

Comments on the consolidated financial statements

OPERATING INCOME CONFIRMED AT PRIOR-YEAR LEVEL THANKS TO MORE STABLE MARKET ENVIRONMENT

GRATIFYING RESULTS THANKS TO HIGHER MARKET PRICES AND SUCCESSFUL EXPLOITATION OF MARKET OPPORTUNITIES – BASIC BUSINESS SUPPORTIVE – MARKET ITALY'S EARNINGS CONTRIBUTION EXCEEDS EXPECTATIONS

With 2018 earnings well above expectations, Repower managed to confirm the prior-year levels. From spring 2018 the energy market saw a recovery in prices accompanied by a high degree of volatility. Repower was able to profitably exploit this more encouraging situation by capitalising on its long position and skilfully positioning itself in the market. Also worthy of mention are the continued stability and support provided by earnings from energy supply and revenues from contracts for third parties. In Italy Repower was able to increase the volumes of electricity and gas sold as budgeted. The revenues generated by marketing energy from the Teverola plant on the day-ahead and balancing energy market made a much greater contribution to earnings than anticipated.

The 2018 financial year ended with earnings before interest and tax (EBIT) of CHF 35 million. Income before income taxes came to CHF 19 million, with annual profit for the year also CHF 16 million.

As in the previous period, there are no notable exceptional items to report for the 2018 financial year. The comments on Repower Group's 2018 financial results below, including the prior-year comparisons, thus refer entirely to the results stated under Swiss GAAP FER.

At CHF 2,074 million, Repower Group net sales from goods and services were up 13 per cent year on year (prior year: CHF 1,835 million). Sales improved in Switzerland (primarily energy trading) and Italian (an increase in volumes of energy sold). The fact that the average euro exchange rate was around 4 per cent higher than the previous year also resulted in higher sales in Swiss francs, the reporting currency. Gross energy margin improved, up CHF 15 million from CHF 208 million to CHF 223 million. Major factors in this were the gratifying results from energy trading in Switzerland mentioned above and the very efficient deployment of the Teverola power plant on the balancing energy market in response to market demand, despite downtime during the year.

Operating expenses (without energy procurement) declined by around CHF 14 million year on year to CHF 178 million (from CHF 163 million the year before). Owing to consistent implementation of Repower's strategy and efforts to build up certain areas, for the first time since 2013 there has been an increase in personnel expenses (up CHF 5 million). An overall increase in operating expenses (up CHF 9 million) was due to expenses in connection with the development of new products, setting up IT systems, and efforts to grow sales in Italy. While there was a decline in concession charges (down CHF 1 million), there was an increase in

the cost of materials and third-party services (up CHF 1 million year on year), the latter primarily due to greater expense in connection with the maintenance of Repower's own assets.

Scheduled depreciation/amortisation came in at CHF 47 million for 2018, up CHF 1 million on the previous year. This increase is due to the acquisition of a portfolio of renewable generation assets in Italy (Repower Renewable). As was the case the prior year, the year under review saw neither impairment losses nor gains nor reversals.

Repower Group posted earnings before interest and taxes (EBIT) of CHF 35 million, around 5 per cent higher than the CHF 34 million recorded the previous year.

There was a very slight decline in financial earnings, with a loss of CHF 16 million versus a loss of CHF 14 million the previous year. Unlike the previous year, currency losses of CHF 9 million were recorded in 2018, although they were to a large extent neutralised by currency hedging transactions. The year under review saw a reduction in financial liabilities from CHF 10 million in 2017 to CHF 9 million in 2018. A due loan of CHF 25 million and part (CHF 19 million) of the outstanding bond were repaid during the 2018 financial year.

Repower posted group earnings of CHF 16 million for 2018. It is gratifying to note that this confirmed a trend reversal to positive results.

A significant increase in tangible assets (up CHF 92 million) was due primarily to the acquisition of the renewable generation assets in Italy. Year-on-year growth in inventories (up CHF 16 million) was the result of higher volumes of and higher prices for gas. The decline in financial assets (down CHF 17 million) was due to the reclassification of maturing fixed-term deposits. The addition of Repower Renewable to the scope of consolidation in Italy resulted in CHF 85 million in new financial liabilities.

OUTLOOK

With major changes in the regulatory and political framework set to continue, Repower does not expect the situation for the energy industry to stabilise significantly in the years to come. Despite greater volatility, Repower expects the positive development in energy prices to continue. On the basis of a strong core business it will be able to drive ahead implementation of its formulated strategy of systematically focusing on sales and services. In Italy the plan is to continue to build on the solid position in sales and penetrate a new customer segment. Parallel to this Repower intends to continue expanding its portfolio of renewable generation assets. Overall Repower believes its growth prospects are intact. For 2019 Repower anticipates operating results higher than 2018 levels.

Consolidated income statement

CHF thousand		2018	2017
	Note		
Net sales from goods and services	1	2,073,879	1,835,469
Own costs capitalised	2	6,946	6,014
Change in inventory of sales orders	3	1,052	-707
Other operating income	4	8,137	5,963
Total operating revenue		2,090,014	1,846,739
Share of earnings from associates and joint ventures	5	-3,936	-3,406
Energy procurement	6	-1,826,488	-1,600,944
Concession fees	7	-16,974	-17,831
Personnel expenses	8	-73,160	-67,977
Materials and third party services	9	-31,948	-30,847
Other operating expenses	10	-55,543	-46,573
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		81,965	79,161
Depreciation and value adjustments of tangible assets	11	-43,459	-41,724
Amortisation and value adjustments of intangible assets	12	-3,133	-3,658
Earnings before interest and taxes (EBIT)		35,373	33,779
Financial income	13	9,372	21,431
Financial expenses	13	-25,548	-35,574
Earnings before taxes		19,197	19,636
Income taxes	14	-2,875	363
Group earnings		16,322	19,999
Share of group earnings attributable to Repower shareholders		13,893	17,632
Share of group earnings attributable to minorities		2,429	2,367
Share of group earnings attributable to Repower shareholders per registered share (in CHF) *		1.88	2.39
Average number of registered shares in circulation		7,390,755	7,390,309

* The undiluted group earnings are calculated on the basis of the weighted average number of shares. There are no factors resulting in a dilution of earnings per share.

Consolidated balance sheet

		31.12.2018	31.12.2017
CHF thousand			
	Note		
Assets			
Tangible assets	15	836,677	745,166
Intangible assets	16	12,088	10,588
Investments in associates and joint ventures	17	3,945	3,632
Financial assets	18	45,440	62,783
Deferred tax assets	19	37,810	34,141
Non-current assets		935,960	856,310
Inventories	20	40,302	24,745
Trade accounts receivable	21	324,354	382,940
Other receivables	22	26,150	32,513
Prepaid expenses and accrued income	23	3,674	2,876
Securities	24	63,684	20,530
Positive replacement values of held for trading positions	25	162,117	108,028
Cash and cash equivalents	26	316,314	394,479
Current assets		936,595	966,111
Total assets		1,872,555	1,822,421

		31.12.2018	31.12.2017
CHF thousand			
	Note		
Liabilities and shareholders' equity			
Share capital		7,391	7,391
Treasury shares		-22	-15
Capital reserves		202,008	202,004
Retained earnings (including group earnings)		515,174	511,625
Accumulated translation differences		1,408	5,498
Shareholders' equity excluding minorities		725,959	726,503
Minorities		80,983	42,953
Shareholders' equity		806,942	769,456
Non-current provisions	27	16,033	19,537
Deferred tax liabilities	28	24,243	21,368
Non-current financial liabilities	29	430,281	378,452
Other non-current liabilities	30	63,500	63,081
Non-current liabilities		534,057	482,438
Current financial liabilities	29	11,437	40,151
Negative replacement values of held for trading positions	25	150,277	107,153
Current provisions	27	32	259
Trade accounts payable	31	323,990	380,401
Other current liabilities	32	29,109	26,102
Deferred income and accrued expenses	33	16,711	16,461
Current liabilities		531,556	570,527
Liabilities		1,065,613	1,052,965
Total liabilities and shareholders' equity		1,872,555	1,822,421

Changes in consolidated shareholders' equity

	Share capital	Treasury shares	Capital reserves	Retained earnings	Accumulated translation differences	Shareholders' equity excluding minorities	Minorities	Total shareholders' equity
CHF thousand								
Equity at 1 January 2017	7,391	-21	201,998	491,169	-649	699,888	37,047	736,935
Group earnings				17,632		17,632	2,367	19,999
Effect of currency translation					6,134	6,134	1,183	7,317
Dividends						-	-552	-552
Purchase/sale of treasury shares		6	6			12		12
Changes in consolidation				-19	19	-	-	-
Purchase/sale of minorities				2,843	-6	2,837	2,908	5,745
Equity at 31 December 2017	7,391	-15	202,004	511,625	5,498	726,503	42,953	769,456
CHF thousand								
Equity at 1 January 2018	7,391	-15	202,004	511,625	5,498	726,503	42,953	769,456
Group earnings				13,893		13,893	2,429	16,322
Effect of currency translation					-4,090	-4,090	-194	-4,284
Dividends						-	-1,065	-1,065
Purchase/sale of treasury shares		-7	4			-3		-3
Changes in consolidation				-10,344		-10,344	36,860	26,516
Equity at 31 December 2018	7,391	-22	202,008	515,174	1,408	725,959	80,983	806,942

The share capital consists of 7,390,968 fully paid-up registered shares, each with a nominal value of CHF 1.00.

Consolidated cash flow statement

CHF thousand		2018	2017
	Note		
Group earnings		16,322	19,999
Income taxes	14	2,875	-363
Share of earnings from associates and joint ventures	5	3,936	3,406
Dividends from associates and joint ventures	17	1	-
Net financial income	13	16,176	14,143
Depreciation/amortisation, impairment and reversal of impairment of tangible and intangible assets	11/12	46,592	45,382
Gain/loss on the disposals of tangible and intangible assets		312	-1,402
Change in non-current provisions (without interest)		-6,056	-2,448
Change in replacement values of held for trading positions		-10,944	4,779
Other non-cash income and expenses		-1,896	1,979
Other financial cash outflow and inflow		-7,238	-13,378
Funds from Operations (FFO)		60,080	72,097
Changes			
Inventory		-16,406	-7,559
Trade accounts receivable		54,182	-47,248
Other receivables (without income taxes)		8,031	14,531
Prepaid expenses and accrued income		-988	672
Current provisions		-223	225
Trade accounts payable		-50,229	11,474
Other current liabilities (without taxes)		1,419	-1,087
Deferred income and accrued expenses		33	-1,970
Income taxes paid		-918	1,506
Cash flow from operating activities		54,981	42,641

CHF thousand		2018	2017
	Note		
Additions of tangible assets	15	-28,071	-23,766
Disposals of tangible assets		833	13,309
Additions of current and non-current financial assets		-115,660	-120,550
Disposals of current and non-current financial assets		90,092	70,778
Additions of intangible assets	16	-3,848	-3,101
Payments for additions of group companies		-8,223	-
Disposals of group companies (less cash and cash equivalents disposed of)		-	4,612
Dividends received from third parties		224	303
Interest received		276	281
Cash flow from investing activities		-64,377	-58,134
Increase in financial liabilities		-	115,128
Repayment of financial liabilities		-51,317	-34,504
Dividend payments		-1,065	-552
Purchase/sale of treasury shares		-3	12
Sale of minorities		-	5,745
Interest paid		-9,526	-8,258
Cash flow from financing activities		-61,911	77,571
Effect of currency translation		-6,858	14,230
Change in cash and cash equivalents		-78,165	76,308
Cash and cash equivalents at 1 January		394,479	318,171
Cash and cash equivalents at 31 December	26	316,314	394,479

Payments of CHF 8,223 thousand for investments in group companies in 2018 relate to the acquisition of Elettrostudio Energia S.p.A., made by way of a cash payment and a contribution of existing group companies (see the “Additions to the scope of consolidation” section).

Payments of CHF 4,612 thousand received from disposals of group companies in the 2017 financial year relate to a payment on account received on an adjustment in the purchase price for Repower’s high-voltage grid, which was transferred to Swissgrid in 2013. The payment on account received was classified as a liability.

Notes to the consolidated financial statements: principles

1 ACCOUNTING AND VALUATION PRINCIPLES

GENERAL INFORMATION

Repower Group prepares its financial statements in accordance with the entire Accounting and Reporting Recommendations (Swiss GAAP FER), providing a true and fair view of the assets, liabilities, financial position and profit or loss of the Repower Group.

The presentation of the derivation of cash flow was revised versus the prior year. Instead of the subtotal for cash flow from operating activities before change in net current assets, the key performance indicator (KPI) funds from operations (FFO) is stated as a subtotal. FFO is defined as cash flow from operating activities before change in net current assets and income taxes paid.

In individual cases roundings can mean that figures in this report do not add up to the exact total specified, and that the specified percentages do not exactly result from the stated figures.

2 CONSOLIDATION

SCOPE OF CONSOLIDATION

The present consolidated financial statements encompass the financial statements of Repower AG and all investments where Repower holds, directly or indirectly, more than 50 per cent of the votes or can exercise control in some other way. These investments are fully consolidated. Associated organisations and joint ventures are included in the financial statements in accordance with the equity method.

OVERVIEW OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Company	Head office	Currency	Issued capital in thousands	Holding 31.12.2018	Holding 31.12.2017	Method ¹⁾
Repower AG	Brusio	CHF	7,391	-	-	F
Ovra elettrica Ferrera SA	Trun	CHF	3,000	49.00%	49.00%	F
SWIBI AG	Landquart	CHF	500	76.58%	76.58%	F
Alvezza SA in Liquidation	Disentis	CHF	500	62.00%	62.00%	F
Lagobianco SA	Poschiavo	CHF	1,000	100.00%	100.00%	F
Repartner Produktions AG	Poschiavo	CHF	20,000	51.00%	51.00%	F
Repower Deutschland GmbH	Dortmund	EUR	11,525	100.00%	100.00%	F
Repartner Wind GmbH	Dortmund	EUR	25	51.00%	51.00%	F
Repower Italia S.p.A.	Milan	EUR	2,000	100.00%	100.00%	F
Repower Vendita Italia S.p.A.	Milan	EUR	4,000	100.00%	100.00%	F
SET S.p.A.	Milan	EUR	120	61.00%	61.00%	F
Energia Sud S.r.l.	Milan	EUR	1,500	100.00%	100.00%	F
SEA S.p.A.	Milan	EUR	120	65.00%	100.00%	F
REC S.r.l.	Milan	EUR	10	65.00%	100.00%	F
MERA S.r.l.	Milan	EUR	100	100.00%	100.00%	F
Immobiliare Saline S.r.l.	Milan	EUR	10	100.00%	100.00%	F
REV S.r.l.	Milan	EUR	10	100.00%	100.00%	F
Repower Renewable S.p.A. ²⁾	Venice	EUR	66,736	65.00%	0.00%	F
Impianto Eolico Pian dei Corsi S.r.l. ²⁾	Venice	EUR	200	37.38%	0.00%	F
ESE Cerignola S.r.l. ²⁾	Venice	EUR	100	65.00%	0.00%	F
RES S.r.l. ²⁾	Venice	EUR	150	65.00%	0.00%	F
Cramet Energie S.r.l. ²⁾	Venice	EUR	20	65.00%	0.00%	F
ESE Terlizzi S.r.l. ²⁾	Venice	EUR	20	65.00%	0.00%	F
ESE Salento S.r.l. ²⁾	Venice	EUR	10	61.75%	0.00%	F
Elettrosud Rinnovabili S.r.l. ²⁾	Venice	EUR	10	65.00%	0.00%	F
Quinta Energia S.r.l. ²⁾	Erice	EUR	50	65.00%	0.00%	F
ESE Armo S.r.l. ²⁾	Venice	EUR	30	65.00%	0.00%	F
ESE Nurra S.r.l. ²⁾	Venice	EUR	200	33.15%	0.00%	F
ESE Castelguglielmo S.r.l. ²⁾	Venice	EUR	30	65.00%	0.00%	F
Compagnia Energie Rinnovabili S.r.l. ²⁾	Venice	EUR	100	65.00%	0.00%	F
Parco Eolico Busetto S.p.A. ²⁾	Erice	EUR	500	65.00%	0.00%	F
ERA S.c.ar.l ²⁾	Venice	EUR	30	64.99%	0.00%	F
ESE Apricena S.r.l. ²⁾	Venice	EUR	30	65.00%	0.00%	F
EL.IT.E. S.p.A.	Milan	EUR	3,889	46.55%	46.55%	E
Aerochetto S.r.l.	Catania	EUR	2,000	39.00%	39.00%	E
tiko Energy Solutions AG ³⁾	Ittingen	CHF	13,342	35.00%	35.00%	E
Kraftwerk Morteratsch AG ⁴⁾	Pontresina	CHF	500	10.00%	10.00%	E
Grischelectra AG ⁵⁾	Chur	CHF	1,000	11.00%	11.00%	E
Terra di Conte S.r.l. ²⁾	Lucera	EUR	10	32.50%	0.00%	E

1) Key: F Fully consolidated, E Equity Method

2) Company acquired in 2018.

3) Swisscom Energy Solutions AG was renamed tiko Energy Solutions AG.

4) Repower AG holds 10% of the share capital and 35.7% of the voting rights of Kraftwerk Morteratsch AG.

5) Only 20 percent of the issued capital has been paid in.

All subsidiaries, associates and joint ventures with the exception of Grischelectra AG, which closes its accounts on 30 September, close their accounts at the end of the calendar year.

Ovra elettrica Ferrera SA, Trun, is a power plant company in which the local municipality holds a 51 per cent stake. Repower bears full operating responsibility for this company and sells 100 per cent of the energy generated on the market. Repower thus exercises overall control and Ovra elettrica Ferrera SA is fully consolidated.

In contrast to the share capital held, Repower exercises 30 per cent of the votes in Grischelectra AG and on the basis of contractual arrangements controls Grischelectra AG in conjunction with Canton Graubünden. Grischelectra AG is a joint venture.

Under the contractual arrangements governing the interest in Kraftwerk Morteratsch AG, all relevant decisions must be made unanimously. Kraftwerk Morteratsch AG is a joint venture.

The direct shareholdings in Impianto Eolico Pian dei Corsi S.r.l. and ESE Nurra S.r.l., acquired in 2018, come to 57.5 and 51.0 per cent respectively. These are subsidiaries.

The direct shareholding in Terra di Conte S.r.l., added to the scope of consolidation in 2018, comes to 50 per cent. This is a joint venture.

Additions to the scope of consolidation

Repower acquired an interest of 65 per cent in Elettrostudio Energia S.p.A. and its holdings in hydro-, solar and wind power assets by way of a contribution of the existing group companies SEA S.p.A. and REC S.r.l. and a cash payment. Repower has controlled Elettrostudio Energia S.p.A. and included it in the scope of consolidation since 5 December 2018.

The companies added to the scope of consolidation can be seen in the “Overview of subsidiaries, associates and joint ventures”. Elettrostudio Energia S.p.A. has already been renamed Repower Renewable S.p.A.

SEA S.p.A. and REC S.r.l. are still Balanced at the previous consolidated carrying amounts.

The table below summarises the material amounts booked for assets and liabilities acquired on the date of acquisition, plus the purchase price and goodwill resulting from the acquisition.

CHF thousand	Note	
Tangible assets	15	115,068
Investments in associates and joint ventures	17	267
Financial assets and securities	18, 24	3,030
Deferred tax assets	19	733
Inventories	20	12
Trade accounts receivable	21	4,564
Other receivables	22	4,098
Prepaid expenses and accrued income	23	611
Cash and cash equivalents	26	6,185
Current and non-current provisions	27	-1,676
Current and non-current financial liabilities	29	-87,367
Trade accounts payable	31	-3,364
Other current liabilities	32	-1,039
Deferred income and accrued expenses	33	-1,160
Book value SEA S.p.A. and REC S.r.l.		29,555
Share attributable to minorities		-26,516
Total net assets		43,001
Goodwill	16	962
Book value SEA S.p.A. and REC S.r.l.		-29,555
Cash consideration paid		14,408
Acquired cash and cash equivalents		-6,185
Cash out flow from acquisition		8,223

The balances presented include estimates whose influencing factors may not have been known at the date of acquisition. This business combination was recognised for the first time at the end of the reporting period on the basis of provisional figures. If new information emerges on the facts and circumstances that pertained at the time of acquisition, this may lead to adjustments to the provisional figures and the recognition of additional assets and liabilities within the valuation period.

The goodwill was capitalised as intangible assets and will be amortised over a period of five years.

Changes in the ownership interests without loss of control

In connection with the acquisition in the 2018 financial year mentioned above, the group's interest in SEA S.p.A. and REC S.r.l. has declined to 65 per cent.

In the 2017 financial year Repower sold another 6 per cent of its interest in Repartner Produktions AG to the shareholder EKZ. The cash inflow of CHF 5,721 thousand is offset against minority interests of CHF 2,902 thousand. The difference of CHF 2,819 thousand was allocated to the majority shareholder's capital. Repower likewise sold 0.1 per cent of its interest in Swibi AG. Minority interests of CHF 6 thousand are offset against sales proceeds of CHF 24 thousand. The difference of CHF 18 thousand was allocated to the equity of the majority shareholder.

Consequences of the loss of subsidiary control

No companies were deconsolidated in 2018.

In 2017 the companies Elbe Beteiligungs AG in Liquidation, Energia Eolica Pontremoli S.r.l., Repower Trading Česká republika s.r.o. v likvidaci, S.C. Repower Vanzari Romania S.R.L., Repower Serbia d.o.o. - u likvidaciji and Repower Hrvatska d.o.o. u likvidaciji were wound up. Translation losses of CHF 19 thousand from accumulated translation differences were reclassified directly to retained earnings.

Consolidation method

Capital consolidation is done in accordance with the purchase method. When an entity is purchased its assets and liabilities as of the date of acquisition are revalued in accordance with uniform group principles. Any remaining goodwill (the difference between the purchase price and the share of equity) is capitalised and amortised over five years or a maximum of 20 years. Assets and liabilities and income and expenses at fully consolidated entities are integrated in their entirety in the consolidated financial statements. Minority interests in the equity and minority interests in the profits of fully consolidated entities are stated separately.

Intragroup receivables and liabilities, income and expenses and investments are netted out and interim gains eliminated. Investments in associates and joint ventures are accounted for using the equity method.

Conversion of foreign currencies

Each group company determines the functional currency in which it draws up its individual financial statements. Company financial statements in foreign currencies are converted as follows: assets and liabilities at the closing rate on the balance sheet date, equity at historical rates. The income and cash flow statements are converted at the average rate for the year. The resulting translation differences are recognised directly in equity. On the disposal of entities the translation differences attributable to them are reclassified in the consolidated statement of changes in equity from accumulated translation differences to retained earnings.

Foreign currency transactions contained in the individual financial statements of consolidated entities are converted at the relevant daily rate, and foreign currency balances are converted on the closing date at the closing rate on the balance sheet date. The resulting differences in rates are recognised in profit or loss.

The following exchange rates were used for the most important foreign currency:

Currency	Unit	Closing exchange rate		Average exchange rate	
		31.12.2018	31.12.2017	2018	2017
EUR	1	1.12690	1.17020	1.15463	1.11194

Cash flow statement

The cash and cash equivalents fund forms the basis of the consolidated cash flow statement. Cash flow from operating activities is calculated by the indirect method.

3 VALUATION PRINCIPLES

Tangible assets

Tangible assets are initially recognised at the lower of cost (acquisition or manufacturing cost). Repower capitalises borrowing costs if construction takes more than one year and it is a major investment project. For the purposes of subsequent measurement, Repower does scheduled straight-line amortisation over the expected useful life. Estimated useful lives are calculated in accordance with the recommendations of the Association of Swiss Electricity Companies and are within the following ranges for each category:

Category	Useful life
Power plants	20 – 80 years depending on the type of facility
Grids	15 – 40 years
Land	Indefinite
Buildings	30 – 60 years
Plant and business equipment	3 – 20 years
Assets under construction	Reclassification to the corresponding category when available for use; any impairments are recognised immediately

Intangible assets

Intangible assets are initially recognised at the lower of cost (acquisition or manufacturing cost). Provided the prerequisites for capitalisation are met, intangible assets generated internally are capitalised. Amortisation is done on a straight-line basis. The estimated useful lives for the individual categories are within the following ranges:

Category	Useful life
Goodwill	5 - 20 years
Other intangible assets	3 - 5 years

The useful lives of concession rights and rights of use are determined by the relevant contractual provisions.

Impairment

Assets are tested for impairment on every balance sheet date. If there is evidence of impairment, an impairment test is carried out to calculate the recoverable value. The recoverable value is the higher of net selling price and value in use. If the carrying amount exceeds the recoverable value, an adjustment is made in the income statement by way of unscheduled amortisation. If there is a material improvement in the facts considered in the course of calculating the recoverable value, an impairment recognised in earlier reporting periods will be fully or partially reversed in the income statement, with the exception of goodwill.

Investments in associates and joint ventures

Investments in associates and joint ventures are recognised using the equity method.

Financial assets

Financial assets comprise securities and loans extended for the purposes of long-term investment, and derivatives. Non-current securities and loans are recognised at cost less any impairment. Derivatives are recognised at current values.

Deferred taxes

Deferred taxes are calculated on the basis of balance sheet temporary differences. Temporary differences between the values of balance sheet positions determined in accordance with Swiss GAAP FER principles and those determined in accordance with tax law form the basis for recognising deferred income tax assets and liabilities. Given the uncertainty involved in offsetting loss carryforwards against future earnings, deferred taxes are not capitalised.

Inventory

Inventories are goods used in the regular course of business for the purposes of disposal, manufacturing goods or providing services. They are initially recognised at the lower of cost (acquisition or manufacturing cost). The closing inventory is valued at the lower of average cost or net market price. Settlement discounts received are recognised as financial income.

Work in progress comprises goods and services not yet transferred. Smaller contracts are measured at acquisition or production cost, comprising all expenses actually incurred to bring orders to their current status (completed contract method). Large contracts are recognised as per Swiss GAAP FER 22 as long-term contracts according to the percentage-of-completion method if the respective preconditions are met. The percentage of completion is calculated for each contract using the cost-to-cost method.

Receivables from goods and services

Receivables from goods and services comprise receivables from business activities where the delivery or service has already been fulfilled but the counterperformance or debt has not been fulfilled. Receivables are measured at nominal value taking due account of necessary impairment.

Other receivables

This item comprises all other current receivables. They are measured at nominal value taking due account of necessary impairment.

Prepaid expenses and accrued income/deferred income and accrued expenses

Prepaid expenses and accrued income/deferred income and accrued expenses are designed to ensure that assets and liabilities at the balance sheet date are presented correctly and that income and expense are recognised on an accrual basis in the income statement.

Securities

Securities comprise shares, bonds and fund units as well as derivatives and short-term investments. Both initial and subsequent measurement is done at current values. If no current value is available, non-current securities are valued no higher than their acquisition costs less any impairments.

Replacement values for held-for-trading positions

Contracts in the form of forward transactions (forwards and futures) conducted with the intention of achieving a trading profit or margin are treated as derivative financial instruments and recognised as held-for-trading positions or replacement values. On the balance sheet date, all open derivative financial instruments from energy trading transactions are measured at fair value through profit or loss, and the positive and negative replacement values are recognised under assets and liabilities. Positive replacement values represent receivables. Negative replacement values represent liabilities. The replacement value is the difference in price compared to the closing price.

The open contracts are measured on the basis of market data from electricity exchanges (e.g. EEX Leipzig). For contracts for which no liquid market exists, measurement is based on a valuation model.

Current transactions are offset at positive and negative replacement value if the respective contract terms provide for this and the intention to offset exists and is legally permitted.

Realised and unrealised income from held-for-trading positions is recognised as net sales from goods and services.

Cash and cash equivalents

The cash and cash equivalents item comprises cash, sight deposits at banks and other financial institutions (e.g. PostFinance) and cash equivalents, provided they are held as a cash reserve, are highly liquid and convertible to cash at short notice, and are subject to only negligible fluctuations in value. Cash equivalents have a maximum residual term to maturity at the balance sheet date. Fixed-term deposits callable at short notice with an agreed term of more than 90 days are likewise deemed to be cash equivalents, provided that on the balance sheet date they are available for payment purposes by termination within 90 days.

Provisions

A provision is a probable liability on the basis of an event before the balance sheet date; the amount of the liability and/or the date on which it will fall due is uncertain but can be estimated. Provisions are recognised for actual and statutory obligations and for impending risks and losses. Existing provisions are remeasured on every balance sheet date. Provisions are divided into current provisions (due within 12 months) and non-current provisions (due after 12 months). If there is a material time factor involved, the provision is discounted.

Financial liabilities

Financial liabilities comprise both financing activities and derivatives, and are recognised at nominal or current values. Any differences between the acquisition cost and the redemption value of bonds or registered bonds are amortised on a straight-line basis over the term of the instruments. Interest accrued but not yet charged is accrued and recognised as deferred income and accrued expenses on the balance sheet date. Depending on the term, it is recognised under non-current or current financial liabilities.

Other non-current liabilities

Other non-current liabilities comprise all liabilities not belonging to the other categories that are not due within 12 months after the balance sheet date. In particular, under this item Repower recognises received connection fees and grid cost contributions, which are charged to profit or loss over a period of 35 years.

Liabilities from goods and services

Payables from goods and services are current liabilities with a remaining term of less than 12 months arising from deliveries, work performances, services, lease agreements, etc.). They are recognised at nominal values.

Other current liabilities

This item comprises all other current liabilities that cannot be assigned to payables from goods and services. They are recognised at nominal values.

Pension provisions

On the balance sheet date, employees of Repower in Switzerland were members of the PKE Vorsorgestiftung Energie pension fund. This is a legally independent pension fund operating as a defined contribution plan in accordance with the Federal Law on Occupational Pensions for Old Age, Survivors and Disability (BVG). Pension benefit obligations are measured and recognised in accordance with Swiss GAAP FER 16. The economic impacts of pension institutions on the entity are either economic benefits or economic obligations. Economic benefits and economic obligations are evaluated at the balance sheet date and recognised in the entity's financial statements. Employer contribution reserves are recognised at nominal or present value as financial assets.

A peculiarity of Italian law is the payment of severance pay. This corresponds to around one month's pay for every year of employment, and must be paid in all cases when an employment relationship is terminated. The provision for this obligation is calculated according to a recognised method specific to the country, and the change is recognised in personnel expenses.

Cash flow hedges

Derivative transactions entered into for the purpose of hedging cash flows with a high probability of occurrence are not recorded on the balance sheet, but are disclosed in the notes.

Leases

A lease is an agreement whereby certain goods are ceded for the use of the lessee in return for a payment. A distinction is made between finance and operating leases. A finance lease is defined as a lease that transfers all material risks and rewards of ownership to the lessee. Otherwise the lease is deemed to be an operating lease. The components of a finance lease are recognised as tangible assets and financial liabilities. Lease instalments paid are apportioned between the finance charge and the reduction in the outstanding liability. Assets leased under operating leases are not recognised on the balance sheet. Paid and received leasing instalments are recognised in the period in which they occur.

Off-balance-sheet business

Contingent assets and liabilities are measured at the balance sheet date and disclosed in the notes. If an outflow of funds without a simultaneous usable inflow of funds is probable and estimable, a corresponding provision is recognised.

Transactions with related parties

Related parties (natural persons and legal entities) are parties which can directly or indirectly exert a significant influence on the group's financial and operational decisions. Organisations that for their part are directly or indirectly controlled by related parties are likewise deemed to be related. All material transactions and resulting balances or liabilities vis-à-vis related parties are disclosed in these consolidated financial statements.

Notes to the consolidated financial statements: notes

1 NET SALES FROM GOODS AND SERVICES

CHF thousand	2018	2017
Net sales from goods and services	2,073,879	1,835,469
Revenue from energy business	2,049,398	1,809,322
Revenues from services and other usual business activities	24,481	26,147

Revenue from energy business and revenues from services and other usual business activities are recognised in the income statement when delivery of goods or services has been performed. Sales of products and related services are broken down into their material performance obligations, measured, and realised on the date they are performed.

A breakdown of net revenues by Repower business segment is presented in the note on segment reporting ([Note 37](#)).

2 INTERNALLY PRODUCED AND CAPITALISED ASSETS

CHF thousand	2018	2017
Own costs capitalised	6,946	6,014

Internally produced and capitalised assets essentially comprise investments in Repower's generation and grid assets.

3 CHANGE IN INVENTORY OF SALES ORDERS

CHF thousand	2018	2017
Change in inventory of sales orders	1,052	-707

The change in inventory of sales orders relates to as yet uncompleted work for third parties.

4 OTHER OPERATING INCOME

CHF thousand	2018	2017
Other operating income	8,137	5,963
Profit from disposal of tangible assets	633	2,860
Refund from insurance for operating loss	2,944	-
Revenue from other operating activities	4,560	3,103

The profits from the disposal of tangible assets in the prior year relate in particular to proceeds from the sale of properties in other segments and activities.

The overhaul of the Teverola power plant scheduled for the first quarter took considerably longer than expected owing to technical problems. The interruption in the operation of the plant is insured. In the second half of 2018 Repower received reimbursement of CHF 2,944 thousand from its business interruption insurance.

5 EARNINGS FROM ASSOCIATES AND JOINT VENTURES

	2018	2017
CHF thousand		
Share of earnings from associates and joint ventures	-3,936	-3,406
Associated organisations	-3,938	-3,418
Joint ventures	2	12

The development of interests in associates and joint ventures is shown in [Note 17](#).

6 ENERGY PROCUREMENT

	2018	2017
CHF thousand		
Energy procurement	-1,826,488	-1,600,944

In 2018 provisions of CHF 5,954 thousand were made for long-term energy procurement agreements (versus CHF 1,719 thousand the prior year). Information on the development of provisions can be found in [Note 27](#).

7 CONCESSION FEES

	2018	2017
CHF thousand		
Concession fees	-16,974	-17,831
Water rates/hydro plant taxes	-9,365	-9,608
Other concession fees	-7,609	-8,223

8 PERSONNEL EXPENSES

	2018	2017
CHF thousand		
Personnel expenses	-73,160	-67,977
Wages and salaries	-57,669	-53,581
Social security costs and other personnel costs	-15,491	-14,396

9 MATERIALS AND OUTSIDE SERVICES

	2018	2017
CHF thousand		
Materials and third party services	-31,948	-30,847
Materials	-7,554	-8,283
Third party services	-24,394	-22,564

The materials and outside services item contains expenses for maintaining and operating technical assets, external services for operational processes and the performance of services by third parties.

10 OTHER OPERATING EXPENSES

	2018	2017
CHF thousand		
Other operating expenses	-55,543	-46,573
Cost of premises	-4,133	-3,701
Vehicle and transport costs	-2,217	-2,284
Administrative costs	-9,138	-7,835
IT costs	-10,343	-8,280
Marketing & communications	-9,268	-7,078
Allowances for doubtful accounts	-5,573	-7,213
Capital taxes, levies and fees	-6,265	-3,842
Other operating expenses	-8,606	-6,340

Information on the development of allowances for doubtful accounts can be found in [Note 21](#).

11 DEPRECIATION/AMORTISATION, IMPAIRMENT AND REVERSAL OF IMPAIRMENT OF TANGIBLE ASSETS

	2018	2017
CHF thousand		
Depreciation and value adjustments of tangible assets	-43,459	-41,724

Neither impairment gains nor impairment losses were recognised in 2017 and 2018.

12 DEPRECIATION/AMORTISATION, IMPAIRMENT AND REVERSAL OF IMPAIRMENT OF INTANGIBLE ASSETS

	2018	2017
CHF thousand		
Amortisation and value adjustments of intangible assets	-3,133	-3,658

Neither impairment gains nor impairment losses were recognised in 2017 and 2018.

13 NET FINANCIAL INCOME

	2018	2017
CHF thousand		
Financial income	9,372	21,431
Interest income	726	928
Dividend income	224	288
Other financial income	24	90
Changes in the value of securities held for trading	8,398	1,450
Currency translation	-	18,675
Financial expenses	-25,548	-35,574
Interest expense	-9,318	-10,287
Interest accumulated on provisions	-1,217	-1,146
Changes in securities held for trading	-574	-18,370
Currency translation	-8,924	-
Loss on premature repayment of liabilities	-1,595	-1,468
Other financial expenses	-3,920	-4,303
Net financial result	-16,176	-14,143

In 2018 the losses on premature repayment of liabilities relate to the premature repayment of bonds with a nominal value of CHF 18,555 thousand; in 2017 they relate to the closing of an off-balance-sheet interest rate swap held until that point for hedging purposes.

The changes in the value of securities held for trading relate to interest rate swaps and forward exchange transactions to hedge currency and interest rate risks.

14 INCOME TAXES

	2018	2017
CHF thousand		
Income taxes referred to in the income statement	-2,875	363
Current income taxes	-4,096	335
Deferred income taxes	1,221	28

The reconciliation between the actual tax burden and the expected tax burden for the financial years ending on 31 December 2018 and 31 December 2017 is as follows:

	2018	2017
CHF thousand		
Reconciliation		
Income before taxes	19,197	19,636
Income tax rate for parent company	16.1%	16.1%
Income taxes at expected income tax rate	-3,095	-3,165
Tax effect from income taxed at other tax rates	-4,132	-1,878
Tax effect from tax-free income/non-tax-deductible expenses	20,910	493
Tax losses in the current year for which no deferred tax assets were recognised	-17,042	-8,434
Tax loss carryforwards for which no deferred tax assets were recognised	3,796	4,018
Regional production tax in Italy - IRAP	-1,573	-1,559
Re-evaluation of deferred tax on intercompany receivables	-	9,728
Income taxes for previous years	-928	-290
Non-usable withholding tax	-202	1,173
Other	-609	277
Income taxes referred to in the income statement	-2,875	363
Effective income tax rate	15.0%	-1.8%

Unrecognised tax loss carryforwards

On the balance sheet date there were unrecognised tax loss carryforwards of CHF 214,660 thousand (prior year: CHF 174,317 thousand). The offsetability of loss carryforwards against future earnings involves uncertainty.

This results in unrecognised deferred tax assets of CHF 43,218 thousand (prior year: CHF 37,770 thousand) Given the uncertainty involved in offsetting loss carryforwards against future earnings, deferred taxes are not capitalised (Swiss GAAP FER 11/23).

	Power plants	Grids	Assets under construction	Land and buildings	Other	Total
CHF thousand						
Gross values at 1 January 2017	873,681	749,599	87,059	76,322	48,149	1,834,810
Own costs capitalised	-	241	5,773	-	-	6,014
Additions	-	179	13,630	184	3,759	17,752
Disposals	-10,734	-4,328	-9,428	-4,490	-1,438	-30,418
Reclassifications between asset classes	3,525	12,980	-16,686	-1,182	1,363	-
Effect of currency translation	33,910	-	516	1,459	1,732	37,617
Gross values at 31 December 2017	900,382	758,671	80,864	72,293	53,565	1,865,775
Accumulated depreciation and value adjustments at 1 January 2017	-516,806	-425,415	-69,067	-34,795	-28,724	-1,074,807
Depreciation	-19,925	-17,447	-	-667	-3,685	-41,724
Disposals	10,734	3,683	-	3,111	1,259	18,787
Effect of currency translation	-20,334	-	-418	-1,276	-837	-22,865
Accumulated depreciation and value adjustments at 31 December 2017	-546,331	-439,179	-69,485	-33,627	-31,987	-1,120,609
Net values at 31 December 2017	354,051	319,492	11,379	38,666	21,578	745,166
of which security pledged for debts						2,458
Gross values at 1 January 2018	900,382	758,671	80,864	72,293	53,565	1,865,775
Own costs capitalised	-	345	6,601	-	-	6,946
Additions	77	389	18,493	151	2,015	21,125
Additions from changes in consolidation	110,117	-	4,937	8	6	115,068
Disposals	-	-6,089	-9,522	-14	-125	-15,750
Reclassifications between asset classes	320	18,165	-19,542	-68	1,125	-
Effect of currency translation	-16,039	-	-309	-639	-848	-17,835
Gross values at 31 December 2018	994,857	771,481	81,522	71,731	55,738	1,975,329
Accumulated depreciation and value adjustments at 1 January 2018	-546,331	-439,179	-69,485	-33,627	-31,987	-1,120,609
Depreciation	-21,340	-17,226	-	-670	-4,223	-43,459
Disposals	-	4,941	9,517	14	118	14,590
Reclassifications between asset classes	-	-12	-	12	-	-
Effect of currency translation	9,627	-	188	574	437	10,826
Accumulated depreciation and value adjustments at 31 December 2018	-558,044	-451,476	-59,780	-33,697	-35,655	-1,138,652
Net values at 31 December 2018	436,813	320,005	21,742	38,034	20,083	836,677
of which security pledged for debts						53,565

Land and buildings connected with power generation and grid facilities are stated under generation and grid assets.

The increase in the net values of tangible assets pledged as security for debts relates to mortgage assignments pledged for security for bank loans in connection with the business acquisition.

Leased tangible assets

Vehicles

The net carrying amount of the motor vehicles held as part of the finance leasing agreement totalled CHF 62 thousand (previous year: CHF 64 thousand) at the closing date.

Total lease liabilities come to CHF 32 thousand (prior year: CHF 53 thousand).

Generation assets

CHF 47,469 thousand of the addition in scope of consolidation relate to leased power plants (see the “Additions to the scope of consolidation” section).

The net carrying amount of the generation assets held as part of the finance leasing agreement totalled CHF 46,721 thousand (previous year: CHF 0 thousand) at the closing date.

Total lease liabilities come to CHF 31,375 thousand (prior year: CHF 0 thousand).

16 INTANGIBLE ASSETS

	Goodwill	Software	Concessions and rights of use	Other	Total
CHF thousand					
Gross values at 1 January 2017	-	25,466	17,059	955	43,480
Additions	-	2,313	-	788	3,101
Disposals	-	-2,182	-	-	-2,182
Reclassifications between asset classes	-	234	-	-234	-
Effect of currency translation	-	648	87	77	812
Gross values at 31 December 2017	-	26,479	17,146	1,586	45,211
Accumulated amortisation and value adjustments at 1 January 2017	-	-20,053	-12,219	-129	-32,401
Amortisation	-	-3,275	-348	-35	-3,658
Disposals	-	1,906	-	-	1,906
Effect of currency translation	-	-457	-	-13	-470
Accumulated amortisation and value adjustments at 31 December 2017	-	-21,879	-12,567	-177	-34,623
Net values at 31 December 2017	-	4,600	4,579	1,409	10,588
Gross values at 1 January 2018	-	26,479	17,146	1,586	45,211
Additions	-	1,640	254	1,954	3,848
Additions from changes in consolidation	962	-	-	-	962
Disposals	-	-21	-	-	-21
Reclassifications between asset classes	-	1,093	-	-1,093	-
Effect of currency translation	-7	-349	-40	-62	-458
Gross values at 31 December 2018	955	28,842	17,360	2,385	49,542
Accumulated amortisation and value adjustments at 1 January 2018	-	-21,879	-12,567	-177	-34,623
Amortisation	-	-2,746	-352	-35	-3,133
Disposals	-	21	-	-	21
Effect of currency translation	-	274	-	7	281
Accumulated amortisation and value adjustments at 31 December 2018	-	-24,330	-12,919	-205	-37,454
Net values at 31 December 2018	955	4,512	4,441	2,180	12,088

The CHF 962 thousand addition to goodwill relates to the acquisition of Elettrostudio Energia S.p.A. in December 2018 (see the “Additions to the scope of consolidation” section).

17 INVESTMENTS IN ASSOCIATED ORGANISATIONS AND JOINT VENTURES

	2018	2017
CHF thousand		
Investments in associates and joint ventures	3,945	3,632
EL.IT.E S.p.A.	3,556	3,508
Aerochetto S.r.l.	-	-
tiko Energy Solutions AG	-	-
Terra di conte S.r.l.	257	-
Grischelectra AG	27	28
Kraftwerk Morteratsch AG	105	96
Carrying amounts at 1 January	3,632	3,162
Additions from changes in consolidation	267	-
Dividends	-1	-
Effect of currency translation	-138	285
Share of earnings	185	185
Carrying amounts at 31 December	3,945	3,632
Decrease in loans receivable		
01.01.2019	-15,530	-11,926
Share of earnings	-4,121	-3,591
Reclassification of loans receivable into equity	-	523
Effect of currency translation	247	-536
31 December	-19,404	-15,530

Part of the net investments in associates tiko Energy Solutions AG and Aerochetto S.r.l. are loans extended to these entities recognised under financial assets. Losses of CHF 19,404 thousand in excess of the carrying value of the investments (prior year: CHF 15,530 thousand) were netted with the loans ([Note 18](#)).

18 FINANCIAL ASSETS

	31.12.2018	31.12.2017
CHF thousand		
Financial assets	45,440	62,783
AKEB Aktiengesellschaft für Kernenergiebeteiligungen	6,300	6,300
Kraftwerke Hinterrhein AG	6,500	6,500
Loans receivable	5,989	6,516
Non-current securities	4,074	3,387
Employer contribution reserves	68	80
Fixed term deposits	22,509	40,000

Repower holds interests of 7.0 per cent and 6.5 per cent respectively in the partner plants AKEB Aktiengesellschaft für Kernenergie-Beteiligungen, Lucerne, and Kraftwerke Hinterrhein AG, Thusis. These investments are carried at acquisition cost.

The active loans relate to loans to associates and joint ventures. Accumulated impairments of CHF 19,404 thousand (prior year: CHF 15,530 thousand) were recognised under this item ([see Note 17](#)).

Information on the development of the employer contribution reserve account can be found in [Note 34](#).

19 DEFERRED TAX ASSETS

	2018	2017
CHF thousand		
Deferred tax assets	37,810	34,141

The tax rates used to calculate deferred income tax items are 16.1 per cent for Switzerland, 24.0 per cent for Italy, and between 29.0 and 32.8 per cent for Germany.

20 INVENTORIES

	31.12.2018	31.12.2017
CHF thousand		
Inventories	40,302	24,745
Emission certificates	5,836	8,660
Gas	23,527	7,142
Work in progress	5,418	3,245
Inventories of materials	5,521	5,698

Work in progress relates to services provided by Repower to third parties and not yet billed. In the 2018 financial year no impairment loss was recognised on inventories (prior year: CHF 0 thousand), and CHF 18 thousand (prior year: CHF 36 thousand) in impairment losses was reversed.

21 RECEIVABLES FROM GOODS AND SERVICES

	31.12.2018	31.12.2017
CHF thousand		
Trade accounts receivable	324,354	382,940
Trade accounts receivable	336,213	392,539
Allowances for doubtful accounts	-11,859	-9,599
Development of allowances for doubtful accounts		
Carrying amount at 1 January	9,599	43,807
Additions	4,992	9,515
Utilisations	-2,206	-44,110
Reversals	-175	-3,527
Effect of currency translation	-351	3,914
End balance at 31 December	11,859	9,599

The stated receivables from goods and services also include claims on associates and joint ventures amounting to CHF 2,200 thousand (prior year: CHF 6,638 thousand).

Receivables from goods and services are measured by applying individual and lump-sum adjustments to the non-impaired positions based on their maturity structure and historical experience.

In 2017 impaired receivables were sold to a factoring company. This transaction resulted in a loss of CHF 586 thousand recognised under other operating expense in the Market Italy segment.

22 OTHER RECEIVABLES

	31.12.2018	31.12.2017
CHF thousand		
Other receivables	26,150	32,513
Current income tax receivables	5,338	6,290
VAT receivables	5,373	7,646
Advance payments for inventories	3,347	2,418
Security deposits paid	4,189	6,280
Other receivables	7,903	9,879

23 PREPAID EXPENSES AND ACCRUED INCOME

	31.12.2018	31.12.2017
CHF thousand		
Prepaid expenses and accrued income	3,674	2,876

24 SECURITIES

	31.12.2018	31.12.2017
CHF thousand		
Securities	63,684	20,530
Fixed term deposits (4-12 months)	61,269	20,000
Forward foreign currency contracts	2,000	414
Other securities	415	116

25 REPLACEMENT VALUES OF HELD-FOR-TRADING POSITIONS

	31.12.2018	31.12.2017
CHF thousand		
Positive replacement values	162,117	108,028
Negative replacement values	150,277	107,153

26 CASH AND CASH EQUIVALENTS

	31.12.2018	31.12.2017
CHF thousand		
Cash and cash equivalents	316,314	394,479
Sight deposits	221,238	259,373
Cash invested for less than 90 days	95,076	135,106

At the balance sheet date, Repower also has the following unused bank credit lines:

	31.12.2018	31.12.2017
CHF thousand		
Credit lines	199,705	207,442
Unused general credit lines	31,174	16,681
Additional unused credit lines for the purpose of issuing guarantees	168,531	190,761

27 PROVISIONS

CHF thousand	Litigation and court proceedings	Dismantling provisions	Provisions for onerous contracts	Severance pay	Other provisions	Total
Carrying value at 1 January 2017	1,697	2,440	10,581	3,252	2,130	20,100
Additions	-	277	-	555	474	1,306
Utilisations	-423	-	-	-414	-96	-933
Reversals	-578	-	-1,719	-	-299	-2,596
Interest	-	30	1,116	-	-	1,146
Effect of currency translation	100	179	-	299	195	773
Carrying value at 31 December 2017	796	2,926	9,978	3,692	2,404	19,796
Carrying value at 1 January 2018	796	2,926	9,978	3,692	2,404	19,796
Additions	231	-	-	588	391	1,210
Additions from changes in consolidation	11	1,665	-	-	-	1,676
Utilisations	-	-	-	-275	-92	-367
Reversals	-	-	-5,954	-217	-951	-7,122
Interest	-	39	1,178	-	-	1,217
Effect of currency translation	-35	-98	-	-139	-73	-345
Carrying value at 31 December 2018	1,003	4,532	5,202	3,649	1,679	16,065
Non-current Provisions						
Carrying value at 31 December 2017	796	2,926	9,978	3,692	2,145	19,537
Carrying value at 31 December 2018	1,003	4,532	5,202	3,649	1,647	16,033
Current provisions						
Carrying value at 31 December 2017	-	-	-	-	259	259
Carrying value at 31 December 2018	-	-	-	-	32	32

PROVISIONS FOR ONEROUS CONTRACTS

Provisions had been recognised for onerous energy procurement contracts in prior years. The reversal in the amount of CHF 5,954 thousand (prior year: CHF 1,719 thousand), the result of high prices, was recognised under energy procurement in the Market Switzerland segment. The provision was calculated on the basis of a risk-adjusted interest rate of 7.41 per cent (prior year: 11.15 per cent).

SEVERANCE PAY

When an employment relationship is terminated in Italy, the employee is entitled to severance pay corresponding to around one month's pay for each year of employment (see Note 34).

DISMANTLING PROVISIONS

The dismantling provisions category comprises various provisions for the dismantling of operating installations. Taken individually they are immaterial.

28 DEFERRED TAX LIABILITIES

CHF thousand	2018	2017
Deferred tax liabilities	24,243	21,368

The tax rates used to calculate deferred income tax items are 16.1 per cent for Switzerland, 24.0 per cent for Italy, and between 29.0 and 32.8 per cent for Germany.

29 CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

	Currency	Interest rate	Current	Maturity 1- years	Maturity more than 5 years	Total Non Current
CHF thousand						
Financial liabilities 31.12.2018			11,437	154,817	275,464	430,281
Bonds	CHF	2.4%	-200	95,927	-	95,927
Loans	CHF	1.2% - 3.6%	75	10,865	70,000	80,865
Loans ¹⁾	EUR	variable	3,420	17,004	30,311	47,315
Loans	EUR	1.7% - 1.9%	-	-	56,345	56,345
Liabilities for finance leasing	CHF	2.5%	21	11	-	11
Liabilities for finance leasing	EUR	1.2% - 1.4%	2,895	12,079	16,401	28,480
Loan from minorities	CHF	no interest	390	1,560	18,331	19,891
Loan from minorities	CHF	0.3%	852	3,409	52,834	56,243
Loan from minorities	EUR	no interest	-57	-228	3,340	3,112
Loan from minorities	EUR	3.9%	3,084	13,601	13,752	27,353
Registered bond	EUR	3.4%	-7	-29	2,740	2,711
Other financial liabilities ²⁾	CHF	no interest	719	213	-	213
Other financial liabilities	EUR	no interest	189	405	-	405
Forward foreign currency contracts	CHF		56	-	-	-
Swaps	CHF		-	-	11,410	11,410
Financial liabilities are carried in the following currencies:						
Swiss francs			1,913	111,985	152,575	264,560
Euro (translated)			9,524	42,832	122,889	165,721

1) This item includes bank loans in the amount of TCHF 40'069 coming from the acquired companies. The fixed assets pledged in this connection are disclosed in Note 15.

2) Mortgage assignments were pledged as security for the investment loan of TCHF 425. The fixed assets pledged in this connection are disclosed in Note 15.

	Currency	Interest rate	Current	Maturity 1- years	Maturity more than 5 years	Total Non Current
CHF thousand						
Financial liabilities 31.12.2017			40,151	134,471	243,981	378,452
Bonds	CHF	2.4%	-239	114,144	-	114,144
Loans	CHF	1.2% - 3.6%	25,075	940	80,000	80,940
Loans	EUR	1.7% - 1.9%	-	-	58,510	58,510
Liabilities for finance leasing	CHF	2.5%	21	32	-	32
Loan from minorities	CHF	no interest	390	1,560	18,721	20,281
Loan from minorities	CHF	0.3%	997	3,409	53,542	56,951
Loan from minorities	EUR	3.9%	3,081	13,589	18,019	31,608
Registered bond	EUR	3.4%	-7	-30	2,838	2,808
Other financial liabilities ¹⁾	CHF	no interest	722	425	-	425
Other financial liabilities	EUR	no interest	369	402	-	402
Forward foreign currency contracts	CHF		9,742	-	-	-
Swaps	CHF		-	-	12,351	12,351

Financial liabilities are carried in the following currencies:

Swiss francs			36,708	120,510	164,614	285,124
Euro (translated)			3,443	13,961	79,367	93,328

1) Mortgage assignments were pledged as security for the investment loan of TCHF 638. The fixed assets pledged in this connection are disclosed in Note 15.

Negative amounts presented in the table are scheduled allocations of net expenditures.

30 OTHER NON-CURRENT LIABILITIES

	2018	2017
CHF thousand		
Other non-current liabilities	63,500	63,081
Connection fees and grid cost contributions	63,273	62,982
Other	227	99

This item comprises accrued connection fees and grid cost contributions received from customers, which are charged to profit or loss over a period of 35 years via net sales from goods and services in the Market Switzerland segment.

31 TRADE ACCOUNTS PAYABLE

	31.12.2018	31.12.2017
CHF thousand		
Trade accounts payable	323,990	380,401

The stated trade accounts payable also include liabilities vis-à-vis associates and joint ventures amounting to CHF 2,689 thousand (prior year: CHF 889 thousand)

32 OTHER CURRENT LIABILITIES

	31.12.2018	31.12.2017
CHF thousand		
Other current liabilities	29,109	26,102
Current income tax liabilities	1,390	501
VAT liabilities	513	3,262
Connection fees and grid cost contributions	3,576	3,529
Customer prepayments	3,917	785
Excise taxes	7,778	5,918
Other current liabilities	11,935	12,107

The customer prepayments item contains prepayments of CHF 3,855 thousand (prior year: CHF 0) for third-party contracts.

33 DEFERRED INCOME AND ACCRUED EXPENSES

	31.12.2018	31.12.2017
CHF thousand		
Deferred income and accrued expenses	16,711	16,461
Deferred income for capital and other taxes, charges and levies	5,306	5,158
Accrued interest	2,710	3,655
Accrued annual leave and overtime	5,760	5,700
Accrued other personnel expenses	2,601	1,667
Other accrued expenses	334	281

34 PENSION SCHEMES

EMPLOYER CONTRIBUTION RESERVES

	Nominal value		Balance sheet		Additions/utilisations 2018	Result of ECR in personnel expenses	
	31.12.2018	31.12.2018	31.12.2017	2018		2018	2017
CHF thousand							
Pension institutions	68	68	80	-12	-12	-12	

For reasons of materiality, employer contribution reserves are not discounted. The nominal value corresponds to the carrying value. Employer contribution reserves are recognised under non-current financial assets.

ECONOMIC BENEFIT/ECONOMIC LIABILITY AND PENSION BENEFIT EXPENSES

	Overfunding/ underfunding 31.12.2018	Organisation's share of economic liability		Change on prior year 2018	Contributions concerning the business period 2018	Pension benefit expenses within personnel expenses	
		31.12.2018	31.12.2017			2018	2017
CHF thousand							
Pension plans without overfunding/underfunding	-	-	-	-	3,620	3,620	3,417
Pension institutions with unfunded obligations	-	-3,649	-3,692	43	388	759	740
Total	-	-3,649	-3,692	43	4,008	4,379	4,157

The pension fund for employees of Repower AG is organised as a pension scheme of the collective foundation of the PKE Vorsorgestiftung Energie foundation. Swibi AG is affiliated to a joint pension scheme of the PKE Vorsorgestiftung Energie foundation. Based on the most recent financial statements available, neither of these pension schemes is under- or overfunded.

The item “Pension institutions without own assets” relates to the obligation to pay severance pay in Italy (see [Note 27](#)). The change in the stated provision in the income statement comes to CHF 371 thousand at the average exchange rate.

35 DERIVATIVE FINANCIAL INSTRUMENTS

	Replacement values		Replacement values	
	positive	negative	positive	negative
	31.12.2018		31.12.2017	
CHF thousand				
On-balance-sheet derivatives				
Held for trading				
Interest derivatives	-	11,410	-	12,351
Currency derivatives	2,000	56	414	9,742
Energy derivatives	1,009,980	998,141	373,370	372,495
Total on-balance-sheet derivatives	1,011,980	1,009,607	373,784	394,588
Netting	-847,863	-847,863	-265,342	-265,342
Net value on balance sheet	164,117	161,744	108,442	129,246
Off-balance-sheet derivatives				
Held for cash flow hedges				
Interest derivatives	-	2,129	-	-
Energy derivatives	33,621	56,870	38,419	63,655
Total off-balance-sheet derivatives	33,621	58,999	38,419	63,655
Total derivative financial instruments	197,738	220,743	146,861	192,901

The line “netting” refers to the netting of energy derivatives transactions entered into with the same counterparty and with whom there are enforceable netting agreements.

Cash flow hedges used as hedging transactions are not recognised on the balance sheet and therefore do not yet impact the balance sheet. Off-balance-sheet energy and interest derivatives are used to hedge future cash flows with a high probability of occurrence.

The interest derivatives held for cash flow hedges come from the business acquisition in 2018 (see the “Additions to the scope of consolidation” section).

36 TRANSACTIONS WITH RELATED PARTIES

The balances and liabilities reported on the balance sheet and the transactions contained in the income statement vis-à-vis related parties are related to business with the main shareholders and Repower entities, associates, partner works and joint ventures controlled by them.

The following balance sheet and profit and loss items contain the following amounts vis-à-vis related third parties:

	31.12.2018	31.12.2017
CHF thousand		
Income statement item		
Net Sales from goods and services	67,759	88,383
Energy procurement	-46,425	-35,047
Financial and other operating income	437	402
Financial and other operating expenses	-192	-200
Balance sheet item		
Assets		
Financial assets	5,873	7,516
Trade accounts receivable	4,245	17,177
Positive replacement values of held for trading positions	7,899	2,626
Liabilities		
Non-current liabilities	9,571	99
Trade accounts payable	8,218	981
Negative replacement values of held for trading positions	11,017	13,954
Off-balance-sheet energy derivatives		
Held for cash flow hedges		
Positive replacement values	453	786
Negative replacement values	6,694	6,126

Transactions are at market prices, or in the case of Grischelectra AG at annual costs.

Canton Graubünden is deemed to be a related party in its capacity as a shareholder. Official business such as levying taxes, concession-related charges, fees, etc., is done on a statutory basis and is therefore not included here. Canton Graubünden's energy business is transacted via Grischelectra AG, which is included as a related party in the table above.

In 2017 Repower sold 6 per cent of its interest in Repartner Produktions AG to the related party Elektrizitätswerke des Kantons Zürich (EKZ). The net cash inflows for the sale of the interests and the shareholder's loans granted to date by Repower come to CHF 5,721 thousand and CHF 9,779 thousand respectively. The disposal was made at carrying values. The sale of minority interests in Repartner Produktions AG has resulted in a CHF 5,721 thousand increase in Repower's consolidated equity.

In 2017 Repower AG sold the Morteratsch power plant, which it built, to the joint venture Kraftwerk Morteratsch AG at a carrying value of CHF 9,055 thousand, realising a gain of CHF 1,001 thousand.

Compensation paid to members of the board of directors and executive board is disclosed in the Corporate governance section.

37 SEGMENT REPORTING

Segment reporting is done by geographic market and reflects internal management and reporting structures. The information provided is that used by management for steering and assessing the business performance and development of the individual segments. For each business segment, internal steering, performance measurement and capital allocation are carried out on the basis of the segment's income before interest and income taxes (EBIT). Segment income is calculated on the basis of the accounting and valuation principles used at group level.

	Market Switzerland	Market Italy	Other segments and activities	Group
CHF thousand				
2018				
Net sales from goods and services	715,313	1,419,405	-60,839	2,073,879
Net sales from goods and services	691,193	1,382,535	151	2,073,879
Net sales from goods and services between segments	24,120	36,870	-60,990	-
Earnings before interest and taxes (EBIT)	17,478	29,317	-11,422	35,373

	Market Switzerland	Market Italy	Other segments and activities	Group
CHF thousand				
2017				
Net sales from goods and services	638,736	1,255,523	-58,790	1,835,469
Net sales from goods and services	620,640	1,214,675	154	1,835,469
Net sales from goods and services between segments	18,096	40,848	-58,944	-
Earnings before interest and taxes (EBIT)	16,066	24,271	-6,558	33,779

38 TREASURY SHARES

	2018		2017	
	Number of shares	Carrying amount in CHF	Number of shares	Carrying amount in CHF
Initial balance at 1 January	256	15,365	382	20,713
Purchases	605	42,835	2,637	152,507
Disposals	-560	-36,116	-2,763	-157,855
Ending balance at 31 December	301	22,084	256	15,365

Purchases/disposals of treasury shares relate to Repower AG registered shares. In the year under review Repower AG bought 605 shares (prior year 2,637) at CHF 70.80 (prior year CHF 57.83) and sold 560 shares (prior year 2,763) at an average price of CHF 71.31 (prior year CHF 59.38).

39 OFF-BALANCE-SHEET BUSINESS

In the course of regular business the group granted guarantees, bank guarantees and sureties in favour of third parties, directly and via commercial banks. These came to CHF 150,236 thousand (prior year: CHF 179,744 thousand).

There is a service agreement for the Teverola power plant, concluded for 25 years and ending in June 2029. This resulted in an irrevocable payment obligation of CHF 11,970 thousand as per 31 December 2018 (prior year: CHF 13,613 thousand).

In the course of usual business, litigation can arise which results in contingent liabilities. These contingent liabilities are not expected to result in material liabilities within Repower Group in addition to the provisions already made for litigation ([Note 27](#)). On the other hand there is litigation under way where Repower is asserting its rights, which, if it is successful, could result in inflowing payments.

	31.12.2018	31.12.2017
CHF thousand		
Off-balance-sheet liabilities		
Operating lease (nominal value)	14,777	16,842
Due within 1 year	2,976	3,184
Due in 1-5 years	5,323	6,269
Due in more than 5 years	6,478	7,389
Procurement contracts	646,002	765,397
Due within 1 year	112,394	109,967
Due in 1-5 years	363,206	416,910
Due in more than 5 years	170,402	238,520

At the reporting date of the financial year under review, the outstanding minimum lease payments consisted of CHF 13,850 thousand for property and buildings (prior year: CHF 15,640 thousand) and CHF 927 thousand for motor vehicles (prior year CHF 1,202 thousand).

Obligations to take delivery of electrical energy on the basis of the interests in AKEB Aktiengesellschaft für Kernenergie, Lucerne, Kraftwerke Hinterrhein AG, Thusis, and Grischelectra AG are not included in the above table. The volume and price of electricity delivered depend on actual future production and costs incurred by these associates and joint ventures.

Pledges are recognised under the relevant assets.

40 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In March 2019 Engie New Business acquired an interest in tiko Energy Solutions AG by way of a unilateral capital increase. Repower's interest in tiko Energy Solutions AG declines from 35.0 to 19.8 per cent. The entity is no longer recognised using the equity method under investments in associated organisations and joint ventures; instead, from 2019 it will be recognised as financial assets at cost. With the new investor on board and the related debt waiver, losses netted with investments and loan receivables for the application of the at-equity method to the amount of CHF 6,481 thousand will be compensated as part of the net investment in tiko.

The group financial statements were approved for publication by the board of directors on 3 April 2019. They are subject to the approval of the annual general meeting, which will take place on 15 May 2019.

Report of the statutory auditor



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Zurich, 3 April 2019

To the Annual General Meeting of Repower AG, Brusio

REPORT OF THE AUDITORS ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Repower AG, which comprise the consolidated balance sheet, the consolidated income statement, the changes in consolidated equity, the consolidated cash flow statement and the notes to the consolidated financial statements, for the year ended 31 December 2018.



BOARD OF DIRECTORS' RESPONSIBILITY

The board of directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of the law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 of the consolidated 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 consolidated 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 consolidated financial statements for the year ended 31 December 2018 give a true and fair view of the assets, liabilities, financial position and profit or loss in accordance with Swiss GAAP FER and comply with Swiss law.



REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Classification, valuation and presentation of energy derivatives

Risk	<p>The accounting treatment of energy derivatives is a result of its classification as “held-for-trading” or “Cashflow-Hedges”. Classification requires judgment and has a material impact on both consolidated balance sheet presentation and group result.</p> <p>The valuation of these “held-for-trading” instruments is derived from observable market data on active markets. The positive and negative replacement values are presented net when legally enforceable netting agreements are in place.</p> <p>The Company defines policies and procedures to account for energy contracts. These include the definition of segregation of duties and controls.</p> <p>Due to the significance of these transactions, significant judgment and the potential impact on the financial statements, the accounting of energy derivatives was considered significant in our audit. Refer to notes 1 and 35 of the consolidated financial statements for further information.</p>
Our audit response	<p>We evaluated the Group’s policies and procedures around classification, valuation and netting of open positions including the established segregation of duties and discussed these with the Group. We assessed internal controls over the Group’s accounting for such trading activity.</p> <p>For a sample of energy derivatives, we tested the observable inputs into valuation models by reference to externally available market data.</p> <p>Our audit did not give rise to any objections with regard to the recognition and measurement of the energy derivatives.</p>

Impairment of tangible assets

Risk	<p>Tangible assets is a material balance sheet item amounting to 44.7% of total assets in the consolidated balance sheet. These comprise primarily power plants, grids and other non-current assets of the Group.</p> <p>Tangible assets are subject to an impairment test at each balance sheet date. This test is based on indicators reflecting a possible impairment of the individual assets. The testing for potential impairments involves the use of estimates and assumptions, such as the forecast production volume, the forecast long-term energy price curve, foreign exchange rates impacting future earnings and cash flows. In addition, discount rates are relevant in obtaining a value in use as of the date of the valuation. Refer to Note 15 for further information.</p>
Our audit response	<p>We assessed the Group’s valuation approach related to its tangible assets and related documentation. We further assessed the process to derive the underlying assumptions and estimates around forecast production volumes, the forecast long-term energy price curve and foreign exchange rates. We evaluated the internal controls related to the budgeting and forecasting process as well as the process to derive assumptions and estimates. We evaluated impairment testing model and involved valuation specialists.</p> <p>We assessed the cash flows derived for each tested tangible asset and how the discount rate including applicable input variables was determined. We corroborated the input variables to the discount rate based on sources provided by the Group and tested them against observable market data.</p> <p>Our audit did not give rise to any objections with regard to the process used to derive the assumptions and valuation of the tangible assets.</p>



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 article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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 the consolidated financial statements according to the instructions of the board of directors.

We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Willy Hofstetter
Licensed Audit Expert
(Auditor in Charge)

Ralf Truffer
Licensed Audit Expert

Income statement

CHF thousand		2018	2017
	Note		
Net sales	1	691,709	613,259
Change in inventories for work in progress		1,052	-707
Own costs capitalised		6,948	6,014
Other operating income		27,588	29,672
Total operating revenue		727,297	648,238
Energy procurement		-580,786	-511,663
Materials and third party services		-19,805	-17,907
Concession fees		-16,611	-17,541
Personnel expenses		-49,827	-46,559
Other operating expenses		-24,313	-20,291
Depreciation/amortisation and impairment	2	-31,728	-26,792
Operating expenses		-723,070	-640,753
Operating earnings before interest, extraordinary items and taxes		4,227	7,485
Financial income		55,017	52,036
Financial expenses		-51,777	-48,678
Operating earnings before taxes		7,467	10,843
Non-operating income		682	923
Extraordinary, non-recurring or prior period income	3	1,217	17,210
Extraordinary, non-recurring or prior period expenses	4	-354	-801
Earnings before taxes		9,012	28,175
Taxes		-5,087	-2,839
Net earnings for the year		3,925	25,336

Balance sheet

CHF thousand		31.12.2018	31.12.2017
	Note		
Assets			
Cash and cash equivalents and current assets listed at the stock exchange	5	381,312	432,812
Current securities and other financial instruments not listed at the stock exchange	6	61,269	20,000
Trade accounts receivable	7	322,063	262,269
Other receivables	8	8,246	8,222
Inventories and non-invoiced services	9	10,725	11,590
Prepaid expenses and accrued income		2,791	4,658
Current assets		786,406	739,551
Financial assets	10	233,687	245,709
Shareholdings		233,422	250,630
Tangible assets		366,444	358,685
Intangible assets	11	16,507	21,549
Non-current assets		850,060	876,573
Total assets		1,636,466	1,616,124

		31.12.2018	31.12.2017
CHF thousand			
	Note		
Liabilities and shareholders' equity			
Trade accounts payable	12	298,140	239,621
Current interest-bearing liabilities	13	2,029	27,029
Other current liabilities	14	136,571	121,998
Deferred income and accrued expenses		20,507	22,727
Current liabilities		457,247	411,375
Non-current interest-bearing liabilities	15	369,520	392,378
Other non-current liabilities	16	49,104	46,398
Non-current provisions	17	19,511	28,810
Non-current liabilities		438,135	467,586
Liabilities		895,382	878,961
Share capital		7,391	7,391
Legal reserve from capital		184,335	184,335
Legal reserve from retained earnings		17,123	17,123
Free reserves from earnings			
Other reserves		491,979	461,975
Retained earnings		40,278	66,354
Treasury shares		-22	-15
Shareholders' equity	18	741,084	737,163
Total liabilities and shareholder's equity		1,636,466	1,616,124

Notes to the financial statements: general

GENERAL

The company was established in 1904 under the name of Kraftwerke Brusio AG. In 2000, Kraftwerke Brusio AG (Poschiavo) merged with AG Bündner Kraftwerke (Klosters) and Rhätische Werke für Elektrizität (Thusis) to form Rätia Energie AG. In 2010 the company was renamed Repower AG. The purpose of the company is to generate, transmit, distribute, trade in and sell energy, and provide services directly or indirectly in this connection.

Notes to the financial statements: principles

A. ACCOUNTING PRINCIPLES

The present financial statements were prepared in accordance with the provisions of Swiss financial reporting law (Title Thirty-Two of the Code of Obligations).

B. ACCOUNTING AND VALUATION PRINCIPLES

The main items are recognised as follows:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash holdings and bank and postal account balances, and are recognised on the balance sheet at nominal value.

CURRENT ASSETS WITH A STOCK EXCHANGE PRICE

Derivative financial instruments held for trading with a directly observable market price or directly observable input parameters are recognised at fair value. Fluctuation reserves are not created.

HEDGING TRANSACTIONS

Future cash flows in foreign currencies can be hedged. The corresponding derivative is recognised in profit or loss on the occurrence of the underlying transaction.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recognised at nominal value and impaired if necessary. The amount at the end of the period may be subjected to a flat rate impairment at a rate accepted for tax purposes.

OTHER RECEIVABLES

Other receivables are measured at nominal values. Any counterparty risks are accounted for by means of necessary impairment.

INVENTORIES AND NON-INVOICED SERVICES

Inventories and non-invoiced services are recognised at acquisition or production cost taking account of economically necessary impairments. Otherwise impairment may be done at a rate accepted for tax purposes.

PREPAID EXPENSES AND ACCRUED INCOME/DEFERRED INCOME AND ACCRUED EXPENSES

Prepaid expenses and accrued income/deferred income and accrued expenses comprise the asset and liability items resulting from the accrual and deferral of individual items of expense and income in accordance with the accrual and matching principle. The origination costs of interest-bearing liabilities are capitalised under prepaid expenses and accrued income. Prepaid expenses and accrued income/deferred income and accrued expenses are recognised at nominal values.

FINANCIAL ASSETS AND SHAREHOLDINGS

Financial assets and shareholdings are recognised at cost taking account of necessary impairment. Financial assets and shareholdings are measured on a unit of account basis.

TANGIBLE ASSETS

Tangible assets are recognised at acquisition or production cost less accumulated depreciation and any impairment losses. Amortisation is done on a straight-line basis over the subsequent useful life.

Category	Useful life
Power plants and concession period	20 – 80 years depending on the type of facility
Grids	15 – 40 years
Land	Indefinite; any impairments are recognised immediately
Buildings	30 – 60 years
Plant and business equipment	3 – 20 years
Assets under construction	Reclassification to the corresponding category when available for use; any impairments are recognised immediately

INTANGIBLE ASSETS

Intangible assets are amortised on a straight-line basis. If there are indications of overvaluation, necessary impairments are taken into account.

CURRENT LIABILITIES

Current liabilities are recognised at nominal value.

NON-CURRENT LIABILITIES

Non-current liabilities comprise a) long-term, interest-bearing financial liabilities at nominal value and b) other non-interest-bearing long-term liabilities.

PROVISIONS

A provision is a probable liability on the basis of a past event; the amount of the liability and/or the date on which it will fall due is uncertain but can be estimated. The amount of provisions is based on the management's assessment, and reflects the future outflows of funds that can be anticipated as of the balance sheet date.

TREASURY SHARES

Treasury shares are recognised as a negative item in shareholders' equity on the date of acquisition, without any subsequent measurement. On resale the profit or loss is booked directly to free reserves from earnings under the other reserves.

Notes to the financial statements: C. Notes

1 NET SALES

CHF thousand	2018	2017
Net sales	691,709	613,259
Revenue from energy sales	688,275	606,342
Gains on held-for-trading positions	3,434	6,917

2 DEPRECIATION/AMORTISATION AND IMPAIRMENT

CHF thousand	2018	2017
Depreciation/amortisation and impairment	-31,728	-26,792
Depreciation of tangible assets	-15,966	-15,358
Amortisation of intangible assets	-6,207	-6,215
Amortisation of financial assets and investments	-	-10
Impairment of tangible assets	-	-510
Impairment of financial assets and investments	-9,555	-4,699

3 EXTRAORDINARY, NON-RECURRING OR PRIOR-PERIOD INCOME

CHF thousand	2018	2017
Extraordinary, non-recurring or prior period income	1,217	17,210
Gains on disposals of assets	782	3,648
Other extraordinary, non-recurring or prior period income ¹⁾	435	13,562

1) In the year under review, this position mainly includes insurance reimbursements for claims and an indemnity received following the termination of a contract relating to a pre-emption right (previous year: primarily the release of reversion provisions).

4 EXTRAORDINARY, NON-RECURRING OR PRIOR PERIOD EXPENSES

CHF thousand	2018	2017
Extraordinary, non-recurring or prior period expenses	-354	-801
Loss on disposals of assets under construction	-5	-350
Loss on disposals of assets	-347	-335
Other extraordinary, non-recurring or prior period expenses	-2	-116

5 CASH AND CASH EQUIVALENTS AND CURRENT ASSETS LISTED AT THE STOCK EXCHANGE

	31.12.2018	31.12.2017
CHF thousand		
Cash and cash equivalents and current assets listed at the stock exchange	381,312	432,812
Cash and cash equivalents	217,094	332,721
Energy trading	27,320	307
Positive replacement values of held for trading positions	136,898	99,784

6 CURRENT SECURITIES AND OTHER FINANCIAL INSTRUMENTS NOT LISTED AT THE STOCK EXCHANGE

	31.12.2018	31.12.2017
CHF thousand		
Current securities and other financial instruments not listed at the stock exchange	61,269	20,000
Fixed- term deposits (maturity within 12 months)	61,269	20,000

7 RECEIVABLES FROM GOODS AND SERVICES

	31.12.2018	31.12.2017
CHF thousand		
Trade accounts receivable	322,063	262,269
Third parties	273,097	215,041
Participants and management bodies	11,952	15,846
Investments	37,014	31,382

8 OTHER RECEIVABLES

	31.12.2018	31.12.2017
CHF thousand		
Other receivables	8,246	8,222
Third parties	6,953	6,929
Investments	1,293	1,293

9 INVENTORIES AND NON-INVOICED SERVICES

	31.12.2018	31.12.2017
CHF thousand		
Inventories and non-invoiced services	10,725	11,590
Inventories	6,428	8,345
Non-invoiced services	4,297	3,245

10 FINANCIAL ASSETS

	31.12.2018	31.12.2017
CHF thousand		
Financial assets	233,687	245,709
Securities	2,547	2,542
Fixed-term deposits >12 months	20,000	40,000
Non-current receivables third parties	411	822
Loans to investments ¹⁾	210,729	202,345

1) In the «Loans to investments» there is a credit, for which a subordination of 350 thousand francs has been granted.

11 INTANGIBLE ASSETS

	31.12.2018	31.12.2017
CHF thousand		
Intangible assets	16,507	21,549
Concessions and reversion waiver compensation ¹⁾	12,562	18,100
Rights of use ¹⁾	1,307	1,136
Software	2,223	1,756
Intangible assets under development	415	557

1) In the year under review concessions and rights of use were reclassified from tangible assets to intangible assets.

12 TRADE CREDITORS

	31.12.2018	31.12.2017
CHF thousand		
Trade accounts payable	298,140	239,621
Third parties	271,289	210,675
Participants and management bodies	12,767	10,078
Investments	14,084	18,868

13 CURRENT INTEREST-BEARING LIABILITIES

			31.12.2018	31.12.2017
CHF thousand				
	Interest rate	Duration		
Current interest-bearing liabilities			2,029	27,029
Loans			-	25,000
Private placement	3.660%	2008-2018	-	25,000
Other current interest-bearing liabilities			2,029	2,029
Investments			2,029	2,029

14 OTHER CURRENT LIABILITIES

	31.12.2018	31.12.2017
CHF thousand		
Other current liabilities	136,571	121,998
Third parties	132,510	115,407
Participants and management bodies	3,133	5,768
Investments	928	823
Other current liabilities	136,571	121,998
Negative replacement values of held for trading positions	124,263	94,904
Other current liabilities	12,308	27,094

15 NON-CURRENT INTEREST-BEARING LIABILITIES

CHF thousand			31.12.2018	31.12.2017
	Interest rate	Duration		
Non-current interest-bearing liabilities			369,520	392,378
Loans			136,346	138,510
Loan	2,500%	2010-2030	20,000	20,000
Private placement	3,625%	2008-2023	10,000	10,000
Bank loan	1.698%	2017-2024	28,173	29,255
Bank loan	1.922%	2017-2025	28,173	29,255
Bank loan	1.820%	2006-2026	50,000	50,000
Bonds			99,261	117,926
Bond	2.375%	2010-2022	96,445	115,000
Registered bond	3.400%	2014-2034	2,816	2,926
To investments			133,913	135,942

16 OTHER NON-CURRENT LIABILITIES

CHF thousand		31.12.2018	31.12.2017
Other non-current liabilities		49,104	46,398
Connection fees and grid cost contributions		8,287	4,552
Connection fees and grid cost contributions		8,287	4,552
Other non-current liabilities		40,817	41,846
Third parties ¹⁾		127	359
Investments		40,690	41,487

1) Includes an interest-free investment loan running from 2007 to 2020. Mortgage assignments were pledged as security; see further notes to the financial statements, contingent liabilities, sureties, guarantee obligations and pledges in favour of third parties.

17 PROVISIONS

CHF thousand		31.12.2018	31.12.2017
Provisions		19,511	28,810
For contract risks		5,202	9,978
Other risks ¹⁾		14,309	18,832

1) Other risks include the value of interest rate swaps amounting to TCHF 11,410 (previous year: TCHF 12,351). Taken individually, the other items are immaterial.

	31.12.2018	31.12.2017
CHF thousand		
Shareholders' equity	741,084	737,163
Share capital	7,391	7,391
Share capital		
7,390,968 registered shares at a par value of CHF 1 per share	7,391	7,391
Reserves	693,437	663,433
Legal capital reserves		
Capital reserves	184,335	184,335
Legal reserve from retained earnings	17,123	17,123
Other reserves ¹⁾	491,979	461,975
Retained earnings	40,278	66,354
Retained earnings carried forward ¹⁾	36,353	41,018
Net income for the year	3,925	25,336
Treasury shares	-22	-15

1) In the year under review the increase of TCHF 4 in other reserves is attributable to gains and losses from the sale of treasury shares. The previous year the general meeting of shareholders of 16 May 2018 approved a transfer of TCHF 30,000 from retained earnings to other reserves.

Share capital

Significant shareholders as defined by the Swiss Code of Obligations (OR) 663c (share of capital and voting rights):

	31.12.2018	31.12.2017
Elektrizitätswerke des Kantons Zürich (EKZ)	29.83%	29.83%
Canton Graubünden	21.96%	21.96%
UBS Clean Energy Infrastructure KGK (UBS-CEIS)	18.88%	18.88%
Axpo Holding AG, Baden	12.69%	12.69%

EIGENE TITEL

	2018		2017	
	Number of shares	Carrying value in CHF	Number of shares	Carrying value in CHF
Initial balance at 1 January	256	15,365	382	20,714
Purchases	605	42,835	2,637	152,507
Disposals	-560	-36,116	-2,763	-157,856
End balance at 31 December	301	22,084	256	15,365

In the year under review Repower AG bought 605 shares at an average price of CHF 70.80 and sold 560 shares at an average price of CHF 71.31.

The prior year Repower AG bought 2,637 shares at an average price of CHF 57.83 and sold 2,763 shares at an average price of CHF 59.38.

Notes to the financial statements: D. Further notes

NET RELEASE OF HIDDEN RESERVES

In the reporting year, hidden reserves of CHF 8,166 thousand were released (prior year: CHF 7,193 thousand).

EMPLOYEE INFORMATION

In the year under review and the previous year Repower AG had more than 250 full-time positions on annual average.

DIRECT AND INDIRECT SHAREHOLDINGS

Direct participations

Company	Head office	Currency	Issued capital		Share of equity and votes in %	
			31.12.2018	31.12.2017	31.12.2018	31.12.2017
Ovra electrica Ferrera SA	Trun	CHF	3,000,000	3,000,000	49.00%	49.00%
SWIBI AG	Landquart	CHF	500,000	500,000	76.58%	76.68%
Alvezza SA in Liquidation	Disentis	CHF	500,000	500,000	62.00%	62.00%
Lagobianco SA	Poschiavo	CHF	1,000,000	1,000,000	100.00%	100.00%
Repartner Produktions AG	Poschiavo	CHF	20,000,000	20,000,000	51.00%	51.00%
tiko Energy Solutions AG ¹⁾	Ittigen	CHF	13,342,325	13,342,325	35.00%	35.00%
Kraftwerk Morteratsch AG ²⁾	Pontresina	CHF	500,000	500,000	10.00%	10.00%
Repower Deutschland GmbH	Dortmund	EUR	11,525,000	11,525,000	100.00%	100.00%
Repower Italia S.p.A.	Milan	EUR	2,000,000	2,000,000	100.00%	100.00%
MERA S.r.l.	Milan	EUR	100,000	100,000	100.00%	100.00%
EL.I.T.E. S.p.A.	Milan	EUR	3,888,500	3,888,500	46.55%	46.55%

1) Swisscom Energy Solutions AG was renamed tiko Energy Solutions AG.

2) Repower AG holds 10% of the share capital and 35.7% of the voting rights of Kraftwerk Morteratsch AG.

Indirect participations

Company	Head office	Currency	Issued capital		Share of equity and votes in %	
			31.12.2018	31.12.2017	31.12.2018	31.12.2017
Repartner Wind GmbH	Dortmund	EUR	25,000	25,000	51.00%	51.00%
Repower Vendita Italia S.p.A.	Milan	EUR	4,000,000	4,000,000	100.00%	100.00%
SET S.p.A.	Milan	EUR	120,000	120,000	61.00%	61.00%
Energia Sud S.r.l.	Milan	EUR	1,500,000	1,500,000	100.00%	100.00%
SEA S.p.A. ¹⁾	Milan	EUR	120,000	120,000	65.00%	100.00%
REC S.r.l. ¹⁾	Milan	EUR	10,000	10,000	65.00%	100.00%
Immobiliare Saline S.r.l.	Milan	EUR	10,000	10,000	100.00%	100.00%
REV S.r.l.	Milan	EUR	10,000	10,000	100.00%	100.00%
Aerochetto S.r.l.	Catania	EUR	2,000,000	2,000,000	39.00%	39.00%
Repower Renewable S.p.A. ¹⁾	Venice	EUR	66,735,660	-	65.00%	-
Impianto Eolico Pian dei Corsi S.r.l. ¹⁾	Venice	EUR	200,000	-	37.38%	-
ESE Cerignola S.r.l. ¹⁾	Venice	EUR	100,000	-	65.00%	-
RES S.r.l. ¹⁾	Venice	EUR	150,000	-	65.00%	-
Cramet Energie S.r.l. ¹⁾	Venice	EUR	19,600	-	65.00%	-
ESE Trelizzi S.r.l. ¹⁾	Venice	EUR	19,600	-	65.00%	-
ESE Salento S.r.l. ¹⁾	Venice	EUR	10,000	-	61.75%	-
Elettrosud Rinnovabili S.r.l. ¹⁾	Venice	EUR	10,000	-	65.00%	-
Quinta Energia S.r.l. ¹⁾	Erice	EUR	50,000	-	65.00%	-
ESE Armo S.r.l. ¹⁾	Venice	EUR	30,000	-	65.00%	-
ESE Nurra S.r.l. ¹⁾	Venice	EUR	200,000	-	33.15%	-
ESE Castelguglielmo S.r.l. ¹⁾	Venice	EUR	30,000	-	65.00%	-
Compagnia Energie Rinnovabili S.r.l. ¹⁾	Venice	EUR	100,000	-	65.00%	-
Parco Eolico Busetto S.p.A. ¹⁾	Erice	EUR	500,000	-	65.00%	-
ERA S.c.r.l. ¹⁾	Venice	EUR	30,006	-	64.99%	-
ESE Apricena S.r.l. ¹⁾	Venice	EUR	30,000	-	65.00%	-
Terra di Conte S.r.l. ¹⁾	Lucera	EUR	10,000	-	32.50%	-

1) Repower in partnering with Omnes and its Capenergy fund for the Repower Renewable joint venture. The group of new-consolidated companies was set up through the contribution of the existing companies SEA S.p.A. and REC S.r.l. and through cash contribution. Since 5th December 2018 Repower holds a 65% stake in the subholding Elettrostudio Energia S.p.A., then renamed Repower Renewable S.p.A..

CONTINGENT LIABILITIES, SURETIES, GUARANTEE OBLIGATIONS AND PLEDGES IN FAVOUR OF THIRD PARTIES

Joint liability for VAT group taxation SWIBI AG, Lagobianco SA, Repartner Produktions AG and Ovra elettrica Ferrera SA.

To the benefit of group companies, letters of intent and financing agreements amounting to EUR 97 million (equivalent to CHF 109 million) were concluded (prior year: EUR 171 million, equivalent to CHF 200 million).

Guarantees in favour of third parties amounting to CHF 5.9 million and EUR 3.1 million (equivalent to CHF 3.5 million) were provided (prior year: CHF 0.5 million and EUR 3.0 million (equivalent to CHF 4.0 million)).

TOTAL ASSETS CEDED OR PLEDGED TO SECURE OWN LIABILITIES

Nominal value of mortgage assignment: CHF 2.55 million. of which CHF 213 thousand used (prior year: CHF 425 thousand).

During the year under review receivables did not include any in pledges lodged in the context of business, specifically trading operations (prior year; CHF 3.0 million).

LEASE LIABILITIES

The maturities of lease liabilities that do not mature or cannot be terminated within twelve months break down as follows:

	31.12.2018	31.12.2017
CHF thousand		
Lease liabilities	8,321	9,463
Within 1 year	1,220	1,269
2-5 years	3,580	3,937
Over 5 years	3,521	4,257

PENSION FUND LIABILITY

On the balance sheet date there is a liability to the pension fund of CHF 427 thousand (prior year: CHF 420 thousand).

RELATED PARTIES

Receivables and liabilities vis-à-vis direct or indirect participants and management bodies and vis-à-vis undertakings in which there is a direct or indirect participation are shown separately in the notes to the financial statements. Management bodies and participants are the members of the board of directors and shareholders ([Note 18](#)) of Repower AG and the auditors.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In March 2019 Engie New Business acquired an interest in tiko Energy Solutions AG by way of a unilateral capital increase. Repower's interest in tiko Energy Solutions AG declines from 35.0 to 19.8 per cent. With the new investor on board, a debt cut was granted to tiko. Repower's receivables from the loan to tiko must be impaired to the recoverable amount. The impairment to be recognised amounts to CHF 1,166 thousand.

The financial statements were approved for publication by the board of directors on 3 April 2019. They are subject to the approval of the annual general meeting, which will take place on 15 May 2019.

DISCLOSURES IN ACCORDANCE WITH ART. 663C OF THE SWISS CODE OF OBLIGATIONS AT 31 DECEMBER OF THE FINANCIAL YEAR:

Board of directors	Shares in 2018	Shares in 2017
Dr Urs Rengel (from 21.06.16)	400	400
Peter Eugster, vice-chairman (from 21.06.16)	1,400	1,200

Executive board	Shares in 2018	Shares in 2017
Kurt Bobst, CEO	150	150
Felix Vontobel (until 31.12.17)	-	240
Fabio Bocchiola	5	5
Samuel Bontadelli (from 01.01.2017)	101	-

There are no other items which require disclosure.

Appropriation of retained earnings

The board of directors proposes the following appropriation of retained earnings to the annual general meeting:

Net earnings for the year 2018	CHF	3,924,820
Retained earnings carried forward	CHF	36,353,604
Retained earnings	CHF	40,278,424
Amount carried to other reserves	CHF	-20,000,000
Balance carried forward	CHF	20,278,424

Furthermore, the Board of Directors proposes to the Annual General Meeting a dividend of CHF 0.50 per registered share, to be paid from capital reserves:

Capital reserves carried forward	CHF	184,335,222
Dividend on share capital of 7.4 million CHF ¹⁾	CHF	-3,695,484
Capital reserves carried forward on the next year	CHF	180,639,738

1) Qualifies as tax-neutral repayment of capital in accordance with Art. 20 of the Federal Law on Direct Federal Tax, and Art. 5 of the Federal Law on Withholding Tax.

No dividend is paid on registered shares held by Repower AG on the payout date. This can reduce the actual dividend payout accordingly.

Subject to the approval of the Annual General Meeting, the dividend will be paid from capital reserves starting on 21 May 2019.

Poschiavo, 3 April 2019

For the Board of Directors:



Dr. Monika Krüsi Chair
of the Board of
Directors

Report of the statutory auditor



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Zurich, 3 April 2019

To the Annual General Meeting of Repower AG, Brusio

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the attached financial statements of Repower AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2018.



BOARD OF DIRECTORS' RESPONSIBILITY

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation 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 judgement, 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 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 2018 comply with Swiss law and the company's articles of incorporation.



REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recoverability of participations and loans to group companies

Risk	<p>Participations and loans to group companies represent 27.1% of total assets and are therefore a material item in the balance sheet. Due to significance of the positions and the potential uncertainty around the profitability of participations in the respective markets they operate, the assessment of the recoverability of participations and loans to group companies was a focus area of our audit.</p> <p>The Company assesses the recoverability of its participations and loans to group companies annually, considering future earnings, statutory equity and business prospects. This approach requires estimates and assumptions by the Company, such as forecast earnings and cash flows on an individual basis. Changes in estimates and assumptions including future business prospects have an impact on the recoverability of the positions.</p>
Our audit response	<p>We reviewed the Company's approach to assess the recoverability of its participations and loans to group companies. We evaluated how the Company determined profitability and equity and other relevant forecast information. We considered the internal controls framework around defining estimates and assumptions. We assessed the recoverability of each participation individually to corroborate our understanding about its business prospects and anticipated future developments with the Company.</p> <p>Our audit did not give rise to any objections with regard to the procedure and valuation of the investments and loans to group companies.</p>

Classification, valuation and presentation of energy derivatives

Risk	<p>The accounting treatment of energy derivatives is a result of its classification as "held-for-trading" or "Cashflow-Hedges". Classification requires judgment and has a material impact on both balance sheet presentation and net income.</p> <p>The valuation of these "held-for-trading" instruments is derived from observable market data on active markets. The positive and negative replacement values are presented net when legally enforceable netting agreements are in place.</p> <p>The Company defines policies and procedures to account for energy contracts. They include the definition of segregation of duties and controls.</p> <p>Due to the materiality of these transactions, significant judgments and the potential impact on the financial statements, the accounting of energy derivatives was a focus area of our audit. Refer to notes 1, 5 and 14 of the financial statements for further information.</p>
Our audit response	<p>We evaluated the Company's policies and procedures around classification, valuation and netting of open positions including the established segregation of duties and discussed these with the Company. We assessed internal controls over the Company's accounting for such trading activity.</p> <p>For a sample of energy derivatives, we tested the observable inputs into valuation models by reference to externally available market data.</p> <p>Our audit did not give rise to any objections with regard to the recognition and measurement of the energy derivatives.</p>

Impairment of tangible assets

Risk	<p>Tangible assets is a material balance amounting to 22.4% of total assets in the balance sheet. These comprise primarily power plants, grids and other non-current assets of the Company.</p> <p>Tangible assets are subject to an impairment test at each balance sheet date. This test is based on indicators reflecting a possible impairment of the individual assets. The testing for potential impairments involves the use of estimates and assumptions, such as the forecast production volume, the forecast long-term energy price curve, foreign exchange rates impacting future earnings and cash flows. In addition, discount rates are relevant in</p>
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obtaining a value in use as of the date of the valuation.

Our audit response

We assessed the Company's valuation approach related to its tangible assets. We further assessed the process to derive the underlying assumptions and estimates around forecast production volumes, the forecast long-term energy price curve and foreign exchange rates. We evaluated the internal controls related to the budgeting and forecasting process as well as the process to derive assumptions and estimates. We evaluated impairment testing model and involved valuation specialists.

We assessed the cash flows derived for each tested tangible asset and how the discount rate including applicable input variables was determined. We corroborated the input variables to the discount rate based on sources provided by the Company and tested them against observable market data.

Our audit did not give rise to any objections with regard to the process used to derive the assumptions and valuation of the tangible assets.



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 article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

Ernst & Young AG

Willy Hofstetter
Licensed Audit Expert
(Auditor in Charge)

Ralf Truffer
Licensed Audit Expert



2018 annual report

Events

The next dates in Repower's financial calendar:

- **15 May 2019:** Annual general meeting in Pontresina
- **21 August 2019:** Information on the first six months of 2019
- **29 October 2019:** Analyst and investor conference
- **7 April 2020:** Annual media conference
- **19 May 2020:** Annual general meeting in Landquart

Publishing information

Publisher: Repower, Poschiavo, Switzerland

Design: Repower, Poschiavo, Switzerland

Editing: Repower, Poschiavo, Switzerland

Photos: Repower, Poschiavo, Switzerland

Icons: Icons made by Freepik are licensed by CC 3.0 BY (Coins/Jumping man) and nightwolfdezines (Safety Traffic Cones)

Publishing system: Multimedia Solutions AG, Zurich, Switzerland

The annual report is published in German, Italian and English. In the event of differing interpretations, the German text is definitive.

April 2019