the establishment of measures to be taken in the event of an emergency in the context of a pan-European security platform (TSC). Thanks to this platform Switzerland was able to successfully supply the German grid with control energy on the first weekend of February and by doing so make an important contribution to securing electricity supply not only in Switzerland but in Europe as well.

Good quality of control

Although the situation in the grid has to be described as having been under pressure in 2011, Swissgrid did an excellent job in terms of quality of control. Measured using the indicator for control quality ACE (Area Control Error), Switzerland is in first place in Europe. This result is attributable to good internal cooperation and to solid planning with all partners involved in grid operation in Switzerland and abroad. Available grid capacity has been optimised and national and international interventions in the Swiss power plant fleet have fallen significantly since 2009 thanks to new measures that enable the local reallocation of power plant feed-ins.

Swissgrid further reduced the procurement costs of ancillary services by the consistent continuation of measures taken in previous years. The costs of control power provision amounted to CHF 187 million in 2011, which corresponds to a 30% reduction over the previous year. In addition to lower prices in electricity wholesale trading, this improvement is the result of constant diversification in the product range and expansion with the circle of providers. Today Swissgrid is one of the first transmission system operators in Europe to procure control energy abroad, concluding agreements with France in 2011 and scheduled to import electricity from Germany from the beginning of

March 2012. By doing so Swissgrid is making an essential contribution to ensuring competitive electricity prices for Swiss consumers.

Transmission system takeover on track

The takeover of the transmission system will represent an important milestone in the development of Swissgrid into an efficient and fully fledged grid company. The takeover project made good progress in 2011: the memorandum of understanding was signed by 18 transmission system owners, the due diligence was performed on the outsourced grid companies and negotiations for the in-kind contribution agreements got fully under way. After the takeover of the transmission grid Swissgrid will be responsible for the maintenance, renewal and expansion of the grid following the completion of the transaction.

Relationships with Europe strengthened

The Swiss transmission system is connected to some 40 locations in Switzerland's neighbouring countries. Major headway was made in 2011 with the more efficient management of limited border capacities. The annual, monthly and daily capacity auctions are carried out centrally on all connections with countries outside Switzerland by the CASC auction house in Luxembourg, which Swissgrid has been participating in since 2010. Swissgrid has also harmonised the auction rules with the transmission system operators of the Central West Europe and Central South Europe regions for 2012 in agreement with the regulators in question. This is an important step towards integration of the Swiss transmission system in Europe.

Energy reform as a challenge and opportunity

The energy reform passed by the Federal Council and Parliament was also encouraged by Swissgrid in 2011. The future structure of our electricity supply is the subject of numerous debates and discussions at the political, business and public level. It soon became clear that the electricity grid would assume special importance once the new Energy Strategy 2050 is implemented. Last spring, Swissgrid started to analyse the possible ramifications for the grid of a gradual exit from nuclear energy. Working in close cooperation with the Federal Government, Swissgrid is currently developing a strategy for the long-term expansion of the grid that takes various scenarios into consideration. Swissgrid is also playing an active part at the European level. On the one hand, in the interests of a "supergrid" that is to be planned and built from a European perspective and designed to transport wind and solar electricity over long distances with minimal loss; and, on the other, by means of intelligent power generation and consumption management of the grid. Such "smart Grids" can help reduce the grid load across the various grid levels.

Grid expansion: a project for society

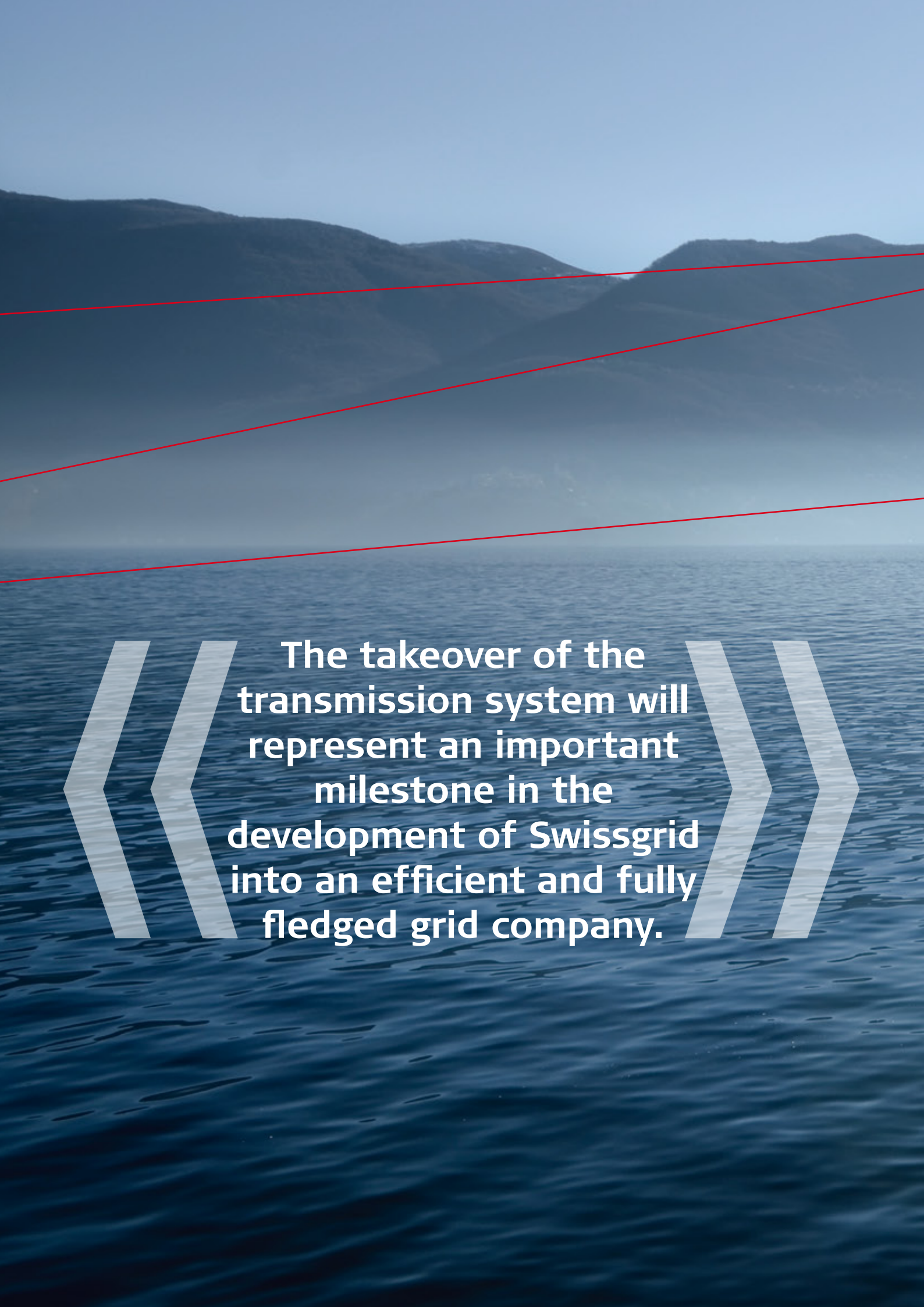
We need to be aware of the dimensions of the energy reform, as it involves the fundamental reconstruction of our energy landscape, from power generation through to providing products to the consumer. It is now a question of rapidly taking care of the necessary preparations and laying the foundations for a secure and sustainable energy supply. This requires the creation of a stable legal and regulatory framework for the Swiss grid. What is even more important, however, is obtaining widespread acceptance and support for sustainable grid renovation and expansion at the political, business and population levels. For this reason Swissgrid stepped up its dialogue in 2011 with the general public and important decision makers at federal and cantonal levels and in the future will also increasingly address the population in the regions affected.

Outlook

2012 will be a challenging year that involves a lot of work for Swissgrid. The successful takeover of the transmission systems represents an important milestone on the road to liberalisation of the Swiss electricity market. It is now a question of working further in the direction of energy reform and of devising solutions for the grid's expansion in collaboration with the energy sector that meet with the consensus of business, politics and the population. Working with a team with a great deal of dedication, drive and enthusiasm to ensure the long-term security of electricity supply in Switzerland, Swissgrid sees itself as an important pioneer for the energy future. On behalf of the Board of Directors and Executive Board, we would like to express our warmest thanks to all those employees and partners who are helping us achieve this goal!

Peter Grüschow
Chairman of the Board of Directors

Pierre-Alain Graf
CEO



The takeover of the transmission system will represent an important milestone in the development of Swissgrid into an efficient and fully fledged grid company.

2011 in review

2011 in review

Secure, stable system management

The national grid company, Swissgrid, has the mandate to guarantee the security of electricity supply for the Swiss control area around the clock. In the 2011 financial year 80.7 TWh of energy were transported without interruption, which corresponds to an approximately 1% increase over the prior year. As in previous years the situation in the Swiss transmission system was characterised by a highly dynamic flow of electricity in 2011. The shutdown of eight nuclear power plants in Germany in particular resulted in a change in large-scale load flows throughout Europe. Fluctuations in grid frequency and voltage support proved to be the biggest challenges facing system operations. Despite the demanding grid situation Swissgrid was able to keep the grid stable. However, to guarantee grid security Swissgrid had to intervene in power plant deployment on repeated occasions (known as redispatch). The number of interventions was fortunately more than halved over the previous year thanks to the introduction by Swissgrid of financial incentive mechanisms. Since June 2011, for example, producers are required to pay a fine for ignoring a congestion warning if Swissgrid has to intervene in production in the interests of grid security.

Costs for ancillary services reduced by 30%

The costs of procuring ancillary services were reduced to CHF 187 million from CHF 272 million in the previous year. This was due to better market conditions and an extension in the circle of providers to include an increasing number of neighbouring countries. For example, shortly before the end of 2011 Swissgrid signed a new cooperation agreement with German transmission system operators for the supply of primary control power Consequently, from March 2012 some 25 MW of primary control power can be procured in Germany in a bid process. This corresponds to around a third of the primary control power required for the Swiss control area. At the same time, the price of secondary control power dropped below CHF 300 per MW for the first time since the introduction of the market for ancillary services.

One additional optimisation in procurement costs was made in the compensation for active power losses in the transmission system. The energy required had previously been bought by participating in the monthly or daily auctions on the EPEX spot exchange. Now, Swissgrid participates in the German intraday market, which enables it to compensate at short notice for forecasting errors in its planning. Swissgrid will continue to work on reducing the costs of ancillary services in future by collaborating with new providers and by introducing additional innovative processes in compliance with the regulations. To this end, it is also committed to gaining industrial plants as suppliers of tertiary control energy in Switzerland in addition to entering into negotiations with neighbouring countries.

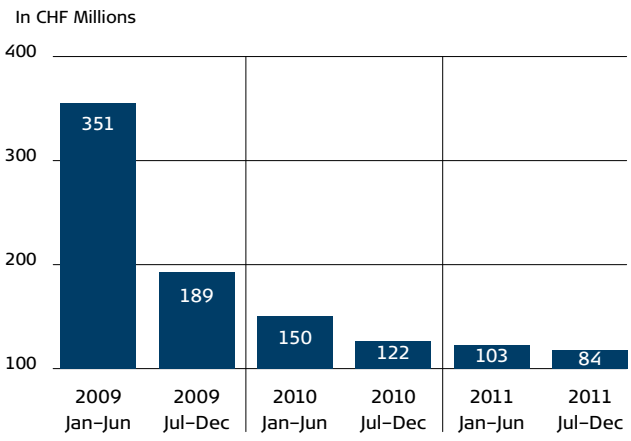
Introduction of a central grid control for Switzerland

The “OPERA” project was launched in 2011 with a view to the grid’s takeover. The project involves establishing all the necessary processes in preparation for central grid control from 1 January 2013. In a first phase the substations of Alpiq and subsequently those of other grid owners will be taken over. In future, Swissgrid will be able to manage all switching operations in the transmission system centrally from Laufenburg. In addition to training employees in the basics of centralised switching operations, this new task also requires the replacement of the existing grid control system. With the support of external partners, Swissgrid is working at full speed to carry out the necessary preparations for this. Employee training will already be completed by mid-2012, six months before the new grid control system enters into operation.

Enhanced energy data transparency

Energy data are extremely important in a liberalised market as they constitute an important basis for the free choice of electricity supplier. The challenge lies in supplying reliable energy data to each market player on time. Since the opening of the electricity market at the beginning of 2009 Swissgrid has been aggregating thousands of units of energy data in the form of time series measured every quarter of an hour. In the 2011

Development of ancillary services procurement costs



financial year these energy data were made available on the Swissgrid website for the first time in the interests of a transparent information policy. The data go back to 2009 and are updated monthly. In this way market participants and other interested parties have at their disposal an extensive data basis upon which to make further calculations, analyses and evaluations.

GO! project – Takeover of the transmission system

In 2011 the grid takeover project involved the establishment of business processes for the management of the assets and preparations for the actual transaction. Key milestones were reached on the road to assuming responsibility for the assets. Building on the declaration of intent signed in 2010, the memorandum of understanding entered into effect at the end of June 2011. It defines the specific structure of the grid companies that will pass to Swissgrid during the course of the transaction. Negotiations with the 18 transmission system owners proved a major challenge, although a result was achieved that was found to be satisfactory on all points by all parties concerned.

Proactive collaboration on grid projects in the regions

In 2011 Swissgrid was already actively involved in various grid projects aimed at ensuring the seamless transfer of activities. In addition to the Pradella-La Punt line in the Engadin, these involved the connection between Beznau and Birr in the Canton of Aargau. Both projects are currently undergoing the approval procedure. In the case of the latter project, the Federal Supreme Court ordered in April 2011 the partial cabling of an approximate one kilometre section in the community of Riniken. Project planning for the partial cabling was carried out in close cooperation with Axpo and Swissgrid. Swissgrid's management of the assets is incorporated for consultative purposes into the project committee tasked with the technical preparation for the takeover. This provides Swissgrid with a sound insight into ongoing grid expansion projects prior to the actual takeover of the grid.

Long-term grid expansion strategy

The energy reform passed by the Federal Council and Parliament has also had major ramifications for the Swiss electricity grid. Nuclear power plants are to be shut down and not replaced after reaching the end of their service lives. The new energy strategy also provides for an increase in energy efficiency and the generation of more electricity from new renewable energies. This forms the basis for Swissgrid's outline of the transmission system of the future, which addresses the various power generation and usage scenarios. Developments in the field of intelligent grid technologies are also being factored in. The extensive work carried out on grid simulation and planning will be concluded in 2013.

Transparency with regard to the underground cabling and overhead lines issue

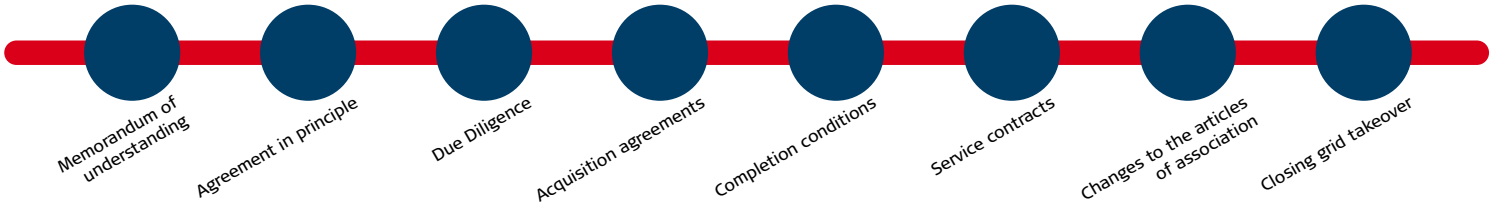
Electricity grid expansion has slowed significantly in recent years in the face of increasing resistance to infrastructure projects. Emotional fundamental debate makes it difficult to engage in objective dialogue and numerous objections block the necessary expansion of the grid. In order to gain an independent scientific basis for the characteristics of underground cabling and overhead lines, Swissgrid commissioned the Ilmenau University of Technology (Germany) to conduct a meta study to compare the results of all existing research studies performed on this subject. The outcome was presented to the public in autumn 2011. The findings of the meta study are of central importance for grid expansion as they lend some objectivity to the debate. The pilot test with underground cabling is also expected to provide some new revelations.

Further development of congestion management

The unimpeded exchange of electricity across borders was not possible due to bottlenecks on these electricity superhighways in 2011. This is because demand exceeds the available capacity. At the beginning of 2011 all long-term cross-border capacity allocation and day-ahead allocation on Switzerland's borders with Germany and Austria and on all Italian borders was transferred to the Capacity Allocating Service Company (CASC) auction house in Luxembourg. Swissgrid has since introduced auctions on the Swiss-French border as well. A new allocation procedure for intraday cross-border capacity is also being employed that runs on a platform operated by Deutsche Börse. Thanks to the further development of congestion management on the Swiss borders, the conditions for domestic traders on the European electricity market have been considerably improved.

Important convergence with Europe

Despite harmonisation efforts there continues to be market inefficiencies in Europe due to the separation of the electricity and capacity markets (electricity transportation). Although price differences exist between countries, unused capacities persist. For this reason the markets of Region Central West Europe (CWE), to which France, Germany, the Netherlands,



Many participants – one main aim: The milestones of the takeover of the transmission system

Belgium and Luxembourg belong, have been linked in recent years with the Scandinavian markets according to the concept of market coupling. This involves the allocation of electricity and border capacities in coupled auctions. Swissgrid is actively seeking to couple Switzerland with CWE and is currently represented as an observer in all of the relevant CWE bodies. At the end of May 2011 Swissgrid filed an official application to take part in the CWE coupling. However, one of the preconditions is the creation of an electricity exchange that is subject to Swiss law.

Guarantees of origin for Swiss electricity become Europe-compliant

Guarantees of origin are an important instrument used to label electricity. They certify that a certain quantity of electricity has been generated from a specifically defined energy source. As an accredited certification body, in 2011 Swissgrid issued guarantees of origin for some 40% (26 TWh) of total Swiss electricity production. The certification process must take place according to clear requirements. For this reason an audit was carried out in May 2011 with the aim of checking business processes. The result was positive and required the enforcement of no new requirements. All requirements laid down by the quality management standard ISO 9001 are fulfilled. Guarantees of origin will gain further importance within the framework of energy reform and in European electricity trading.

CRF – uninterrupted demand

Swissgrid manages cost-covering remuneration for feed-in to the electricity grid (CRF) on behalf of the Federal Government and to this end has created the CRF Foundation. The purpose of the foundation is the clear and transparent receipt and administration of surcharges in favour of the CRF incentive fund. As a reaction to the catastrophe in Fukushima the already high demand for funding for electricity from renewable energies has once again increased markedly: after receiving an average of 250 applications per month in 2010, more than 900 have been regularly received per month since May 2011. As of the end of 2011 Swissgrid had already received over 20,000 applications. At the same time the number of plants in operation have increased to more than 3,000, which together produce electricity amounting to some 1,000 GWh. This corresponds to the annual generation of two large hydroelectric power plants. For the first time since the introduction of the CRF in 2011 a geothermic project in the canton of Vaud received risk cover that was financed via the CRF Fund. A maximum of CHF 150 million is available for this risk cover. In the case of success, the project managers estimate an annual production of 3.5 GWh electricity, which corresponds to the annual consumption of approximately 1,000 households.

Collaboration in European bodies

The European Union's Third Energy Package entered into effect in March 2011. It focuses on the following points: improved integration of electricity and gas markets, more efficient use of interconnected lines, and the removal of barriers to cross-border trading and to investments in grid infrastructure. At the same time the European regulatory authority ACER (Agency for the Cooperation of Energy Regulators) has started up operations and has issued guidelines on various subjects, two examples of which are grid connections and congestion management. On the basis of these guidelines the European Association of Transmission System Operators, ENTSO-E, has drafted network codes which lay down detailed regulations governing commercial and technical grid operation. As a member of ENTSO-E, Swissgrid is working proactively on the structure and further development of the European electricity grid and represents the interests and needs of Switzerland.

Supergrid – important element for the energy future

Swissgrid plays an active role at the European level, in particular with regard to the future integration of Switzerland. A supranational electricity grid, or "supergrid", is to be planned and built over the next few decades from an general European perspective. In this way the strongly fluctuating electricity that is generated in large amounts and at certain times from renewable energies can be better transported across thousands of kilometres without incurring major losses. Swissgrid has been working towards this aim since the end of 2011 in a European Research Consortium, which is investigating the technological, regulatory, financial and socioeconomic framework for grid expansion. This working group also aims to draw up a development plan for a future supergrid for the period from 2020 to 2050. As the electricity hub within Europe, Switzerland has a major interest in collaborating on the planning and construction of this grid. This grid is of major importance for the future security of electricity supply and for the Swiss economy.

Dialogue with the public, business and politicians

The announcement of the Federal Government's new energy strategy triggered widespread public debate, which has revealed there is a major need for information about the present and future functions of the Swiss transmission system. For this reason Swissgrid stepped up its contact with associations, politicians and public authorities last year. The dialogue has paid off as Swissgrid has gained in recognition and persuasive power. In 2012 Swissgrid will continue to raise the public's awareness of energy reform and focus its communication on the necessary grid expansion, especially in the regions who are affected.

Organisation, skills and corporate development

Swissgrid's rapid growth and increasingly complex remit have required the restructuring and optimisation of existing business processes. The introduction of the Balanced Scorecard in 2011 created the basis for a performance-based corporate culture. Internal training courses were offered in response to the requirements of secure system operation and an efficient organisation and were aimed at enhancing employees' specialist, management and communication skills. Succession planning for key position holders was also taken up along with the accompanying knowledge transfer. Here the emphasis was on the ascertainment and documentation of new processes and functions after the grid's takeover and the long-term safeguarding of technical know-how in the company. This continuation of this work will continue to be accorded high importance in 2012.

Efficiency as the primary aim

Swissgrid has essentially been entrusted with the task of guaranteeing the security of electricity supply in Switzerland by means of efficient electricity transport. The very function of the Swiss transmission system represents a natural monopoly. Nevertheless, resources at Swissgrid are deployed according to business principles and aim at increasing the security of Switzerland's electricity supply, added value and welfare. Swissgrid is also obliged to implement the energy strategy laid down by the Federal Government and the cantons. All these criteria must be taken into account from an efficiency perspective.

Swissgrid active in the regulatory environment

Swissgrid's success cannot be measured exclusively in terms of revenue or profit. The majority of the services to be provided by Swissgrid are defined in the Electricity Supply Act. Expenses and income are monitored by the Swiss Federal Electricity Commission (ElCom). In contrast to companies operating in the free market, Swissgrid's results are regulated to a large extent. All funds necessary for operation are charged at a predefined interest rate that is stipulated by ElCom each year based on the Electricity Supply Ordinance. Swissgrid covers its own costs through tariff revenues.

Financial Report 2011

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Financial commentary

Focus on the upcoming grid takeover – further cost reductions in ancillary services

Electricity companies are legally obliged to transfer the Swiss transmission system to Swissgrid by the end of 2012 at the latest. The preparation for this milestone has had a considerable impact on Swissgrid's 2011 financial statements. Pooled together under the GO! (Grid Owner-ship) project, these activities include both the preparation and execution of the grid transaction and the adaptation of company-wide processes to the expanded business model. The Asset Management and Service division, which will be responsible for the transmission system in the future, has also undergone further expansion. In the year under review, Swissgrid's balance sheet was affected in particular by due diligence activities, which consisted of comprehensive screening of the companies involved in the transaction. The costs of due diligence were capitalised as purchase costs under construction in progress.

The development in power provision costs in the area of general ancillary services continued to be very encouraging, with a further significant reduction of over 30% to some CHF 187 million being achieved over the previous year in this important cost block.

The regulatory and legal risks faced by Swissgrid must also be mentioned. In particular, the reductions for 2009 and 2010 totalling CHF 4.3 million imposed by ElCom as part of retrospective cost reviews have increased uncertainty with regard to the chargeability of costs. Swissgrid cannot comprehend the arguments for these cuts and will therefore continue to use all available legal means to challenge them.

General ancillary services (AS)/balance energy

Total costs in the general AS/balance energy segment were down by over CHF 100 million to CHF 306.4 million over the previous year's figure. This decrease was primarily a result of the aforementioned significant reduction in costs for power provision by the power plants. Good power plant availability, moderate electricity consumption and an increase in the number of providers also played an important role in reducing costs.

The costs of this segment are covered by the general AS tariff, which was raised by ElCom to CHF 0.77/kWh, which is almost double the previous year's figure. The main reason for this rise was the discontinuation of the option to charge residual costs to power plants with a capacity of more than 50 MW, which was based on a ruling by the Federal Administrative Court. The increase was also the result of a temporary sur-charge for the charge-backs of residual costs already paid in previous years. This combination of factors resulted in a considerable cost surplus of CHF 225.4 million in 2011, which will lead to lower tariffs in the upcoming calculations.

Individual ancillary services

With the tariff unchanged from the previous year, total revenues in the active power losses segment rose by 7.4% to CHF 91.6 million. This figure includes slightly higher revenue shares from cross-border grid utilisation (ITC and LTC revenues). The total costs of compensation for active power losses were down slightly over the previous year to CHF 79.8 million, which resulted in a somewhat increased cost surplus of CHF 11.8 million in the year under review.

Tariff revenues in the reactive energy segment fell sharply, from CHF 3.9 million in the previous year to just CHF 1 million in 2011. A change in calculation methods led to an unexpectedly sharp reduction in the volume of energy chargeable. The segment recorded a deficit of CHF 9.8 million in the year under review because it was not possible to bring down costs in comparison with the previous year.

Grid utilisation

Revenues in the grid utilisation segment were up by 1% to CHF 381 million over the previous year. Three factors – tariff revenues and the segment's share of LTC and ITC revenues – contributed to this slight increase. However, the share of the proceeds from auctions of bottle-neck capacities to be used for cost reduction purposes was unchanged from the previous year at CHF 40 million.

On the cost side, the compensation in favour of existing grid owners stipulated by ElCom fell by 8.6% to CHF 292.5 million. Swissgrid's significantly increased operating costs of CHF 80.6 million are in connection with the aforementioned preparations for the upcoming grid takeover. The grid utilisation segment posted a surplus of CHF 2.1 million in the year under review.

Other activities

The activities not regulated by the Electricity Supply Act (StromVG) were unchanged from the previous year. Despite slightly higher revenues, EBIT was halved as a result of special factors and amounted to CHF 0.5 million.

EBIT, financial income and net income

The operating result from StromVG-regulated activities is based on invested assets necessary for operations (fixed and net current assets) multiplied by the weighted average cost of capital of 4.25% (2010: 4.55%). EBIT from StromVG-regulated business rose by CHF 8.7 million over the previous year to CHF 12.2 million, while non-current assets increased considerably in the year under review due to project investments. However, the main influence comes from a change in the interest rate applied to volume- and tariff-related timing differences in the area of ancillary services, where a LIBOR-based interest rate has been applied since 2011. This resulted in a positive EBIT effect of CHF 4.8 million. In addition, accrual effects from the previous year totalling CHF 2 million were recorded.

Increased tariff revenues reduced the amount of short-term borrowing required, which led to a further reduction in interest payments in comparison with previous periods to just CHF 0.9 million. These combined effects produced annual profit of CHF 9.7 million, which is a CHF 7.0 million increase over the previous year.

Balance sheet and cash flow statement

Excluding fiduciary positions, total assets came to CHF 404.6 million, and were therefore approximately at the level of the previous year. The same was true for operating cash flow: the aforementioned marked increase in tariff revenues for general AS also generated cash flow of around CHF 60 million in the year under review. Aside from the GO! (Grid Ownership) project, capital expenditures were spread over a broad range of key infrastructure, IT and sector-related projects.

Outlook

The upcoming transfer of the transmission system and Swissgrid's subsequent assumption of responsibility for grid maintenance, repairs and expansion will continue to be the focus of the company's activities in 2012 from a financial perspective. The execution of the transaction entails numerous challenges such as the complex process of adjusting and integrating the financial data of the current owners and ensuring solid and efficient financing of the grid companies to be taken over using additional borrowed and proprietary funds.

Following the completion of the transaction – the volume of which is likely to total around two billion francs – Swissgrid will be responsible for maintaining, renovating and expanding the entire high-voltage grid. This brings with it an abundance of new tasks along the entire value chain. Swissgrid will therefore continue with the preparatory work already under way and make the necessary investments in its workforce, processes and infrastructure, continuing to live up to its responsibility as the national grid company in the future.

Luca Baroni
CFO

Income statement

In millions of CHF	Notes	2011	2010
Net turnover	4, 5	1,002.3	790.9
Other operating income	4, 6	11.7	12.4
Volume- and tariff – related timing differences	4, 14	– 229.5	79.9
Capitalised self – constructed assets		4.2	3.7
Total operating income		788.7	886.9
Cost of procurement	4, 5	649.0	771.8
Gross profit		139.7	115.1
Materials and third – party supplies	7	33.2	29.1
Personnel expenses	8	61.8	48.8
Other operating expenses	9	10.9	13.4
Earnings before interest, income taxes, depreciation and amortisation (EBIT)		33.8	23.8
Depreciation / amortisation	12	20.7	19.3
Impairment losses	12	0.4	0.0
Earnings before interest and income taxes	4	12.7	4.5
Financial income	10	0.1	0.2
Financial expenses	11	0.9	1.4
Earnings before income taxes		11.9	3.3
Income taxes		2.2	0.6
Net income		**9.7**	**2.7**

Balance sheet – assets

In millions of CHF	Notes	31.12.2011	31.12.2010
Property, plant and equipment	12	43.6	29.7
Intangible assets	12	35.6	31.0
Financial investments	13	0.4	0.4
Long – term deficits arising from volume – and tariff – related timing differences	14	15.4	5.6
Non – current assets		95.0	66.7
Assets held on fiduciary basis	15	134.8	105.1
Trade accounts receivable		250.2	159.8
Other receivables	16	1.7	3.2
Prepaid expenses and accrued income	17	40.5	60.9
Short – term deficits arising from volume – and tariff – related timing differences	14	0.0	81.4
Cash and cash equivalents		17.2	19.4
Current assets		444.4	429.8
Total assets		**539.4**	**496.5**

Balance sheet – equity and liabilities

In millions of CHF	Notes	31.12.2011	31.12.2010
Share capital		15.0	15.0
General reserve		0.6	0.4
Retained earnings		19.6	10.8
Total equity		35.2	26.2
Provisions	18	1.2	0.6
Short – term surpluses arising from volume – and tariff – related timing differences	14	220.6	62.7
Non – current liabilities		221.8	63.3
Liabilities held on fiduciary basis	15	134.8	105.1
Current financial liabilities	19	28.0	50.0
Trade accounts payable		53.4	89.6
Other liabilities	20	8.5	0.9
Accrued expenses and deferred income	21	57.7	161.4
Current liabilities		282.4	407.0
Total liabilities		504.2	470.3
Total equity and liabilities		**539.4**	**496.5**

Cash flow statement

In millions of CHF, excluding balance sheet items held on fiduciary basis	Notes	2011	2010
Net income		9.7	2.7
Interest expense	11	0.9	1.4
Interest income	10	–0.1	–0.2
Income tax expense		2.2	0.6
Depreciation and amortisation	12	20.7	19.3
Impairment losses	12	0.4	0.0
Increase of provisions	18	0.6	0.6
Increase/decrease of trade accounts receivable		–90.4	20.0
Decrease of other receivables		1.5	3.0
Decrease of prepaid expenses and accrued income		20.4	49.7
Change in volume – and tariff – related timing differences	4, 14	229.5	–79.9
Decrease in trade accounts payable		–36.2	–39.0
Increase/decrease of other current liabilities		7.6	–2.2
Decrease/Increase of accrued expenses and deferred income		–105.0	84.9
Interest received		0.1	0.1
Income taxes paid		–1.3	–0.5
Cash flow from operating activities		60.6	60.5
Investments in property, plant and equipment	12	–21.9	–17.8
Investments in intangible assets	12	–17.7	–11.5
Investments in financial investments		0.0	–0.3
Cash flow from investing activities		–39.6	–29.6
Repayment of current financial liabilities		–22.0	–27.0
Interest paid		–0.5	–0.6
Dividends paid		–0.7	–0.7
Cash flow from financing activities		–23.2	–28.3
Change in cash and cash equivalents		–2.2	2.6
Composition			
Cash and cash equivalents at beginning of period		19.4	16.8
Cash and cash equivalents at end of period		17.2	19.4
Change in cash and cash equivalents		**–2.2**	**2.6**

Statement of changes in equity

In millions of CHF	Share capital	General reserve	Retained earnings	Total equity
Balance at 31.12.2009	15.0	0.2	9.0	24.2
Appropriation to General Reserve	0.0	0.2	–0.2	0.0
Dividends paid	0.0	0.0	–0.7	–0.7
Net income 2010	0.0	0.0	2.7	2.7
Balance at 31.12.2010	15.0	0.4	10.8	26.2
Appropriation to General Reserve	0.0	0.2	–0.2	0.0
Dividends paid	0.0	0.0	–0.7	–0.7
Net income 2011	0.0	0.0	9.7	9.7
Balance at 31.12.2011	**15.0**	**0.6**	**19.6**	**35.2**

The share capital consists of 15,000,000 fully paid-up registered shares with a par value of CHF 1 per share.

Notes to the financial statements

1. Accounting principles

General remarks

The 2011 financial statements of swissgrid ag (Swissgrid) have been prepared in accordance with Swiss GAAP FER and in compliance with Swiss company law. They present a true and fair view of the company's net assets, financial position and results of operations. These Swiss GAAP FER financial statements also constitute the statutory financial statements required by the Swiss Commercial Code. The area of ancillary services underwent changes in 2011 with regard to chargeable net current assets (NCA): the calculation of NCA is now based on segment revenue and interest is applied to surpluses and deficits based on LIBOR. There were also changes to cost accounting in the year under review, which resulted in a shift in the allocation of operating costs between the segments in comparison with the previous year.

Foreign currency translation

The accounting records are maintained in local currency (Swiss francs, CHF). All monetary assets and liabilities entered into in foreign currencies are translated at the exchange rate prevailing as of the balance sheet date. Transactions in foreign currencies are translated at the average exchange rate for the month in which the transaction took place. Foreign exchange gains and losses resulting from transactions in foreign currencies are recognised in profit and loss 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. Cash flow from operating activities is calculated using the indirect method.

Revenue recognition

Revenue is recognised in profit or loss upon performance of Swissgrid's obligations. For activities regulated under the Federal Electricity Supply Act (StromVG), the measurement of the performance is based mainly on energy data directly metered on the transmission system or reported from a downstream grid level. For certain revenue and procurement positions, initial settlement values are available six weeks after delivery at the earliest, thereby rendering accruals necessary based on historical and statistical data as well as on estimates.

Activities regulated under the Federal Electricity Supply Act (StromVG)

Volume- and tariff-related timing differences: According to Art. 14 StromVG, grid utilisation costs must be allocated to users on a user-pays basis. Tariffs for a financial year are determined on the basis of historical costs, which means that tariffs are usually derived from a cost basis calculated two years in advance. Due to price and volume deviations, actual expense and income vary from the tariff calculation on both the revenue and procurement sides. This results in surpluses or deficits, i.e. the tariff revenues

from a financial year are higher or lower than the actual expense incurred during the same period. These differences are transferred to the balance sheet and taken into account in cost calculations for future tariff periods.

EBIT regulated under StromVG: Earnings before interest and income taxes (EBIT) from StromVG-regulated activities are defined in Article 13 of the Electricity Supply Ordinance (StromVV) and are equivalent to the interest applied to the assets required to operate the transmission system. The operating assets therefore consist of net current assets and non-current assets as of the end of the financial year. For the financial year 2011, the weighted average cost of capital (WACC) applied corresponds to the average rate of return on 10-year Swiss Federal bonds plus risk-appropriate remuneration of 1.73% (2010: 1.93%). The weighted average cost of capital for the financial year 2011 was 4.25% (2010: 4.55%).

The chargeability of Swissgrid's operating and capital costs for tariff-setting purposes is subject to approval by the Federal Electricity Commission (ElCom), which takes place ex post. If an ex post cost adjustment is imposed, an appeal may be lodged with the Federal Administrative Court. A cost adjustment is applied with an impact on Swissgrid's operating result if no appeal is lodged, or an appeal's prospects for success are judged to be under 50% on the basis of a reappraisal, or if a legally binding ruling is issued.

Property, plant and equipment

Property, plant and equipment is carried at acquisition or manufactured cost less accumulated depreciation and amortisation and any impairment losses. Depreciation and amortisation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets. For the following asset categories, the useful lives are within the following ranges:

- Construction in progress: only in the case of impairment in value
- Plant and business installations: three to ten years
- Expansion of operating and administrative buildings: five to ten years or the term of the lease in the case of investments in real estate owned by third parties

Intangible assets

Intangible assets are carried at acquisition or manufactured cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method on the basis of the estimated useful technical and economic lives of the assets. For the following asset categories, the useful lives are within the following ranges:

- Intangible assets under development: only in the case of impairment in value
- Software: two to eight years
- Technical regulations: three to five years

Impairment in value

The value of property, plant and equipment and intangible assets is reviewed annually. If indications exist of an impairment loss – i.e. it is unlikely that the depreciation and amortisation included in the full costs can be passed on to the recipients of Swissgrid's services – the recoverable amount is calculated. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised.

Construction in progress/intangible assets under development

Construction in progress and intangible assets under development are property, plant and equipment that are not yet completed or not yet operational. All items of property, plant and equipment and intangible assets, including self-constructed assets undertaken by Swissgrid employees, are classified as property, plant and equipment. As of each balance sheet date, a review is undertaken to determine whether there is any construction in progress or intangible assets under development that are value-impaired. These are recognised as impairment losses in the year of completion. Ordinary depreciation or amortisation of these assets begins once they are completed or ready for operation.

Derivative financial instruments

Swissgrid may use derivative financial instruments to hedge foreign exchange and interest rate risks. These derivatives are recognised in the balance sheet as soon as they fulfil the definition of an asset or a liability. They are measured at market value, with any changes in value reported in the same line item in the income statement as the underlying transaction. Fixed futures contracts are carried at their current values upon initial recognition. The instruments are disclosed in the notes to the financial statements.

Trade accounts receivable

Accounts receivable are reported at their nominal value less any impairments required for business reasons.

Cash and cash equivalents

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

Liabilities

Liabilities include current and non-current debts and are recognised at their repayment amount.

Provisions

A provision is recognised if there is an obligation based on an event that took place prior to the balance sheet date, the amount and/or due date of which is uncertain but capable of being estimated.

Contingent liabilities

Contingent liabilities are measured as at the balance sheet date. A provision is set aside if a cash outflow without a utilisable inflow of funds is probable. Otherwise, contingent liabilities are disclosed in the notes to the financial statements.

Interest on borrowed capital

In principle, interest on borrowed capital is recognised as an expense in the period in which it occurs. Interest on borrowed capital in connection with the construction of an asset is capitalised, starting with the beginning of construction and ending when it is ready for use.

Employee pension plan

Swissgrid is a member of an industry-wide retirement benefit plan (PKE Pensionskasse Energie). This is a legally independent pension fund. All permanent employees of the company are included in this plan as from 1 January of the year in which they turn 18. They are initially covered for disability and death, and from 1 January of the year in which they turn 25, they are also insured for retirement benefits.

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 benefit arising from freely available employer contribution reserves is recognised as an asset.

An economic obligation (for example, 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, the difference between the annually calculated economic benefit from pension fund surpluses and obligations, as well as the change in the employer contribution reserve are recognised in the income statement as personnel expenses.

Transactions with related parties

Related parties are organisations and persons that can have a significant influence, either directly or indirectly, on Swissgrid's financial or operational decisions. Shareholders holding at least 20% of the voting rights in Swissgrid, either alone or together with others, are considered to be related parties. As regards shareholders, other criteria in addition to the proportion of voting rights held are also taken into account (including representation in committees, possibility of exerting influence due to the shareholder structure etc.). Subsidiaries of related shareholders as well as partner plant companies whose shares are 100% owned by related shareholders are also considered to be related parties. Members of the Board of Directors and of the Executive Board are also considered to be related parties.

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
Segment information is based on tariff groups as defined in the Electricity Supply Act and follows Swissgrid's internal reporting structure.

2. Estimation uncertainties

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 surpluses and deficits in particular are based on various assumptions and estimates that may necessitate significant adjustments to be made. This is due to specific volumes not being available for certain revenue and procurement positions when the financial statements are prepared, as well as regulatory uncertainties. The volume- and tariff-related timing differences are also influenced by estimates used 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 "operating activities regulated under the StromVG" in note 1 on page 26 et seq. as well as the commentaries in the following section.

3. Current legal proceedings

The following list only includes rulings and proceedings in which Swissgrid is the appellant or a directly involved party. Various other appeals by third parties against these and other rulings and proceedings of Elcom are pending before the Federal Administrative Court but are not listed in this section. If a legally binding court ruling is issued, the appeals of these parties may also have an impact on Swissgrid's financial statements. These matters are disclosed in the relevant balance-sheet and income-statement positions.

	Rulings/proceedings by the Federal Electricity Commission (ElCom)	Date	31.12.2011*	31.12.2010*
1	Ruling concerning 2009 costs and tariffs for grid level 1 utilisation and ancillary services	06.03.2009	e	d
2	Ruling concerning 2010 costs and tariffs for grid level 1 utilisation and ancillary services	04.03.2010	d	d
3	Ruling concerning 2011 costs and tariffs for grid level 1 utilisation and ancillary services	11.11.2010	d	d
4	Ruling concerning 2009 approval of costs for AS	14.04.2011	d	b
5	Proceedings concerning 2010 operating costs for grid incl. AS	24.01.2012	b	–
6	Proceedings concerning 2012 costs and tariffs for grid level 1	12.03.2012	c	–
7	Proceedings concerning the transaction regarding the transmission network	14.03.2011	a	–
8	Application for examination of lawfulness of Swissgrid receivables arising from 2010 ITC losses	28.09.2011/ 26.10.2011/	a	–

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

Character	Procedural steps/stage of appeal
a	Opening of proceedings by ElCom
b	Examination report submitted and right of fair hearing exercised
c	Notification of the decision by ElCom
d	Appeal to the Federal Administration Court
e	Judgement pronounced by the Federal Administrative Court
f	Appeal to the Federal Court
g	Judgement pronounced by the Federal Court

Information on current proceedings

Points 1 and 4 (2009): One significant point of Swissgrid's appeal against ElCom's tariff ruling for 2009 concerns the tariffs for ancillary services (AS), as ElCom reserves the right to examine the effective AS costs and decide on their chargeability for tariff purposes. On 29 February 2012, the Federal Administrative Court issued a ruling in this case, which was not legally binding at the time of reporting as it was still open to appeal.

In April 2010, ElCom launched proceedings for the purpose of approving the 2009 costs of the general AS. The ruling of April 2011 approved the AS procurement costs in full, but CHF 1.2 million of the operating costs were classified as not being chargeable. Swissgrid has lodged an appeal against the ElCom ruling with the Federal Administrative Court.

Points 2 and 5 (2010): Swissgrid also appealed against the 2010 tariff ruling to the Federal Administrative Court. One significant component of this case is ElCom's reservation of the right to examine the effective total costs retrospectively and to decide on their chargeability.

ElCom launched proceedings to review the 2010 operating costs in April 2011 and delivered its report to Swissgrid in January 2012. The report specifies reductions in the chargeable operating costs of CHF 3.1 million. As of the reporting date, the corresponding ruling was still pending. Should the stipulated cost reductions be upheld, Swissgrid would be compelled to take legal action.

Point 3 (2011): An appeal has been lodged against the 2011 tariff ruling for similar reasons as in previous years. The operating costs from StromVG-regulated activities incurred in 2011 are CHF 17.7 million higher than the cost basis used by ElCom for the 2011 tariff calculation. ElCom has also expressly reserved the right to conduct an ex post review of the operating and capital costs for 2011. Should the ruling stipulate a reduction, Swissgrid would again be forced to take legal action.

Summary of proceedings – points 1 to 5: From Swissgrid's perspective, the cumulative risk for non-chargeable costs as of 31 December 2011 is therefore CHF 22 million (CHF 1.2 million for 2009, CHF 3.1 million for 2010 and CHF 17.7 million for 2011).

Swissgrid's Board of Directors and Executive Board firmly believe that all costs for the years 2009 to 2011 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 being chargeable in its 2011 financial statements and consequently recognised them in full in the surpluses and deficits.

A ruling in the court of final appeal on the aforementioned proceedings is not likely to be made before 2013. If, contrary to Swissgrid's assessment, the costs claimed are ruled to be non-chargeable, this would be reflected at the earliest in the 2013 financial statements. Even in the event that the maximum risk of CHF 22 million crystallises, Swissgrid will be capable of bearing these costs alone. The reason for this is the legally prescribed transfer of the transmission system to Swissgrid by 31 December 2012 at the latest, which will be financed in part by an increase in shareholders' equity which is expected to be in the amount of several hundred million Swiss francs.

Point 6 (2012): In March 2012, ElCom issued a ruling on the proceedings concerning the 2012 grid costs and tariffs. According to this ruling, the chargeable capital costs by Swissgrid for grid utilisation are reduced by CHF 0,3 million. ElCom has also reserved the right to conduct a ex post review for 2012. Swissgrid's current position on this matter and its next steps are similar to those detailed above for the financial years 2009 to 2011.

Point 7: The Swiss electricity supply companies are obliged to transfer the transmission system to Swissgrid by 31 December 2012 at the latest

(Art. 33 (4) StromVG). ElCom has launched official proceedings to accompany the transaction process which will investigate the admissibility of the capital structure provided for in the Memorandum of Understanding and the sustainability of Swissgrid's financing. Depending on the outcome of the proceedings with regard to substantive proposals, there is a risk that the transaction will not come into being in the form agreed in the Memorandum of Understanding. As a result, all or part of the transaction costs of CHF 17.2 million capitalised in Swissgrid's non-current assets as of the reporting date would be impaired and would have to be charged to the income statement.

Swissgrid assumes that the capital structure and financing arrangements set out in the Memorandum of Understanding for the transaction will be applied. Should ElCom rule that the capital structure and financing arrangements for the transaction laid down in the Memorandum of Understanding not be applied, Swissgrid will appeal to the Federal Administrative Court.

For this reason, Swissgrid has not recognised an impairment of the capitalised transaction costs in the current financial statements.

Furthermore, the chargeability of the transaction costs is not a subject of these proceedings. Irrespective of the content of the ElCom ruling and the possible consequences thereof described above, Swissgrid is of the view that all transaction costs recognised as of the reporting date are to be qualified as chargeable, irrespective of any future reviews by ElCom.

Point 8: ElCom's 2010 tariff ruling requires that shortfalls in revenues from ITC–international transit system operator (TSO) compensation–be charged to the Swiss contracting parties of international power supply contracts (long-term contract (LTC) holders). Various LTC holders subsequently petitioned ElCom to review the legality of this charge. The proceedings have been suspended until a legally valid court ruling has been reached on the appeal against the 2010 tariff ruling.

Swissgrid expects the court to endorse the charges to LTC holders provided for in the ruling and therefore has not adjusted the value of its claims against LTC holders in the amount of CHF 32.8 million as at 31 December 2011. If these claims become unenforceable as a result of a court ruling to the contrary, they would be included in the surpluses and deficits and therefore would have no effect on Swissgrid's income situation.

4. Segment reporting

Segment report 2011

In millions of CHF	Total	General ancillary services/ balance energy	Active power loss (Individual ancillary services)	Reactive energy (Individual ancillary services)	Grid utilisation	Elimina-tions	Activites according to StromVG	Further activities
Net turnover	1,002.3	532.1	91.6	1.0	381.0	–3.4	1,002.3	0.0
Other operating income	11.7	–0.3	0.0	0.0	0.0	0.0	–0.3	12.0
Volume – and tariff – related timing differences	–229.5	–225.4	–11.8	9.8	–2.1	0.0	–229.5	0.0
Total operating income	784.5	306.4	79.8	10.8	378.9	–3.4	772.5	12.0
Cost of procurement	–649.0	–276.1	–76.4	–7.4	–292.5	3.4	–649.0	0.0
Gross profit	135.5	30.3	3.4	3.4	86.4	0.0	123.5	12.0
Operating expenses incl. depreciation / amortisation	–122.8	–25.7	–1.8	–3.3	–80.5	0.0	–111.3	–11.5
Earnings before interest and income tax (EBIT)	**12.7**	**4.6**	**1.6**	**0.1**	**5.9**	**0.0**	**12.2**	**0.5**

Segment report 2010

In millions of CHF	Total	General ancillary services/ balance energy	Active power loss (Individual ancillary services)	Reactive energy (Individual ancillary services)	Grid utilisation	Elimina-tions	Activites according to StromVG	Further activities
Net turnover	790.9	333.9	85.3	3.9	377.2	–9.4	790.9	0.0
Other operating income	12.4	0.9	0.0	0.0	0.5	0.0	1.4	11.0
Volume – and tariff – related timing differences	79.9	81.4	–6.7	5.6	–0.4	0.0	79.9	0.0
Total operating income	883.2	416.2	78.6	9.5	377.3	–9.4	872.2	11.0
Cost of procurement	–771.8	–381.2	–71.8	–8.3	–319.9	9.4	–771.8	0.0
Gross profit	111.4	35.0	6.8	1.2	57.4	0.0	100.4	11.0
Operating expenses incl. depreciation / amortisation	–106.9	–34.4	–8.5	–1.0	–53.0	0.0	–96.9	–10.0
Earnings before interest and income tax (EBIT)	**4.5**	**0.6**	**–1.7**	**0.2**	**4.4**	**0.0**	**3.5**	**1.0**

For segment reporting, the costs of self-constructed assets are deducted from operating expenses and are therefore not included in total operating results. Surpluses and deficits: negative figures represent surpluses, and positive figures deficits.

The legal basis for the chargeability of capital costs within the StromVG-regulated area of activity is explained in Note 1 on page 26. Earnings before interest and income taxes (EBIT) within StromVG-regulated activities correspond to the costs of capital by segment plus taxes on the invested assets required by operations. The individual expense and income positions assigned to the four segments within the StromVG-regulated activities are listed in Note 5 on page 37.

General ancillary services/balance energy: 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 injection. In addition, expenses and income in relation to control power and balance energy, which have a mutual influence on each other, are also part of this segment, as are expenses for voltage maintenance/reactive energy (proportionately), automatic start-up and island operation capability, as well as expenses and income from unintentional deviation with adjacent control areas. Finally, the costs paid to producers for grid enhancements also fall under this segment.

The expenses relating to general ancillary services (AS) are covered primarily by tariff revenues. The general AS tariff stipulated by ElCom for 2011 had to be increased considerably in comparison with the previous year. This increase was necessary because it is no longer permitted to charge the residual AS costs to power plants with a minimum capacity of 50 MW, following the Federal Administrative Court's ruling upholding the first appeal by one power plant against ElCom's 2009 and 2010 tariff rulings in July 2010.

In view of this, all costs charged to the power plants which had lodged appeals for 2009 and 2010 were accrued in the 2010 financial statements. Following the issuance of legally binding court rulings, the bulk of the reimbursements for 2009 were settled in 2011.

The AS charge-backs for 2009/2010 resulted in a cost deficit of CHF 9.2 million in the year under review. In total, however, the general AS/balance energy segment recorded a surplus of CHF 225.4 million for 2011, thanks primarily to the aforementioned higher tariff and a reduction in procurement costs. As a consequence, the deficit of CHF 81.4 million for 2010 which resulted from the court ruling previously referred to was completely eliminated.

Active power losses (individual ancillary services): This segment reports expenses and income in relation to active power losses in the transmission system. The income stems from tariff revenues and international TSO compensation (ITC). Individual compensatory charges are also made to the holders of long-term international supply contracts (LTC). In addition, a share of these ITC and LTC revenues is allocated to the grid utilisation segment. Procurement of active power losses takes place on the spot market and via tenders.

In the year under review, the segment reported a surplus of total costs in the amount of CHF 11.8 million (2010: surplus of CHF 6.7 million).

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

A cost deficit of CHF 9.8 million was recorded in the year under review (2010: deficit of CHF 5.6 million).

Grid utilisation: The grid utilisation segment reports expenses for the operating and capital costs of the transmission system, which are financed by tariff revenues and the proceeds from auctions of congestion capacities at national borders. A share of the ITC and LTC revenues is also allocated to this segment (see the section on the active power losses segment above). Procurement costs of CHF 292.5 million (2010: CHF 319.9 million) correspond to the compensation paid to transmission system owners for the operating and capital costs of the transmission system as stipulated by the regulator.

The segment recorded a surplus of CHF 2.1 million in the year under review (2010: surplus of CHF 0.4 million).

5. Net turnover and cost of procurement regulated by the Electricity Supply Act (StromVG)

In millions of CHF	Segment	2011	2010
Tariff income for general ancillary services (AS) and income from unintentional deviation	A	445.8	277.7
thereof ordinary		449.5	253.3
thereof subsequent charging for 2009 and 2010		–3.7	24.4
Charge of residual costs to plants ≥ 50 MW	A	–5.5	–49.3
thereof for 2010		–1.2	42.2
thereof for 2009		–4.3	–91.5
Income from AS energy and from balance group/balance energy	A	91.8	105.5
Tariff income for active power loss	B	66.1	63.6
Tariff income for reactive energy	C	1.0	3.9
Tariff income for grid utilisation	D	326.3	325.7
Net income from ITC	B/D	23.6	18.8
Income from LTC – owners	B/D	16.6	14.4
Income from auctions	D	40.0	40.0
Eliminations		–3.4	–9.4
Net turnover		**1,002.3**	**790.9**
Expenses for AS control power provision and unintentional deviation	A	189.9	272.3
Expenses for automatic start – up/island operation capability and expenses for grid enhancement	A	3.3	1.4
Expenses for AS energy and for balance groups/balance energy	A	65.8	90.7
Expenses for compensation of active power loss	B	76.4	71.8
Expenses for reactive energy/voltage maintenance	A/C	24.5	25.1
Operating expenses for transmission system	D	131.6	170.8
Capital expenses for transmission system	D	160.9	149.1
Eliminations		–3.4	–9.4
Cost of procurement		**649.0**	**771.8**

Letters used for segment allocation:
A = General ancillary services/balance energy
B = Active power losses (individual ancillary services)
C = Reactive energy (individual ancillary services)
D = Grid utilisation

Segment reporting can be found in Note 4 on page 34 et seq.

Revenues from ITC consist of the following:
– Compensation for active power losses (B) CHF 15.6 million (2010: CHF 13.5 million)
– Compensation for grid utilisation (D) CHF 8.0 million (2010: CHF 5.3 million)

The ITC compensation for grid utilisation corresponds to net income. Supervisory charges to ElCom and to the Swiss Federal Office of Energy (SFOE) in the amount of CHF 2.5 million (2010. CHF 2.4 million) are deducted from the gross income of CHF 10.5 million (2010: CHF 7.7 million).

Revenues from LTC holders comprise of the following:
– Compensation for active power losses (B) CHF 9.9 million (2010: CHF 8.2 million)
– Compensation for grid utilisation (D) CHF 6.7 million (2010: CHF 6.2 million)

Reactive energy/voltage maintenance expense consists of the following:
– General AS (A): CHF 17.1 million (2010: CHF 16.8 million)
– Reactive energy (C): CHF 7.4 million (2010: CHF 8.3 million)

Eliminations: active power losses are a separate internal balance group. As a result, internal transactions occur between the segments general ancillary services/balance energy and active power losses.

6. Other operating income

In millions of CHF	2011	2010
Energy act clearing	4.4	3.8
Auction clearing	6.0	5.4
Issuance of guarantees of origin for renewable energies	1.1	1.0
Other	0.2	2.2
	11.7	**12.4**

The line item "Other" does not include any income from associated companies (2010: CHF 0.3 million).

7. Materials and third-party supplies

In millions of CHF	2011	2010
Expenses for projects, advisory and maintenance	26.5	23.0
Hardware/software maintenance	6.7	6.1
	33.2	**29.1**

Material and third-party supplies include expenses for strategic projects amounting to CHF 16.2 million (2010: CHF 14.7 million). CHF 9.8 million of this figure (2010: CHF 7.0 million) relate to the establishment of the Asset Management division and preparations for the transfer of the transmission system.

The line item "Expenses for projects, advisory and maintenance" does not include any expenses in favour of associated companies (2010: CHF 0.6 million).

8. Personnel expenses

In millions of CHF	2011	2010
Salaries, bonuses, allowances	49.8	38.2
Employee insurance	7.3	5.7
Other personnel expenses	4.7	4.9
	61.8	**48.8**
Headcount at 31.12.		
Permanent employment:		
Number of employees	359.0	317.0
expressed as full-time equivalents	350.0	309.2
Fixed-term employment:		
Number of employees	18	10
expressed as full-time equivalents	16.7	9.5

Other personnel expenses include in particular the filling of existing positions with external resources on a fixed-term basis, as well as expenses for recruitment, training and further education as well as employee expenses.

Executive Board remuneration

In millions of CHF	2011	2010
Fixed remuneration (incl. lump-sum expense allowances)	2.35	2.29
Variable remuneration	0.70	0.47
Non-cash benefits [1]	0.03	0.03
Pension benefits [2]	0.50	0.38
Total remuneration to the Executive Board	**3.58**	**3.17**
Of which to the highest earning member of the Executive Board		
Fixed remuneration (incl. lump-sum expense allowances)	0.51	0.51
Variable remuneration	0.13	0.12
Pension benefits [3]	0.08	0.08
Total remuneration to the highest earning member of the Executive Board	**0.72**	**0.71**

[1] Non-cash benefits include the private use of business vehicles.
[2] Pension benefits include employer contributions to social security schemes and the employee pension plan.

Further information on the members of the Executive Board is to be found in the Corporate Governance Report on page 62.

9. Other operating expenses

In millions of CHF	2011	2010
Rental and occupancy costs	5.4	4.0
Rental costs for communication equipment/telecommunication expense	1.8	2.2
Board of Directors fees and expenses, incl. social costs	1.0	1.1
Actual expenses for travel and subsistence for employees and third parties	1.9	1.7
Fees, dues and licenses	0.8	0.4
Other administrative costs	0.0	4.0
	10.9	**13.4**

Fees and expenses payable to the members of the Board of Directors represent fixed gross remuneration paid out in cash (excl. employer contributions to social security schemes and VAT on payments to the employer). Remuneration to the Chairman of the Board of Directors totalled CHF 253,000 including expenses (2010: CHF 254,000). In 2010 and 2011, the other members of the Board of Directors received remuneration of between CHF 55,000 and CHF 60,000 including expenses. One Board member received additional compensation of CHF 40,000 (2010: CHF 17,000) in 2011 for chairing the Steering Committee responsible for the transfer of the transmission system.

Further information on the members of the Board of Directors can be found in the Corporate Governance Report on page 58.

The reduction in the position "other administrative expenses" is a consequence of reduced accruals totalling CHF 2 million.

10. Financial income

In millions of CHF	2011	2010
Interest income	0.1	0.1
Variation of replacement value of derivatives	0.0	0.1
	0.1	**0.2**

11. Financial expense

In millions of CHF	2011	2010
Interest expenses	0.9	1.4
	0.9	**1.4**

12. Non-current assets

Summary of plant, property and equipment – 2011

In millions of CHF	Advances and construction in progress	Plant and business equipment installations	Operating and administrative buildings	Total
Acquisition cost at 1.1.2011	7.7	28.8	9.2	45.7
Additions	16.4	4.6	0.9	21.9
Disposals	0.0	–0.8	0.0	–0.8
Reclassifications	–1.8	0.9	0.9	0.0
Acquisition cost at 31.12.2011	22.3	33.5	11.0	66.8
Accumulated depreciation and amortisation at 1.1.2011	0.0	12.6	3.4	16.0
Depreciation and amortisation expense	0.0	6.4	1.6	8.0
Impairment losses	0.0	0.0	0.0	0.0
Disposals	0.0	–0.8	0.0	–0.8
Accumulated depreciation and amortisation at 31.12.2011	0.0	18.2	5.0	23.2
Net book value at 1.1.2011	7.7	16.2	5.8	29.7
Net book value at 31.12.2009	**22.3**	**15.3**	**6.0**	**43.6**

Summary of plant, property and equipment – 2010

In millions of CHF	Advances and construction in progress	Plant and business equipment installations	Operating and administrative buildings	Total
Acquisition cost at 1.1.2010	8.4	33.0	3.7	45.1
Additions	12.2	3.7	2.3	18.2
Disposals	–0.1	–17.5	0.0	–17.6
Reclassifications	–12.8	9.6	3.2	0.0
Acquisition cost at 31.12.2010	7.7	28.8	9.2	45.7
Accumulated depreciation and amortisation at 1.1.2010	0.1	25.4	2.3	27.8
Depreciation and amortisation expense	0.0	4.7	1.1	5.8
Impairment losses	0.0	0.0	0.0	0.0
Disposals	–0.1	–17.5	0.0	–17.6
Accumulated depreciation and amortisation at 31.12.2010	0.0	12.6	3.4	16.0
Net book value at 1.1.2010	8.3	7.6	1.4	17.3
Net book value at 31.12.2010	**7.7**	**16.2**	**5.8**	**29.7**

IT installations totalling CHF 0.1 million (2010: CHF 0.5 million) and construction work totalling CHF 2.8 million (2010: CHF 1.2 million) were purchased from related parties.

As of 31 December 2011, fire insurance values were unchanged from the previous year at CHF 37.5 million.

Summary of intangible assets – 2011

	Software			Technical regulations		
In millions of CHF	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2011	42.6	7.9	50.5	5.7	2.3	8.0
Additions	5.2	0.6	5.8	0.0	0.0	0.0
Disposals	–0.3	–0.1	–0.4	0.0	0.0	0.0
Reclassifications	3.5	1.4	4.9	0.0	0.0	0.0
Acquisition cost at 31.12.2011	51.0	9.8	60.8	5.7	2.3	8.0
Accumulated amortisation at 1.1.2011	28.9	4.5	33.4	3.6	1.3	4.9
Amortisation expense	8.4	2.0	10.4	1.8	0.5	2.3
Impairment losses	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	–0.3	–0.1	–0.4	0.0	0.0	0.0
Accumulated amortisation at 31.12.2011	37.0	6.4	43.4	5.4	1.8	7.2
Net book value at 1.1.2011	13.7	3.4	17.1	2.1	1.0	3.1
Net book value at 31.12.2011	**14.0**	**3.4**	**17.4**	**0.3**	**0.5**	**0.8**

Summary of intangible assets – 2010

	Software			Technical regulations		
In millions of CHF	Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
Acquisition cost at 1.1.2010	45.9	6.9	52.8	5.7	2.3	8.0
Additions	1.5	0.0	1.5	0.0	0.0	0.0
Disposals	–10.3	0.0	–10.3	0.0	0.0	0.0
Reclassification	5.5	1.0	6.5	0.0	0.0	0.0
Acquisition cost at 31.12.2010	42.6	7.9	50.5	5.7	2.3	8.0
Accumulated amortisation at 1.1.2010	30.5	2.1	32.6	1.8	0.7	2.5
Amortisation expense	8.7	2.4	11.1	1.8	0.6	2.4
Impairment losses	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	–10.3	0.0	–10.3	0.0	0.0	0.0
Accumulated amortisation at 31.12.2010	28.9	4.5	33.4	3.6	1.3	4.9
Net book value at 1.1.2010	15.4	4.8	20.2	3.9	1.6	5.5
Net book value at 31.12.2010	**13.7**	**3.4**	**17.1**	**2.1**	**1.0**	**3.1**

Impairment losses amounting to CHF 0.4 million were recorded in the year under review (none were recorded in 2010). These impairment losses relate to an ongoing software development projectin which the investments have not generated the expected progress in some cases. In the financial year 2011, software totalling CHF 0.3 million was sourced from related parties (2010: CHF 0.4 million).

Intangible assets in progress			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
8.5	2.3	10.8	56.8	12.5	69.3
8.9	3.0	11.9	14.1	3.6	17.7
0.0	0.0	0.0	–0.3	–0.1	–0.4
–3.5	–1.4	–4.9	0.0	0.0	0.0
13.9	3.9	17.8	70.6	16.0	86.6
0.0	0.0	0.0	32.5	5.8	38.3
0.0	0.0	0.0	10.2	2.5	12.7
0.4	0.0	0.4	0.4	0.0	0.4
0.0	0.0	0.0	–0.3	–0.1	–0.4
0.4	0.0	0.4	42.8	8.2	51.0
8.5	2.3	10.8	24.3	6.7	31.0
13.5	**3.9**	**17.4**	**27.8**	**7.8**	**35.6**

Intangible assets in progress			Total intangible assets		
Purchased	Self-constructed	Total	Purchased	Self-constructed	Total
3.3	0.4	3.7	54.9	9.6	64.5
10.7	2.9	13.6	12.2	2.9	15.1
0.0	0.0	0.0	–10.3	0.0	–10.3
–5.5	–1.0	–6.5	0.0	0.0	0.0
8.5	2.3	10.8	56.8	12.5	69.3
0.0	0.0	0.0	32.3	2.8	35.1
0.0	0.0	0.0	10.5	3.0	13.5
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	–10.3	0.0	–10.3
0.0	0.0	0.0	32.5	5.8	38.3
3.3	0.4	3.7	22.6	6.8	29.4
8.5	**2.3**	**10.8**	**24.3**	**6.7**	**31.0**

13. Financial investments

Swissgrid holds the following participations, which are recognised in the balance sheet as financial investments (no change from 2010):

		Share capital in CHF m.	Currency	Share of capital in %
CESOC AG	Laufenburg	0.1	CHF	50.0
Capacity Allocation Service Company.eu S.A. (CASC.EU)	Luxemburg (Lux)	3.4	EUR	8.3

As of 31 December 2011, both companies are valued at acquisition cost. The foreign currency valuation for CASC.EU has been updated.

14. Volume- and tariff-related timing differences

In millions of CHF	General ancillary services/ balance energy	Active power loss (Individual ancillary services)	Reactive energy (Individual ancillary services)	Grid utilisation	Total change in volume- and tariff-related timing differences	Thereof surpluses	Thereof deficits
Balance at 31.12.2009	0.0	–46.6	0.0	–9.0	–55.6	–55.6	0.0
Change in 2010	81.4	–6.7	5.6	–0.4	79.9		
Balance at 31.12.2010	81.4	–53.3	5.6	–9.4	24.3	–62.7	87.0
current portion	81.4	0.0	0.0	0.0	81.4	0.0	81.4
non-current portion	0.0	–53.3	5.6	–9.4	–57.1	–62.7	5.6
Change in 2011	–225.4	–11.8	9.8	–2.1	–229.5		
Balance at 31.12.2011	**–144.0**	**–65.1**	**15.4**	**–11.5**	**–205.2**	**–220.6**	**15.4**
non-current portion	–144.0	–65.1	15.4	–11.5	–205.2	–220.6	15.4

Negative figures represent surpluses, and positive figures deficits. Further information on volume- and tariff-related timing differences (function, estimationuncertainties, current legal proceedings) can be found in Notes 1, 2 and 3, on page 26 et seq.

15. Balance sheet items held on fiduciary basis

Fiduciary assets

In millions of CHF	2011	2010
Trade accounts receivable	12.0	2.7
Other receivables	0.2	1.2
Cash and cash equivalents	122.6	101.2
Total	**134.8**	**105.1**

Fiduciary liabilities

In millions of CHF	2011	2010
Trade accounts payable	0.4	0.6
Other liabilities	0.5	2.7
Accrued expenses and deferred income	133.9	101.8
Total	**134.8**	**105.1**

These balances stem from congestion management at national borders. Swissgrid coordinates the auctioning of bottleneck capacities for cross-border supplies and manages the records and bank accounts relating to this activity in a fiduciary capacity. The utilisation of auction proceeds is specified in Art. 15 (5) of the Electricity Supply Act (StromVG). In accordance with the ElCom rulings of 4 March and 11 November 2010, these proceeds must be used as follows:

In millions of CHF	2011	2010
Share of revenue Switzerland	97.8	82.7
Auction expense Swissgrid and third parties	–6.8	–5.8
Net proceeds	91.0	76.9
Reduction of the allowable costs of the transmission system	–40.0	–40.0
Undistributed proceeds - utilisation to be determined by ElCom	51.0	36.9

In 2011, ElCom launched proceedings with regard to the as yet undistributed residual proceeds for each of the years 2009 and 2010. The corresponding ruling for 2009 was still outstanding as of 31 December 2011. The ruling for 2010, by contrast, became legally binding on 3 February 2012. It permits Swissgrid to use the residual proceeds for the purposes of maintaining or expanding the transmission system from 2013 onwards.

16. Other receivables

In millions of CHF	31.12.2011	31.12.2010
Security deposits on blocked bank accounts	1.7	1.4
Value added tax	0.0	1.7
Other	0.0	0.1
	1.7	**3.2**

17. Prepaid expenses and accrued income

In millions of CHF	31.12.2011	31.12.2010
Accrued revenue for supplies made	40.5	60.6
Other	0.0	0.3
	40.5	**60.9**

18. Provisions

In millions of CHF	Employee incentive plan
Balance at 31 December 2009	0.0
Provisions raised	0.6
Balance at 31 December 2010	0.6
Provisions raised	0.7
Provisions used	0.1
Balance at 31 December 2011	**1.2**
thereof short term	0.0

19. Current financial liabilities

In millions of CHF	31.12.2011	31.12.2010
Bank loans	28.0	50.0
	28.0	**50.0**

Swissgrid has an agreed credit line of CHF 300 million which expires on 31 December 2012. Swissgrid expressly reserves the right to terminate this credit line prematurely, as the company will fundamentally alter its financing structure as part of the transfer of the transmission system taking place in 2012.

20. Other liabilities

In millions of CHF	31.12.2011	31.12.2010
Social deposits and value added tax	7.0	0.0
Security deposits on blocked bank accounts	0.9	0.9
Other	0.6	0.0
	8.5	**0.9**

21. Accrued expenses and deferred income

In millions of CHF	31.12.2011	31.12.2010
Accrued expenses for supplies received	48.9	152.9
thereof refund of residual costs to plants ≥ 50 MW arising in 2009/2010	24.9	111.4
Personnel expenses and employees' insurance scheme	6.9	7.3
Income taxes	1.9	1.2
	57.7	**161.4**

22. Other off-balance-sheet liabilities

Firm purchase and operating commitments

Transfer of the transmission system:
Swissgrid has been operating the Swiss high-voltage grid in accordance with Art. 20 (2) (a) of the Electricity Supply Act (StromVG) since 1 January 2009. The transmission system must be transferred to Swissgrid by the current owners by no later than 31 December 2012. Until the handover, Swissgrid must compensate the owners for their chargeable costs (Art. 15 StromVG). As of the reporting date, the contractually agreed transfer of the transmission system provided for in Art. 33 (4) StromVG is expected to involve a transaction value (gross enterprise value) of between CHF 1.7 billion and CHF 2.3 billion. The specific amount and the definitive transaction value depend on the rulings passed by the Swiss courts in the relevant proceedings. Questions of demarcation, such as the allocation of power plant spur lines to the Swiss transmission system, also remained unresolved as of the reporting date.

Grid costs:
The costs incurred by the owners are determined by ElCom. As ElCom's rulings for 2009 to 2011 were referred to the Federal Administrative Court by several involved parties, the definitive costs still could not be specified as of the balance sheet date. Swissgrid has recognised the grid costs stipulated for each year in its annual financial statements. The following table shows the costs reported by the transmission system owners and the figures stipulated by the regulator.

In millions of CHF	Submitted costs	Ruled costs
2009	417.4	328.4
2010	398.5	318.9
2011	341.6	292.3
2012	339.1	300.5
	1,496.6	**1,240.1**

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

CASC.EU:
As a shareholder in CASC.EU, Swissgrid is contractually obliged to assume their 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 commitments:

In millions of CHF	Year 1	Year 2 – 5	Total
31.12.2011	3.2	3.0	6.2
31.12.2010	3.1	6.0	9.1

Off-balance-sheet lease commitments

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

In millions of CHF	Year 1	Year 2 – 4	Total
31.12.2011	0.3	0.5	0.8
31.12.2010	0.2	0.4	0.6

23. Employee pension plan

Economic benefit/ economic obligation and retirement benefit plan expenses	Over-/ underfunding	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	31.12.2011	31.12.2011	31.12.2010			2011	2010
Discretionary retirement benefit fund ("patronale Stiftung")	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Pension fund without shortfall/surplus funding (PKE)	0.0	0.0	0.0	0.0	3.3	3.3	2.7
Total	**0.3**	**0.0**	**0.0**	**0.0**	**3.3**	**3.3**	**2.7**

The coverage ratio of the collective pension fund Pensionskasse Energie (PKE) updated as of 31 December 2011 was 102.0% (2010: 107.9%). The fund therefore has what is known as a reserve deficit, which means that neither a surplus nor a deficit is to be shown in the above table. There were no employer contribution reserves in 2010 and 2011.

24. Transactions with related parties

Transactions in millions of CHF	2011	2010
Operating activities		
Net turnover	498.9	475.4
thereof general ancillary services (AS)/balance energy	170.7	153.4
thereof active power loss (Individual AS)	63.9	61.7
thereof reactive energy (Individual AS)	0.7	2.5
thereof grid utilisation	263.6	257.8
Other operating income	1.2	1.1
Operating expenses		
Cost of procurement	545.5	711.2
thereof general ancillary services (AS)/balance energy	253.4	362.9
thereof active power loss (Individual AS)	27.4	57.5
thereof reactive energy (Individual AS)	6.1	6.9
thereof grid utilisation	258.6	283.9
Material and third – party supplies	0.4	0.8
Other operating expenses	2.9	3.0
Financial result		
Financial expenses	0.3	0.7

Unsettled balances at balance sheet date in millions of CHF	2011	2010
Assets		
Trade accounts receivable	146.0	102.3
from shareholders defined in Art. 663a Swiss Code of Obligations	136.2	35.3
Prepaid expenses and accrued income	18.4	42.3
Liabilities		
Trade accounts payable	42.5	73.1
to shareholders defined in Art. 663a Swiss Code of Obligations	42.8	17.4
Accrued expenses and deferred income	22.7	58.5

The conditions for related party relationships are defined in Note 1 on page 29 et seq.

25. Risk assessment

The company-wide risks of Swissgrid are identified, the development of risks already being monitored are evaluated and the results of previous measures taken are determined as part of a multi-level process conducted several times a year. On this basis, the current risks are evaluated according to their probability of occurrence and impact. Those risks that are judged to be significant are avoided, mitigated or transferred through related measures taken by the Board of Directors.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting that the retained earnings for 2011 be appropriated as follows:

CHF	2011	2010
Balance carried forward from the previous year	9,956,834.14	8,039,422.34
Net profit for the year	9,615,191.19	2,736,911.80
Retained earnings	19,572,025.33	10,776,334.14
Appropriation to the General Reserve	481,000.00	137,000.00
Dividend payment	637,500.00	682,500.00
Balance to be carried forward	18,453,525.33	9,956,834.14
Total appropriation	**19,572,025.33**	**10,776,334.14**

The dividend of 4.25% corresponds to the weighted average cost of capital for the operating assets for 2011, which was defined in accordance with legal requirements (2010: 4.55%).

Laufenburg, 26 March 2012

On behalf of the Board of Directors:
Peter Grüschow, Chairman

Report of the Statutory Auditor

Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

swissgrid ltd., Laufenburg

As statutory auditor, we have audited the financial statements of swissgrid ltd., as presented on pages 22 to 52, which comprise the income statement, balance sheet, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2011.

Board of Directors' Responsibility

The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Without qualifying our opinion we draw attention to note 3 (page 30 to 33) to the financial statements, which describes a material uncertainty regarding the valuation of volume- and tariff-related timing differences.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and 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

Orlando Lanfranchi
Licensed Audit Expert
Auditor in Charge

Patricia Chanton Ryffel
Licensed Audit Expert

Basel, 26 March 2012

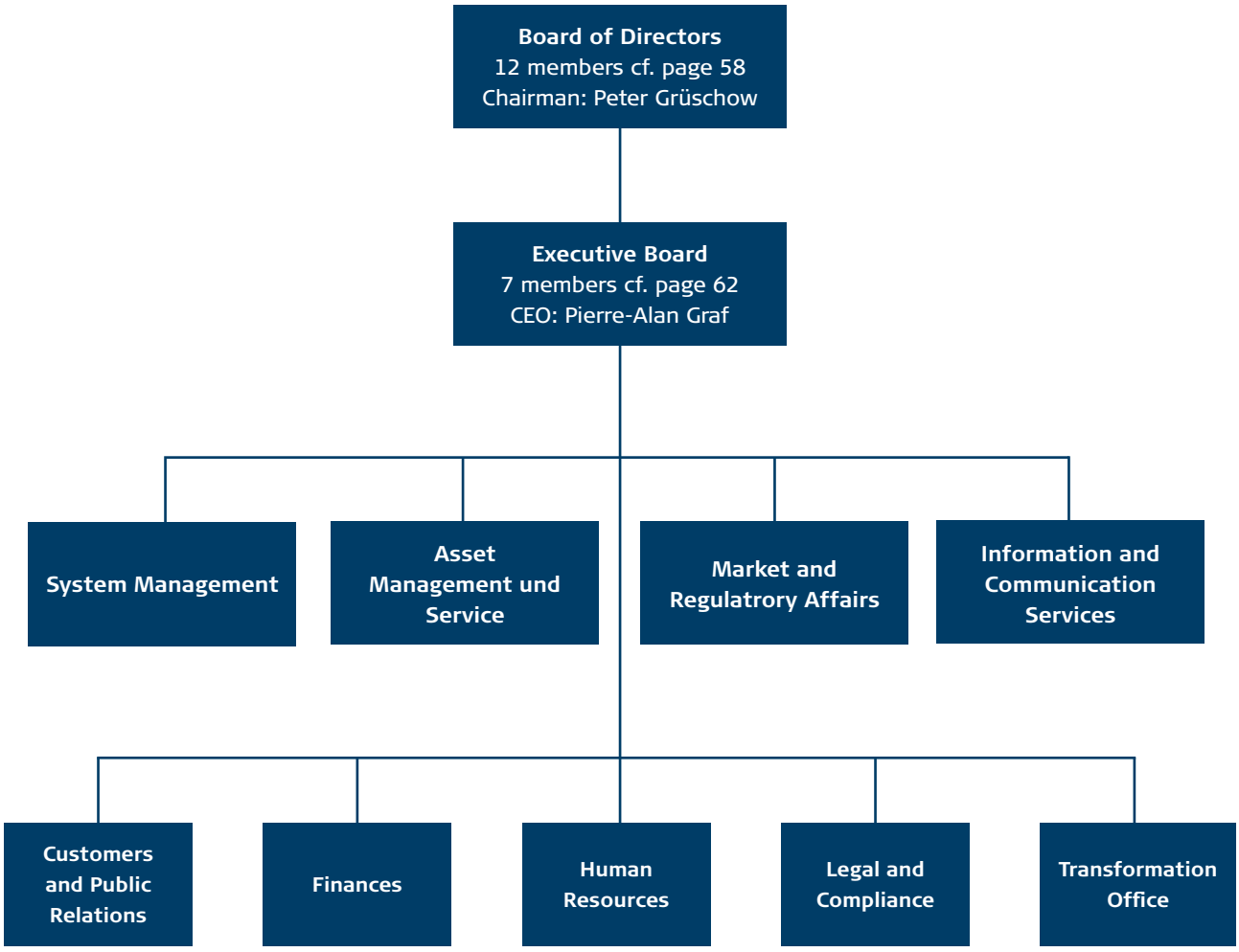
Corporate Governance

The Board of Directors and the Executive Board of swissgrid ag (hereinafter Swissgrid) place great importance on good corporate governance. The following lists are based on the Swiss Code of Best Practice for Corporate Governance. All information relates to 31 December 2011, unless specified otherwise.

1 Group structure and shareholders

1.1 Corporate structure

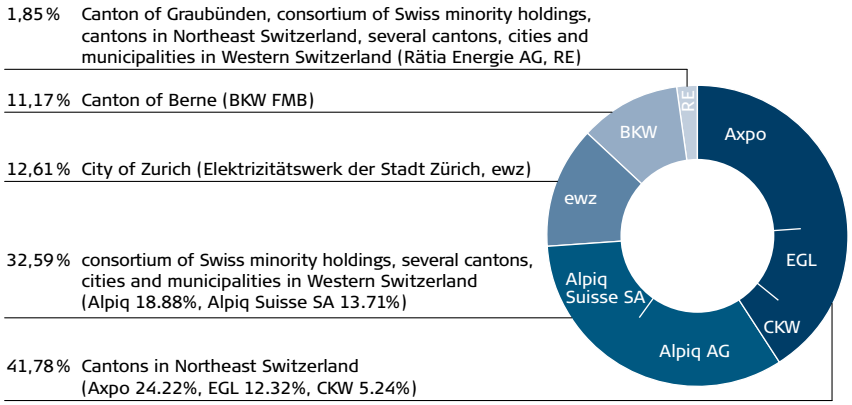
The operational structure of Swissgrid is shown below:



The shareholdings of Swissgrid are listed on page 44 of the Notes to the Financial Statements.

1.2 Shareholders

Swissgrid is wholly owned by the Swiss electricity companies Alpiq AG, Alpiq Suisse AG, Axpo AG (Axpo), BKW FMB Energie AG (BKW), Centralschweizerische Kraftwerke AG (CKW), Elektrizitäts-Gesellschaft Laufenburg AG (EGL), Elektrizitätswerk der Stadt Zürich (ewz) and Repower AG (RE). The companies are directly or indirectly majority-owned by the cantons and the municipalities.



1.3 Cross shareholdings

There are no cross shareholdings.

2 Capital structure

2.1 Capital and restriction on transferability

The company's share capital amounts to CHF 15,000,000 (fifteen million Swiss francs) and is divided into 15,000,000 (fifteen million) registered shares with a par value of 1 CHF per share (one Swiss franc). The shares are fully paid-up. There is no authorised or conditional capital. According to Art. 18 Para. 5 of the Electricity Supply Act, the company's shares may not be listed on an exchange. The Board of Directors keeps a share register listing the names and addresses of the owners and beneficiaries. Only those who are entered in the share register may exercise shareholder rights as a shareholder or beneficiary in relation to the company. The status of the entries in the share register on the 20th day prior to the Annual General Meeting is decisive for determining entitlement to participation and representation at the Annual General Meeting. The majority of the share capital and the associated voting rights must belong directly or indirectly to the cantons and municipalities in accordance with Art. 18 Para. 3 of the Electricity Supply Act. In the event of share transfers (sale, gift, exercise of pre-emption rights and purchase rights, etc.), these majorities must be retained. If a planned transaction infringes upon one of these majority requirements, the approval of the Board of Directors must be denied.

There are no participation certificates, and the company has no convertible bonds outstanding and no options were issued.

2.2 Capital changes

Further information on the share capital and capital changes in the last two years is shown in the Statement of changes in shareholders' equity on page 25.

3 Board of Directors

3.1 Members of the Board of Directors, additional activities and affiliations

	Name, nationality, function, education	Date of election to the Board of Directors	Professional experience, career	Other activities and affiliations	Member of committees
	**Peter Grüschow** (1944, CH) Chairman, independent member Dipl. Ing.	4. December 2008	Member of the Executive Board of Siemens Switzerland (1991 to 2005), CEO since 1996	Chairman of the Board of Trustees of Swisscontact, Chairman of the CRF Foundation	Chairman of the Strategy Committee
	**Conrad Wyder** (1957, CH) Vice Chairman, independent member Master of Business Administration (MBA)	14 December 2006	Director of IBM Switzerland Ltd (since 1998); previously in management position at Hewlett-Packard	Board of Directors of H.K. Schibli AG and Robert Fuchs AG (until 21 November 2011)	Member of the Staff and Compensation Committee
	**Adrian Bult** (1959, CH) Board of Directors, independent member Lic. oec.	14 December 2006	COO of Avaloq Evolution AG (since 2007); previously CEO of Swisscom Mobile Ltd and CEO of Swisscom Fixnet Ltd as well as member of the Executive Board of IBM Switzerland	Member of the Board of Directors of Swissquote Holding AG and Regent AG; Board of Directors of Gesellschaft für Marketing	Member of the Strategy Committee, Chairman of the GO steering committee project (transfer of transmission system)
	**Thomas Burgener** (1954, CH) Board of Directors, cantonal representative Lic. iur., lawyer and notary	14 December 2006	Office for Political and Legal Counselling (since May 2009); previously State Councillor, Canton of Valais, National Councillor, independent lawyer and notary	Board member of the Alpine Initiative	Chairman of the Staff and Compensation Committee
	**Heinz Karrer** (1959, CH) Board of Directors, industry representative Dipl. Kaufmann	14 December 2006	CEO of Axpo Holding AG since 2002; prior to that, member of the Group Executive Board of Swisscom Ltd, member of the Group Executive Board of Ringier AG and CEO of Intersport Holding AG	Member of various boards of directors and foundation boards of Axpo Group companies; member of the Board of Directors ofResun AG and Kuoni Reisen Holding AG; foundation board of Hasler Foundation; chairman of the Board of Swiss electric and Board member of economiesuisse	Member of the Strategy Committee
	**Otto E. Nägeli** (1949, CH) Board of Directors, independent member Dipl. Bankfachmann	11 December 2007	Partner in OEN Consulting Nägeli & Partner (since 2003); previously on the Executive Board of Privatbank Rüd, Blass & Cie., Eurex AG and Soffex AG	Chairman of the Board of Directors of CME Clearing Europe Ltd. and Swiss Futures and Options Association (SFOA); board member of the Association of Futures Markets (AFM)	Member of the Finance and Audit Committee
	**Patrick Mariller** (1966, CH) Board of Directors, industry representative Lic. oec. HEC Lausanne, Stanford Graduate School of Business SEP	18 May 2011	Head of Corporate Planning and Controlling, Alpiq Holding AG (since 2009); previously CFO of EOS Group	Member of various Boards of Directors and Supervisory Boards of the Alpiq Group	Member of the Finance and Audit Committee

	Name, nationality, function, education	Date of election to the Board of Directors	Professional experience, career	Other activities and affiliations	Member of committees
	**Fadri Ramming** (1962, CH) Board of Directors, cantonal representativeLic. iur., lawyer and notary	14 December 2006	Lawyer and notary at own law firm, managing director of the Conference of Energy Directors EnDK (partial mandate)	Member of the Swiss delegation for a Swiss-EU agreement on electricity (cantonal representative); member of the Energy Commission of the Principality of Liechtenstein (until 30 March 2011); Chairman of the Board of Directors of the Grisons psychiatric services; various foundation mandates	Member of the Strategy Committee
	**Dr. Dieter Reichelt** (1961, CH) Board of Directors, industry representative Dr. sc. techn. ETH, Executive MBA HSG	11 May 2010	Head of the Grids division and member of the Executive Board of Axpo AG (since 2008); prior to that, Director, Technische Betriebe Kreuzlingen	Member of the Board of Directors of Nordostschweizerische Kraftwerke Grid AG, Elektrizitätswerk des Kantons Schaffhausen AG, Etrans AG, EKT AG and EKT Holding AG; lecturer at the ETH Zurich	Member of the Staff and Compensation Committee
	**Kurt Rohrbach** (1955, CH) Board of Directors, industry representative Dipl. El. Ing. ETH	14 December 2006	Chairman of the Management Board of BKW AG, member of the Management Board since 1992	Chairman of the Association of Swiss Electricity Companies; member of the Board of economiesuisse	Member of the Staff and Compensation Committee
	**Doris Russi Schurter** (1956, CH) Board of Directors, independent member Lic. oec.	11 December 2007	Lawyer in own practice, Burger & Müller (since 2005); previously partner and branch manager at KPMG Switzerland and head of KPMG Lucerne	Vice Chairman of the Board of Directors of Helvetia Holding AG, member of the Board of Directors of Luzerner Kantonalbank AG, LZ Medien Holding AG as well as various smaller companies; various foundation board mandates; chairman of the arbitration committee of the Central Switzerland Chamber of Commerce	Chairman of the Finance and Audit Committee
	**Michael Wider** (1961, CH) Board of Directors, industry representative Lic. iur., MBA	30 June 2009	Head of SwissEnergy, deputy CEO of Alpiq Holding AG (since 2009); previously in various functions on the Executive Board of the Alpiq Group	Chairman or member of the Board of Directors of various electricity companies; member of the board of swisselectric and VSE	Member of the Strategy Committee

Departures in the reporting period

– Herbert Niklaus (Alpiq), 18 May 2011
– Dr. Conrad Ammann (ewz), 31 December 2011

3.2 Election and term of office

The Board of Directors comprises at least three elected members. The majority of the members and the Chairman must meet independence requirements in accordance with Art. 18 Para. 7 of the Electricity Supply Act. The Board of Directors is elected as a rule at the Annual General Meeting for one year at a time. The term of office for members of the Board of Directors ends on the day of the next Annual General Meeting. All cantons together have the right to delegate and recall two members to/from the Board of Directors of the company (Art. 18 Para. 8 of the Electricity Supply Act). The members of the Board of Directors can be re-elected at any time. The Board of Directors is self-constituting. It nominates its Chairman and Vice Chairman and the Secretary, who does not have to be a member of the Board of Directors.

3.3 Internal organisation

The Board of Directors is responsible for the overall management of the company and for supervising the Executive Board. It represents the company externally and takes care of all matters that are not assigned to another corporate body according to law, regulations or the Articles of Association. The Board of Directors can, subject to the legal guidelines on independence (Art. 18 Para. 7 of the Energy Supply Act), transfer the management of the company or individual parts thereof as well as the representation of the company to one or more persons, members of the Board of Directors or third parties, who do not have to be shareholders. It issues the organisational regulations and the corresponding contractual relationships. The powers of the Board of Directors and the Executive Board are defined in the organisational regulations. The members do not exercise any executive roles within Swissgrid. The Board of Directors met seven times in the last financial year and held three teleconferences.

3.4 Board committees

In order to incorporate the specialist knowledge and broad range of experience of the individual members into the decision-making process, or to report as part of its supervisory duty, the Board of Directors formed three committees from among its members to assist in management and control activities in close collaboration with the Executive Board: the Strategy Committee, the Finance and Audit Committee and the Staff and Compensation Committee. The tasks and powers of the Board committees are set out in the organisational regulations.

Strategy Committee

The Strategy Committee supports the Board of Directors in the strategy process. It advises on the strategic principles on behalf of the Board of Directors and reviews the strategy for the Board of Directors on a regular basis. The committee presents its view on proposals that relate to strategic issues. The Strategy Committee met five times during the last financial year.

Finance and Audit Committee

The Finance and Audit Committee supports the Board of Directors in its supervisory role, namely with regard to the integrity of the accounts, the fulfilment of legal provisions, and the competence and services of the external auditors. The Finance and Audit Committee assesses the suitability of financial reporting, the internal control system and the general monitoring of business risks. It ensures that there is ongoing communication with the external auditors concerning the financial situation and course of business. It makes the necessary preparations relating to the appointment or discharge of the auditors. The Finance and Audit Committee met three times during the last financial year and held two teleconferences.

Staff and Compensation Committee

The Staff and Compensation Committee draws up policies for all compensation components of the members of the Board of Directors, the CEO and the division heads and submits a proposal to the Board of Directors. The committee defines the compensation for the CEO and the members of the Executive Board. The basis for this decision is the compensation concept approved by the Board of Directors. The committee presents its view on candidates to be nominated in accordance with the CEO's proposal. It also ensures that succession planning is in place for the Board of Directors and the Executive Board. The Staff and Compensation Committee convened twice and held one teleconference in the last financial year.

3.5 Information and control instruments with regard to the Executive Board

Information and control instruments

The Board of Directors has the following instruments for monitoring and supervising the Executive Board:

- The report to the Board of Directors contains key figures on business performance, with comments from the Executive Board. The report is drawn up on a quarterly basis and issued in writing to all members of the Board of Directors.
- Other important components of the MIS are the CEO Report, the Risk Report and the AS Report.
- At Board of Directors' meetings, the Executive Board presents and comments on business performance and submits all important issues.
- The external auditors issue an annual written report for the Board of Directors (see also the lists in section 7.2 on page 63).

Internal control system

The internal control system (ICS) has an important role as part of corporate management and monitoring, and covers all procedures, methods and measures mandated by the Board of Directors and the Executive Board that serve to ensure that Swissgrid operates in the correct way. The internal operational controls are integrated in the operating procedures, which means that they are implemented while work is being carried out or immediately before or after. Internal checks do not come under a separate ICS function, but are integrated in the processes. The ICS at Swissgrid, which focuses consistently on key risks and checks, is implemented at all levels of the organisation and demands a high level of personal responsibility from employees.

Risk management

IThe company-wide risks of Swissgrid are identified, changes to risks currently being monitored are evaluated and the results of previous measures are determined as part of a multi-level process conducted a number of times each year. On this basis, the current risks are evaluated according to their probability of occurrence and impact. Those risks that are assessed as significant are avoided, mitigated or transferred through corresponding measures determined by the Board of Directors. Risk management is coordinated and documented by an internal specialist department.

F.l.t.r.: Andreas John, Luca Baroni, Wolfgang Hechler, Bettina von Kupsch, Pierre-Alain Graf, Thomas Tillwicks, Andy Mühlheim

4 Executive Board

4.1 Members of the Executive Board, additional activities and affiliations

Name, nationality, function, education	Member of the EB since	Professional experience, career	Other activities and affiliations
Pierre-Alain Graf (1962, CH) CEO Lic. iur, lic. oec. HSG	1 February 2009	General Manager of Cisco Systems Switzerland Ltd (2006 to 2008); previously at Colt Telecom Group Ltd.	Board of Directors of Cesoc AG
Luca Baroni (1971, CH and I) Finance Certified Economist	15 December 2006	CFO of Etrans AG (2005 to 2006); previously CFO of Energiedienst Holding AG and at EGL AG, WATT AG and at Migros Genossenschaftsbund	None
Wolfgang Hechler (1967, D) Asset Management and Service Degree in Electrical Engineering	1 March 2010	Vattenfall Europe Distribution GmbH (2002 to 2010), latterly as head of grid strategy; previously at Hamburgische Electricitäts-Werke AG	None
Andreas John (1970, D) System Management Degree in Power Engineering	1 March 2010	At Swissgrid since 2007, latterly as Head of Grid Operations; previously at ABB Group, Siemens Group, Enermet Group and CKW AG	None
Bettina von Kupsch (1963, D) Customers and Public Relations Dipl. Kaufmann, Master of Arts	1 April 2010	Swisscom Switzerland Ltd as head of Brand Management & Transfer (2008 to 2009), previously in managementpositions at Swisscom Mobile, Cap Gemini Ernst & Young and Gemini Consulting	None
Andy Mühlheim (1968, CH) Information & Communication Technology Services Degree in Electrical Engineering HTL, Degree in Industrial Engineering STV/FH, Lorange Executive MBA	1 March 2009	IT Director at Alstom Switzerland Ltd (2004 to 2009); previously at Swisscom Ltd, Sunrise AG and Siemens Switzerland Ltd	None

Name, nationality, function, education	Member of the EB since	Professional experience, career	Other activities and affiliations
Thomas Tillwicks (1952, CH/D) Market and Regulation Degree in Electrical Engineering	15 December 2006	Head of Commerical Grid Operation at Etrans AG (2005 to 2006); previously at Atel AG and in electricity supply in Berlin	Board of Directors of Capacity Allocation Service Company.eu S.A.; active on international committees in the European Association of Transmission System Operators ENTSO-E

Departures in the reporting period

– Christine Dreher, Human Resources, 30 November 2011

5 Remuneration

The members of the Board of Directors receive a fixed remuneration (fees and expenses) which is on a sliding scale for the Chairman and the other Board members. Remuneration for the members of the Executive Board consists of a basic salary (including per diem expenses) and a variable salary component which is dependent on achieving company and personal targets. The amount of remuneration for members of the Executive Board is defined by the Staff and Compensation Committee. Payments to the Executive Board and the Board of Directors are disclosed on pages 39 and 40 of the Notes to the Financial Statements.

6 Rights of participation

Shareholders' rights to assets and rights of participation are governed by law and the Articles of Association. There are no statutory regulations that differ from the legislation.

7 External audit

7.1 Mandate and fees

KPMG AG, Basel, act as the statutory auditors for swissgrid ag. The audit mandate was first awarded to KPMG for the 2005/2006 financial year (long year). The auditor in charge, Orlando Lanfranchi, has been in the role since the 2005/2006 financial year.

The auditor is appointed at the Annual General Meeting for a one-year term. For its function as auditors, KPMG received remuneration of CHF 157,000 for the last financial year . Additional support services in connection with the upcoming transfer of the transmission system (in particular taxation due diligence) and in the IT area were remunerated in the amount of CHF 351,000.

7.2 Information instruments

Every year the Finance and Audit Committee evaluates the effectiveness of the external audit. The members of the committee use their knowledge and experience gained from holding similar positions in other companies to evaluate the audit. They also base their evaluation on the documents provided by the external auditors, such as the comprehensive report and the oral and written statements on individual aspects in connection with accounting, the internal control system and the audit.

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