

The image is a monochromatic blue-toned photograph of a night landscape. In the foreground, a calm lake reflects the sky and the surrounding terrain. The middle ground shows a range of mountains and forested hillsides. The sky is filled with numerous star trails, creating a sense of long-exposure photography. The overall mood is serene and quiet.

Annual Report  
**2013**





Azienda Elettrica Ticinese

# Annual Report **2013**



**Report of the Board of Directors  
of the Azienda Elettrica Ticinese  
to the Grand Council and the Council of State  
of the Republic and Canton of Ticino**

Ladies and Gentlemen,  
Chairmen,  
State Councillors,  
Parliamentary Representatives,

in accordance with the provisions contained in article 5 of the Law instituting Azienda Elettrica Ticinese (LAET), we hereby submit for your approval (article 5, paragraph 2 LAET):

- the report of the Board of Directors for the year 2013;
- the financial statements for the year 2013;
- the proposal for allocation of profit;
- the auditors' report;

and for discussion (article, paragraph 3 LAET):

- the report on activities forecast for the next two years.

The english version of the AET 2013 Annual Report is merely a translation:  
the official version is the italian text.





### **Extraordinary repairs and overhaul of Stalvedro power plant**

This publication features the photo reportage of Ticino photographer Stefano Mussio, who documented the extraordinary repairs and overhaul of the Stalvedro power plant of Azienda Elettrica Ticinese (AET) in the winter of 2013. After 45 years of uninterrupted operation, the power plant was fully decommissioned for a period of twelve weeks. During this time, the repair and overhaul work was carried out at seven construction sites in parallel, which had been optimally planned and installed in advance. This work served to preserve the value of the machinery and installations and ensure the necessary availability, efficiency and reliability.

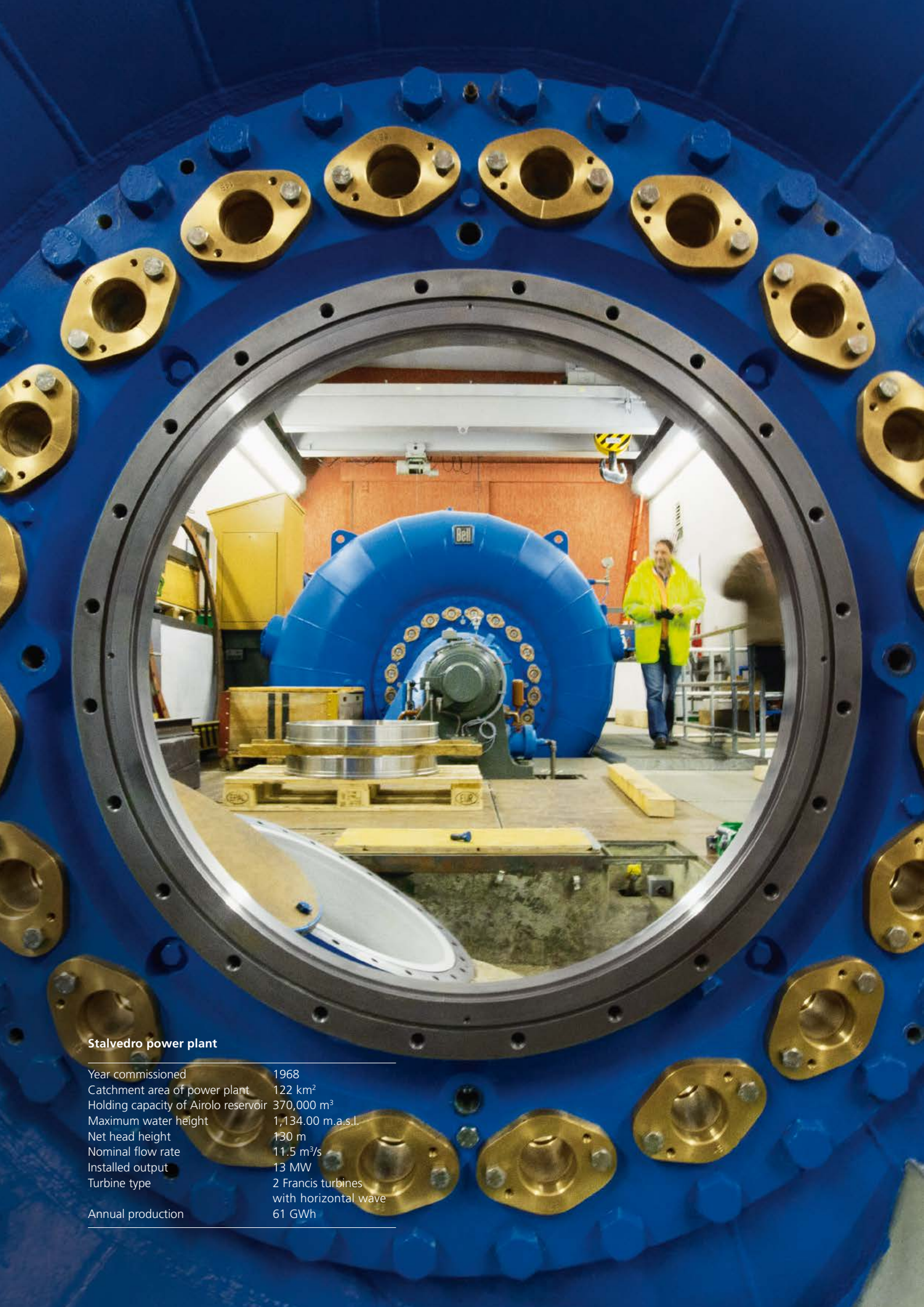
The Stalvedro facility is located in Piotta and is the first hydropower plant of AET in the Leventina. It was built between 1966 and 1968, parallel to the Nuova Biaschina hydropower plant (1962 to 1967), and bears testimony to the canton of Ticino's commitment to invest in hydropower.

On the cover: Lake Tremorgio.



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### Stalvedro power plant

Year commissioned	1968
Catchment area of power plant	122 km <sup>2</sup>
Holding capacity of Airolo reservoir	370,000 m <sup>3</sup>
Maximum water height	1,134.00 m.a.s.l.
Net head height	130 m
Nominal flow rate	11.5 m <sup>3</sup> /s
Installed output	13 MW
Turbine type	2 Francis turbines with horizontal wave
Annual production	61 GWh



## 2013 in summary

### Key figures

	2013	2012	2011	2010	2009
In CHF million					
Operating income	1,087	1,316	1,450	1,550	1,475
Operating result	51	40	34	48	55
Profit for the year	12	21	17	35	40
Cash flow before change in net current assets	84	61	50	59	62
Cash flow from operating activities	71	35	18	47	78
Equity	453	428	417	416	398
Non-current assets	776	562	562	572	617
Balance sheet total	1,165	869	855	864	875
Devolution of profit to the State	10	14	11	12	10
Interest on capital due to the State	3	3	3	3	3
Water fees to the State	11	11	11	9	9
Total payment to the State	24	28	25	24	22
Employees of the Group (full time equivalent)	432.5	247.7	239.5	227.6	213.0
In GWh					
Production AET Group	983	926	704	870	963
Production participations	1,327	918	937	833	997



**Management of AET**

From bottom to top:  
Giorgio Tognola, Claudio Nauer, Stefano Sartori,  
Flavio Kurzo, Roberto Pronini, Fiorenzo Scerpella, Edy Losa.

Photograph: Francesco Girardi. ©Azienda Elettrica Ticinese.

# Company officers

## Board of Directors

Leidi Fausto, *Chairman*  
Netzer Marco, *Vice Chairman*  
Beffa Floriano  
Bianchi Ronny (from 01.09.2013)  
Leonardi Giovanni (from 01.08.2013)  
Lombardi Sandro  
Ogna Ronald  
Pedrina Fabio (until 31.08.2013)

## Grand Council's audit office

Gianini Sergio  
Piazzini Gianluigi  
Prada Giancarlo  
Paglia Erto, *deputy auditor*

## AET Group's audit office

Ernst & Young Ltd, *Lugano*

## Management

Pronini Roberto, *CEO*  
Nauer Claudio, *Co\_CEO*  
Kurzo Flavio, *Head of finance and risk management*  
Losa Edy, *Head of energy production*  
Sartori Stefano, *Head of quality / safety / environment / logistic*  
Scerpella Fiorenzo, *Head of grid*  
Tognola Giorgio, *Head of energy trade*





### Remediation of pressure tunnel

Work phases: Stripping with high-pressure cleaner, sand-blasting, magnetographic inspection and control and spot repairs, application of new corrosion protection.

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Total remediated length	approx. 240 m
Gradient of pressure tunnel	100%
Diameter of pressure tunnel	2.10 m
Thickness of reinforcement	10 mm

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Report of  
the Board of Directors





### Disposal of polychlorinated biphenyls (PCBs)

To recover all the PCBs and heavy metals from the corrosion protection applied in 1967, the workers first had to strip the pressure tunnel using high-pressure cleaners (2,700 to 3,000 bar). The 20 m<sup>3</sup> effluent resulting from this operation was removed via the regular drainage channels into a closed system and the sludge was disposed of as hazardous waste. Analyses performed by the cantonal authorities showed the operation was a success. It is estimated that around 10 kg of pure PCBs was recovered from the original anticorrosive application.

Surface area treated	1,600 m <sup>2</sup>
Access to site via	1 provisional cable winch 1 provisional mobile platform
Site	hermetically sealed air filtered and climatized
Teams and shifts	several teams, spread over 2 shifts
Quality controls different phases	7, distributed across
Special waste recovered	3,200 kg sludge
PCBs recovered	10 kg



# Introduction by the Chairman

## **Redefining the role of AET**

A high stakes game has been played out over the last few years and is still ongoing, which will have ramifications for the future of the entire energy sector in our canton. Its results have to be measured over the long-term. Azienda Elettrica Ticinese needs to make important decisions during a period of deep-seated transformation within the market on which it operates. It can only make the right strategic choices, looking beyond the difficulties imposed by market contingencies, if the role which it is to play within the cantonal energy context is clearly defined.

## **The crisis in the energy sector in Europe**

2013 saw a further decline in the European energy market, with electricity being traded at prices significantly down compared to previous years. This situation is creating serious difficulties for producers throughout Europe, as is clear from the five hundred billion euro capitalisation lost on the stock market by the companies of the industry since 2008.

The causes of this situation are known and are only in part due to the economic crisis. The greatest impact has come from the massive increase in the energy fed into the grid from renewable sources, in particular solar and wind energy. This increase has been supported by enormous government subsidies, paid principally in Germany, Italy and Spain, which have distorted market dynamics much to the detriment of investors in traditional installations, including hydroelectricity, along with their operators. This situation has been exacerbated by the failure of the energy certification system introduced on the European level in order to reduce CO<sub>2</sub> emissions. This was unforeseen and enabled the oldest and most polluting power stations to remain on the market, to the detriment of those built using more modern technology.

The difficulties on the European market have not spared AET. Low prices have significantly reduced profit margins on energy sales and, whilst it has not posted losses, the company has been forced to book value impairments, which eroded the result for the year. Under current market conditions, the risk that the company may suffer operating losses is real. Forecasts indicate that it will be necessary to wait several years before the trend can be reversed.

The dynamics described above cannot be reduced to a mere cyclical stage: they represent a genuine paradigm shift. The advent of renewable energies is a welcome evolution. However, the scale of government subsidies has accelerated it significantly, rendering their impact on energy prices more disruptive than anyone could have expected. It is now necessary to identify a development model that is capable of accompanying the transition to renewable energy, whilst ensuring a proper balance between different production sources: wind and solar energy on the one hand and traditional generation (which is still indispensable in order to guarantee stable and secure supply) on the other hand.

## **The new equilibria within the internal market and the reinforcement of the cantonal energy hub**

In parallel with the developments underway on a continental level, the national regulatory framework is also changing. Market liberalisation is proceeding apace and its effects are becoming more and more evident: competition is increasing, margins are falling and sectoral operators are restructuring and adjusting their business models.

In this case too, it is essential to address changes with a long-term perspective. The role which AET will be required to perform for the Canton and its population must be clearly defined in order to enable not only the company, but also the entire energy segment, to plan and coordinate its activities with a view to exploiting as efficiently as possible the canton's most precious resource: water.

2013 saw significant progresses in this direction: from the acquisition of the shareholding in Società Elettrica Sopracenerina owned by Alpiq, which enabled an important decision-making centre to be brought back into Ticino – and into public ownership – to the decision by the Cantonal Parliament to return the Lucendro plant to public-sector control. Two initiatives aimed at reinforcing the Ticino energy sector, equipping it with the instruments necessary in order to face up to the challenges of the free market. The publication of the Cantonal Energy Plan and the planned discussion regarding the new Law instituting the Azienda Elettrica Ticinese complete the picture, creating a legislative context that favours transformation.

The hope is that these processes may be based on a common vision, enabling the development of a cohesive sector. Whilst the immediate future is thick with unknowns, the opportunities arising on the horizon are tangible. Ticino has all of the resources needed to meet these challenges, and AET is one of these resources. The company is fully committed to continuing to play a key role for the population of Ticino, and is looking beyond the current period of uncertainty with the objective of emerging from it in a stronger position.



Fausto Leidi  
Chairman



### Repair of connection area

After 45 years of uninterrupted operation, repairs were carried out on the connection area between the inlet tunnel in the rock and the descending pressure tunnel (above the damper chamber). The ultrasound measurement system that monitors the pressure tunnel's throughput was also checked.

In order to install the provisional works cable winch, the DN1800 damper was dismantled and removed through the 60-metre long access tunnel. A complete overhaul was performed on the damper, for the first time since it was commissioned in 1968, and a new anticorrosive layer was applied.

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Weight of damper	7.75 t
Height of damper	2.46 m
Height of tunnel	2.76 m
Opening diameter of damper	1.80 m

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**Revision of turbine**

The overhaul work was performed exclusively by AET staff. For this purpose, the works teams were supported by staff from the Piottino and Nuova Biaschina power plant facilities.

# Management report

## A year marked by the market

AET's result for financial year 2013 was conditioned more than ever by the performance of the electricity market. The fall in the margin on electricity trading was contained at –CHF 6 million (–7.6%). Thanks to good production figures (+6% compared to the previous year), ordinary result amounted to CHF 37.2 million (consolidated CHF 44.7 million), which was in any case in line with the previous year and with the budgeted figure.

Forecasts indicate that the difficult situation on the electricity market will persist for several years. This trend will continue to place pressure on all companies involved in the generation of electricity from traditional sources, which will no longer be able to obtain the good results seen in the past. This situation is also reflected in the share prices of internationally active electricity companies listed on the stock market and their respective market capitalisations, which have fallen significantly over the last five years.

AET has not been immune to this trend; market developments have caused the value of certain investments to decrease, following which AET recognised value impairments which had a significant effect on 2013 net profits, amounting to CHF 3.5 million (2012: CHF 21.2 million) and CHF 12.1 million in the Group consolidated financial statement (2012: CHF 21.1 million).

## Production

Hydroelectricity production from the company's own plants exceeded 946 GWh, increasing by 53 GWh compared to the previous year. This was a particularly positive result, which was made possible by the abundant spring rainfall along with a prolonged period of snow melting. Similarly, production of the hydro participations amounted to 595 GWh, up 5.5% compared to the previous year.

As regards thermal energy participations, it is reported that the Lünen power plant came on stream. The plant started production on a test basis in the summer of 2013 and was officially inaugurated in the following months, after receiving all authorisations required for the power station to operate. However, the environmental association Bund has announced a further appeal against the decision by the local government to issue the last authorisation. This appeal will not have the effect of suspending operations at the power station.

The increase in investments in photovoltaic energy over recent years is reaping its first tangible results. In 2013, production at plants owned by AET was almost 0.9 GWh, up 13% compared to the previous year.

Production increases were counterbalanced by strong downward pressure on prices (from –8% on the French spot market to –16% on the Italian market), resulting in an erosion of margins. Under these

circumstances, power stations in which recent investments have been made and those that do not benefit from subsidies for production from renewable sources, including first and foremost hydroelectric plants, are struggling – and in part are no longer able – to cover production and depreciation costs.

## Sales

Also in 2013, sales activity was marked by the opening of the market. In the face of increased competition, AET adjusted its strategies and internal processes with the aim of defending its market share in Ticino and winning new market shares beyond its borders.

The number of operators active on the cantonal market grew particularly in relation to supplies to multi-site customers with headquarters in northern Switzerland. These include not only private companies, but also government bodies and former federal state enterprises. In response to this change, AET has stepped up cooperation with local distributors, preparing ad hoc offers for customers who have chosen to be supplied on an open market regime. For multi-site clients, offers have been drawn up in close contact with Enerti, a company established by nine cantonal distributors, albeit with scant success.

Whilst cooperation with distributors has become more intense in relation to offers to end customers, AET is now competing with other national operators for supplies to these distributors. This situation led to a change in relations and standard form contracts and has resulted in distributors privileging short-term supplies, to the detriment of longer-term procurement, which is more secure but more costly. Consequently, the company has had to adopt a new risk reduction strategy, which will consider cantonal distributors in the same way as normal market counterparties.

On the basis of these new models, contracts under a full supply regime have been renewed with the distributors AGE (Chiasso), AMB (Bellinzona), AIM (Mendrisio), AMS (Stabio), AEC (Ascona), AEM (Massagno), EDM (Moesano) and SES (Sopraceneri).

On the other hand, AET's largest customer AIL (Lugano) has concluded only a service agreement, guaranteeing it direct access to the European wholesale market through AET.

As regards energy quality, AET secured a mix made up by more than 80% from renewable sources also in 2013. Moreover, starting from 2014, household users within the distribution areas of AIL, AMB and SES are being supplied with 100% certified renewable Ticino energy *tiacqua*, thanks to cooperation between AET, Enerti and the three largest cantonal distributors.

## Strategic projects

2013 saw progress in numerous projects laying the groundwork for the consolidation of AET and the entire cantonal energy sector.

### The Cantonal Energy Plan (PEC)

In April 2013, the Council of State approved the Cantonal Energy Plan (PEC) which, along with the Federal Energy Strategy, sets out the guiding principles for cantonal energy policy until 2050. The PEC specifies three priority objectives (efficacy, efficiency and energy savings) and presents a broad range of measures for achieving them. AET will be involved first hand in its application and its role will be to act as the operating arm of the Canton. The measures include in particular: the return to public-



sector control, the renewal and the optimisation of hydroelectric plants; the establishment of the Renewable Energy Fund (FER); the designation of zones suitable for the exploitation of wind energy; the development of district heating networks and the establishment of gas cogeneration plants; and the cooperation in the drafting of the Cantonal Usage Plan for hydroelectric plants in Val d'Ambra.

#### **The acquisition of Società Elettrica Sopracenerina SA (SES)**

After long negotiations, on 29 May 2013, acting in conjunction with the municipalities of Biasca, Gambarogno, Locarno, Losone, Minusio and Muralto, AET acquired a majority shareholding in Società Elettrica Sopracenerina SA (equal to 60.9%) previously held by Alpiq Ltd. through the company SES Holding Ltd. This enabled the company's decision-making to be returned to Ticino along with the related services, which had previously been allocated north of the Alps.

The acquisition of SES has brought control of the whole cantonal electricity distribution into the public sector, which provides a favourable basis for achieving the energy policy objectives specified in the PEC.

#### **The reform of the Law instituting the Azienda Elettrica Ticinese (LAET)**

During 2013, the Department for Finance and the Economy (DFE) launched a process to reform the Law instituting the Azienda Elettrica Ticinese (LAET). The task of AET is to exploit Ticino's water which have not been licensed to any other companies, in the interest of the Canton. Moreover, it is preparing to oversee the operation of all hydroelectric plants, which will be returned to cantonal control upon expiry of the relative licences. The PEC also sets AET the fundamental task of implementing the guiding principles of cantonal energy policy.

The purpose of the reform launched by the DFE is to adjust the management structure of AET in line with modern principles of "public corporate governance".

#### **The new Ritom power station**

Following the announcement of an agreement between SBB (Swiss Federal Railways), the Canton Ticino and AET envisaging the construction of a new power station 75% owned by SBB and 25% by the Canton, the application for the new licence including the detailed information requested by the competent cantonal offices was forwarded to the federal authorities (Federal Office of Energy, Federal Office for the Environment) in order to enable them to state their position. In parallel, negotiations were launched between AET, the Canton and SBB regarding the drafting of the contract on the incorporation and articles of association of the new Ritom SA, including arrangements on the management of the plant and the division of costs between the parties.

AET and SBB are taking steps to present the project to all interested parties and have initiated negotiations with the municipalities of Quinto and Airolo with the aim of agreeing on a solution that is satisfactory for all parties.

#### **The maintenance of the Swissgrid network**

According to the provisions of the Swiss Federal Electricity Supply Act, at the start of 2013 AET transferred ownership of its ultra-high voltage grid to the national operator Swissgrid AG. During the course of the year, Swissgrid AG issued a call for tenders relating to maintenance of the entire national grid for the period 2015–2019, including the segment acquired from AET. AET submitted bids for the lots located in Ticino and Mesolcina and was awarded all contracts for which it bid. This important result means that the company will act as the point of reference for Swissgrid AG in the south of the Alps, ensuring continuity in its grid maintenance service.

### Renewable production

During 2013, AET placed three new photovoltaic plants into service with installed capacity of more than 500 kWp: one located on the premises of the firm Frigerio in Cadenazzo, one on the roof of BC Swiss Ltd. in Stabio and one built at the headquarters of Sintetica SA in Mendrisio. In parallel, new agreements were concluded on the construction of plants, which are scheduled for completion in 2014. These include an installation which will be built in conjunction with AMB on the roof of the new LGI logistics centre in Sant'Antonino which, with a power output of 1.5 MWp, will become the largest photovoltaic plant in Ticino and one of the largest in Switzerland.

### The return to public control of the Lucendro plant

At the end of 2013, the Ticino Cantonal Parliament made a historic decision to reject the renewal of the licence of Alpiq Hydro Ticino SA to exploit the waters of the Lucendro plant, due to expire in 2024. This decision came in the wake of the unanimous resolution by the Cantonal Parliament of Uri, from which 55% of the reservoir's water originates, and which paves the way for the most important return to public control since the Piottino plant in 1972. This is a further step which confirms the intention, already stated in the PEC, to bring cantonal hydroelectric resources back under public control.

### Participations

The following summary provides key information regarding participated companies, irrespective of whether they are included in the annual financial statements of AET under the balance sheet entry of *participations* or the entry for *long-term securities*.

#### AET CoGen Srl

From January 1st 2014, staff level was reduced from 5.5 FTEs to only 2.5 FTEs, which are necessary for the temporary continued operation of the district heating network in the municipality of Gavirate (Varese). Taking account of the market situation, the production of electricity was suspended and is not expected to be resumed. Many other power plants in bordering countries and throughout Europe are confronted with similar difficulties.

#### AET Italia SpA

Despite the unfavourable climate related to the continuing economic crisis, AET Italia has increased both client numbers (+13%) as well as the gross margin (+41% compared to 2012). The company's good performance is the result of a prudent sales policy rooted in the strengthening of local sales teams and a bespoke focus on client needs, which has enabled a contractual renewal rate of 74% to be achieved. From the governance viewpoint, AET Italia has completed the process of aligning itself with Group standards, renewing the ISO 9001 certification and bringing the internal control system on stream.

#### Calore SA

Work was completed this year on the connection of SUPSI Locarno (the former Scuola Magistrale, i.e. teacher training college) to the Ospedale La Carità thermal energy distribution network. Further the heating system for primary schools in Massagno, carried out on a consortium basis with AEM SA. The Biomassa Blenio SA project was granted a licence to build the thermal station and is about to proceed to the implementation stage. Customer acquisition has been initiated and the company's meeting of shareholders formalised the share capital increase required to start the building of the plant.

### **CEG SpA Group**

The level of current market prices for vegetable oils makes the economic and financial outlook of the CEG SpA Group particularly difficult. On the other hand, the biofuel incentives approved by the Italian government should enable the two companies that are still active (Bio Energia Guarmino Srl and Biogen Chivasso Srl) to be at least self-financing in 2014. The third group company (Bio Elettricità Occimiano Srl) is no longer operating: negotiations regarding the sale of the company's assets are already under way with other parties.

In view of the difficult market situation, the activity of AET relating to CEG SpA and subsidiaries is focused on reorganising the group through sales or divestments where appropriate.

### **Metanord SA**

Operations at Metanord SA have been proceeding as planned both in respect of the gas network construction, which is growing at a rate of around 25 km per year, as well as in relation to customers. At the end of 2013 a total of 82 km of network had been laid (of which 50 km under gas) supplying more than 200 customers, with contracts signed with 620 further users.

Important efforts have also been made in the area of communication, with the aim of enhancing the perception of the company and its services by the population and potential customers.

### **Parco eolico del San Gottardo SA**

In December, the Municipal Council of Airolo approved the Development Plan variant, the Detailed Plan for the St. Gotthard Zone (DPSG) and the Phase 1 Environmental Impact Report (RIA 1). The Council of State expressed a positive view of these at the start of 2014. Two appeals were filed by Società Ticinese Arte e Natura (STAN) and Fondazione Pro San Gottardo, which will delay the processing of the construction application and the start of work, which had initially been scheduled for the summer of 2015. Meanwhile, an 80 meters antenna has been installed on the St. Gotthard pass, which will collect further data on wind conditions over a full year, providing the information necessary in order to determine whether the wind turbines proposed are suitable.

### **Renewable Energy Investments SPC (REI)**

The main investments of REI consist of two wind farms in Greece: the Mitikas farm and the Makedonias farm, both of which are connected to the Greek national grid.

AET holds a stake of around 20% in REI, which is recognised in its balance sheet with a residual net value that takes into account a potential value impairment incurred in 2013 (at the time this report was completed, the revised financial statements of REI were not yet available).

### **SES Holding Ltd**

PRH Holding Ltd, subsequently renamed SES Holding Ltd, was founded in May by AET and the municipalities of Biasca, Gambarogno, Locarno, Losone, Minusio and Muralto with the intention of acquiring the shareholding held by Alpiq Ltd in Società Elettrica Sopracenerina (SES) SA.

The acquisition of the shareholding held by Alpiq Ltd, representing 60.89% of SES shares, was executed at the start of July. In September, SES Holding Ltd launched a public takeover offer for the outstanding SES shares, which enabled it to obtain a controlling interest of more than 98%. Following this result, SES Holding initiated a "squeeze-out" process, which will enable it to merge SES Holding Ltd with SES SA at a later date.

The process leading to the participation in SES SA of the municipalities within its distribution area, are going to be executed in 2014.



**TERIS Teleriscaldamento del Bellinzonese SA**

The excavation work for the completion of the Giubiasco Nord segment towards Bellinzona, which is around 3 km long, continued in 2013. Numerous new customers were acquired and a framework supply contract is being discussed with the Canton.

**Terravent AG**

At the end of the year Terravent AG, a company established by six Swiss electricity groups for the purpose of investing in wind power plants in Europe, concluded the purchase of its fourth wind farm, which is located in north-east France in the Champagne-Ardenne region. This facility will guarantee production of around 63 GWh per year, concluding the first round of investments planned by the company.

**Trianel Kohlekraftwerk Lünen GmbH & Co. KG (TKL)**

In July, the Lünen plant was formally handed over to TKL by the construction consortium, subsequently starting a test phase of commercial production. The missing licenses were granted in November and the plant is now in ordinary commercial service, although an appeal against the last licence issued has been announced.

# Report on activities forecast for the next two years

## AET and the future of the market

This report summarises the issues of greatest importance, which may be addressed in detail by the parliamentary committees charged with examining the activities of AET.

### Company management

2014 will see important changes within the Board of Directors, including first and foremost the Chairman: after six years of intense work, the office term of the current Chairman Fausto Leidi will end in June 2014, having reached the maximum limit specified in the AET Organisational and Management Regulations. The Board of Directors and the management team extend their heartfelt thanks to Chairman Fausto Leidi for his excellent work over these years, including the initial years which were characterised by significant disruption and a substantial reorganisation of the company's governance framework.

The organisational structure and company management rules adopted over the years have been broadly consolidated and do not require substantial adjustments in the short term. The company has organised itself in order to ensure modern and efficient management, thanks to which fruitful contacts have been established with all governance bodies, within a climate of positive work and mutual trust. These positive relations will take on considerable importance over the coming years, when it will be necessary to face up to the financial difficulties that will affect all electricity producers.

### Company strategy

The company strategy presented to the State Council in February 2012 is under verification and will be updated in the first half of 2014. Initial results essentially confirm the validity of the strategy pursued in the past.

AET intends to focus its resources and operations on four pillars:

- electricity (100% renewable by 2050)
- the cantonal electricity grid
- thermal energy
- services to third parties.

These four fields of activity will have to be reinforced through strategic cooperation with other electricity companies in the Canton.

The company strategy takes into account the requirements and policy decisions set out in the Cantonal Energy Plan (PEC), as well as the Federal 2050 Energy Strategy.

AET wants to cooperate with other players in the Ticino electricity market with the aim of creating a strong hub able to meet the challenges of the liberalisation. Distributors will be the primary partners in this cooperation; in this regard, the acquisition of the SES shareholding represents a fundamental step. It is forecast that during 2014/2015, the municipalities within the SES distribution area will buy a stake from AET so as to raise their shareholding to 70%. AET would therefore be left with a stake of 30%; whilst this is a minority interest compared to the municipalities as a whole, AET will be the reference shareholder for the company, also due to its own technical and commercial expertise.

Within the future electricity market, which will have been fully liberalised, cooperation between the companies operating within the Canton will be decisive. Leaving aside the inevitable thinning of profit margins caused by competition, the lack of a shared plan will only result in the loss of market share, to the benefit of suppliers from north of the Alps. In view of the above, AET supports the policy of the DFE, which has promoted a study of the cantonal electricity market and advocates its reorganisation. AET considers it necessary to establish cooperations with the Ticino distributors in all possible fields – not only in the procurement and sale of energy, but also in relation to services, the electricity grid and the thermal energy sector – in order to provide a coordinated response to pressures from the liberalised market with a united front.

AET has participated in the working group promoted by the DFE on the reform of the LAET, which will be focused above all on aspects of company management. AET cannot fail to point out that the LAET must be also updated in line with higher-ranking legislation. The current limit restricting the scope of AET operations to the production and sale of energy must be reviewed in order to enable it to become directly involved in distribution, if necessary.

### **Participations in hydroelectric plants and return to public control**

The participation in the Ritom plant represents a further essential building block for the company's future. During 2014 the cantonal parliament will be asked to issue a licence to a new company, owned by Swiss Federal Railways (75%) and the Canton (25%). Along with Swiss Federal Railways, AET is of the view that the project submitted is sustainable under current market conditions. It is one of the few new pumping-turbine plants in Switzerland that will be capable of achieving positive short-term results, despite the economic difficulties affecting the electricity sector. Other important projects promoted by the major electricity companies operating in Switzerland are in fact encountering significant difficulties, which would have been totally inconceivable until a few years ago.

From the long-term perspective, AET is counting on the return to the Canton of the plants licensed to "Partnerwerke" in the middle of the last century. In accordance with the PEC, the Canton will exercise its own rights to regain possession of the water exploited by the "Maggia" and "Blenio" plants. In view of the cantonal parliament's positive decision on the Lucendro plant in 2013, AET is confident that all authorities and services involved will pursue a policy of defending cantonal interests.

Given the extremely difficult market situation, the hydroelectric plants "Dalpe 2" and "Val d'Ambra 2" and a potential new pumping-turbine plant in Verzasca are no longer included in short-term investment plans. These projects could in fact be operated at a cost competitive with that of other projects already at implementation stage in Switzerland. However, in view of the investments estimated and the long amortisation periods envisaged, they would not be profitable under current market conditions.



At the end of the decade, with the planned definitive shutdown of nuclear power in Germany and the three Swiss power stations in Muehleberg and Beznau 1 and 2, the situation will most probably be different and the projects mentioned may be reassessed.

### **Trade**

AET intends to consolidate its presence on the reference markets (in countries bordering on Switzerland). As regards AET Italia, it will have to consolidate its portfolio in order to achieve an ideal critical mass.

In Switzerland, its presence outside the canton needs to be stepped up in order to offset the turnover lost in Ticino (due to end customers and distributors who choose to buy from other producers). Thanks to its experience and know-how built up over the years, the AET sales department is able to respond to calls for tenders for supplying north of the Alps, mindful of the rules of the game and with a few trump cards up its sleeve. Ultimately, however, whether or not particular supply contracts are awarded is also dependent upon political decisions, which are outside the control of AET.

### **Grid**

As required for under federal law, AET sold its own ultra-high voltage transmission grid to Swissgrid AG, which now controls the entire national grid (220/380 kV). Design, management and maintenance of its transmission grid will still be attended to by AET staff, acting under a mandate from Swissgrid AG. Despite fierce competition, AET has secured the award of all maintenance orders contracted out by Swissgrid AG south of the Alps until 2019.

It is important to underscore the excellent cooperation with Swissgrid AG, which has enabled AET to establish itself as a privileged partner in all matters relating to the transmission grid south of the Alps, including grid-enhancing projects to be implemented in the near future in order to guarantee grid stability and the quality of supply.

In parallel, AET will continue to manage its own regional transmission grid along with the distribution grid within its own distribution area, in particular along national roads. Moreover, it will continue to offer specialist services to local grid operators relating to the management of their infrastructure.

## **Electricity production**

### **St. Gotthard wind farm and wind farms outside Ticino**

The St. Gotthard wind farm already benefits from a federal guarantee to purchase energy produced for the next 20 years. AET has resumed the entire authorisation procedure and intends to invest as soon as it has secured all permits necessary for the construction of the St. Gotthard wind farm.

As regards its involvement in wind farms in Switzerland and abroad, AET has relied on the company Terravent AG, acting in partnership with other Swiss public electricity companies. Taking account of the wind production portfolio of AET, no further short-term investments are planned in this energy carrier.

### Photovoltaic plants

AET has established its own centre of expertise, specialising in the development of large-scale photovoltaic plants. Some projects have been developed in conjunction with distributors, whilst in other cases AET has acted independently, by agreement with the owners of the buildings on which the plants are installed.

AET also intends to follow this course into the immediate future, limiting its action to the construction of large-scale installations capable of ensuring profitability for capital invested.

### Corporate hydroelectric plants

With the exception of the Ponte Brolla power station, which was fully modernised in 2002, the Leventina power stations date back several decades (the original equipment in the Piottino power station, part of which is still in service, dates back to the 1930s). The market conditions forecast for the coming years allow the planning of "maintenance" investments, so as to ensure that the plants remain reliable and safe, but no modernisation work.

### Other technologies

AET is carefully following all initiatives promoted within the canton and is involved through either direct or indirect participation. Projects relating to wood-fired thermal stations currently in the design stage (in Losone) or the execution stage (in Olivone) are being followed and promoted through Calore SA.

AET considers that the time is not yet ripe for geothermal energy. The results obtained from the major projects in Basel (with the involvement of AET) and St. Gallen (without AET) show that technology must be developed further. For the time being, AET does not intend to invest any further resources in this carrier.

Considering the above, it was decided to freeze the TiGeo project. The results of the explorations carried out did not yield any tangible grounds for supposing that any industrial exploitation of the thermal potential of the subsoil would be feasible in the immediate future, and they did not point to the existence of any usable gas reserves.

### Conclusion

The "report on activities forecast" from spring 2012 already pointed to changes under way in the electricity sector. These changes were regarded as being "like never before: radical changes in energy policies on both national and international level, low market prices (at that time expected only for a limited period), stagnant or decreasing consumption due to climatic effects and the international crisis."

Two years later, power generation companies would certainly state that "there is no limit to the bad news": due to the various factors, prices have fallen lower than they've been in recent decades, knocking out various "traditional" production plants (including thermal plants and hydroelectric plants). AET has also been suffering under this market situation, due to which the company's generation units are no longer competitive on the market. Within this context, particular attention is being given to the Lünen power station, above all with a view to reducing production costs and future risks. For this reason, AET is actively cooperating with other German partners at the power station, whilst also pursuing negotiations with business counterparties focused on the sale or exchange of energy generated.

It is expected that there will still be several more difficult years to come. A recovery in prices is not around the corner (though could follow the decommissioning of nuclear power stations in several years' time), also due to the fact that European governments are committed to subsidising renewable energies over a number of years; this has led to a distortion in the market, with a glut of energy compared to demand and a resulting collapse in prices.

Within this difficult context, AET has updated its corporate strategy and is targeting secure and sustainable supply, with the objective of 100% renewables by 2050. The renovation and (medium-term) enhancement of capacity of existing hydroelectric plants and the return to public ownership of those for which licences will have expired will enable cantonal watercourses to be exploited in future for the benefit of Ticino and its residents. Taking account of the market situation, investments in renewable energy generating plants will be focused above all on those that will be able to post positive results in the short-term (thanks to subsidies resulting from federal and cantonal incentives).

AET intends to contribute to improving energy efficiency and reducing consumption, starting from within the company. Construction will soon be completed of the new company headquarters, which will be fully compliant with Minergie standards. This will enable a significant reduction in energy consumption and staff transfers from one company location to another. The full redevelopment of the "control" building for the Nuova Biaschina power station is also planned.

AET intends to cooperate actively with the DFE and the Cantonal Council in order to implement the necessary reform of the LAET in relation both to governance and the company's operations. As regards relations with regional distributors, AET is contributing to the extensive efforts by the DFE at reorganising the cantonal electricity sector, with the aim of creating a cantonal energy hub that embraces all actors in order to engage adequately with the challenges raised by the complete liberalisation of the market. AET considers cooperation with all distributors as indispensable.

The objective of 100% renewable energy is demanding, above all within the current market situation. Nevertheless, with a full awareness of the difficulties on the horizon, AET is willing to meet the challenge, along with the opportunities which will arise within an electricity market undergoing major transformation.





## Proposal for allocation of profit

The Board of Directors, in accordance with LAET article 18 (respectively CO article 671, Paragraph 2) and LAET article 19, proposes to allocate the profit as follows:

In CHF 1,000	
Profit for the year 2013	3,516
+ profit carryover at the beginning of the financial year	422
<b>Profit available for allocation</b>	<b>3,938</b>
– to the State: 8% interest on the endowment capital	–3,200
– devolution to the State	–10,000
+ withdraw from retained earnings	9,300
<b>Carryovers in the new financial year</b>	<b>38</b>

On the basis of the documentation submitted we ask the State Council and the Grand Council, for ratification of:

- the Report of the Board of Directors for the year 2013;
- the Financial statements for the year 2013;
- the proposal for allocation of profit;

granting the discharge to the directors, the management and the auditor's office for their activity.







# Consolidated financial statements

# Consolidated balance sheet

## Assets

		31.12.2013	31.12.2012
In CHF 1,000	Notes		
Operating plants and equipment		465,734	254,361
Land and buildings		49,638	38,182
Tangible fixed assets under construction		42,509	40,426
Tangible fixed assets on lease		2,516	1,870
Other tangible fixed assets		3,888	1,305
<b>Tangible fixed assets</b>	2	<b>564,285</b>	<b>336,144</b>
Participations in associates	3	17,491	18,937
Long-term securities	4	48,000	64,028
Advances and loans to participations	5	34,696	20,685
Other financial assets	6	3,962	4,939
<b>Financial assets</b>		<b>104,149</b>	<b>108,589</b>
Plant and equipment use rights		6,556	7,036
Energy procurement rights		91,755	104,241
Intangible assets under construction		2,492	1,991
Other intangible assets		7,239	4,104
<b>Intangible assets</b>	7	<b>108,042</b>	<b>117,372</b>
<b>Total Non-current assets</b>		<b>776,476</b>	<b>562,105</b>
Receivables from goods and services	8	176,465	166,336
Other short-term receivables	9	19,759	6,922
Inventories	10	38,532	12,849
Prepayments and accrued income	11	68,497	58,230
Cash and cash equivalents	12	84,915	62,815
<b>Total Current assets</b>		<b>388,168</b>	<b>307,152</b>
<b>Total Assets</b>		<b>1,164,644</b>	<b>869,257</b>

## Liabilities and equity

		31.12.2013	31.12.2012
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
Conversion differences		-2,623	-3,595
Retained earnings		372,616	365,997
Profit for the year		12,106	21,117
<b>Equity attributable to AET</b>		<b>422,099</b>	<b>423,519</b>
Minority interests		31,142	4,111
<b>Total Group equity</b>		<b>453,241</b>	<b>427,630</b>
Long-term provisions	13	35,776	20,634
Other long-term liabilities		2,651	-
Long-term financial liabilities	14	437,682	229,846
<b>Long-term liabilities</b>		<b>476,109</b>	<b>250,480</b>
Payables from goods and services	15	90,112	105,979
Short-term financial liabilities	16	48,050	27,170
Other short-term liabilities	17	19,921	4,859
Accrued liabilities and deferred income	18	68,908	46,845
Short-term provisions	13	8,303	6,294
<b>Current liabilities</b>		<b>235,294</b>	<b>191,147</b>
<b>Total Liabilities</b>		<b>711,403</b>	<b>441,627</b>
<b>Total Liabilities and equity</b>		<b>1,164,644</b>	<b>869,257</b>



## Consolidated income statement

		2013	2012
In CHF 1,000	Notes		
<b>Operating income</b>			
Energy sales	19	883,310	1,167,991
Grid income		182,119	136,554
Other operating income	20	21,718	11,706
<b>Total Operating income</b>		<b>1,087,147</b>	<b>1,316,251</b>
<b>Operating expenses</b>			
Energy purchase	21	-796,241	-1,077,727
Grid expenses		-127,536	-103,314
Personnel expenses	22	-40,078	-27,883
Services and material		-10,815	-11,723
Depreciation on tangible fixed assets		-20,686	-14,997
Amortisation on intangible assets		-8,888	-10,216
Other depreciation and amortisation		-161	-158
Other operating expenses	23	-31,883	-29,917
<b>Total Operating expenses</b>		<b>-1,036,288</b>	<b>-1,275,935</b>
<b>Operating result</b>		<b>50,859</b>	<b>40,316</b>
Financial result	24	-8,659	-7,610
Result from associates	3	2,467	1,576
<b>Ordinary result</b>		<b>44,667</b>	<b>34,282</b>
Non-operating result		-17	4
Extraordinary result	25	-29,896	-13,356
<b>Profit before income taxes</b>		<b>14,754</b>	<b>20,930</b>
Income taxes		-2,080	60
<b>Group profit for the year</b>		<b>12,674</b>	<b>20,990</b>
Minority interests		-568	127
<b>Profit for the year attributable to AET</b>		<b>12,106</b>	<b>21,117</b>

## Consolidated cash flow statement

	2013	2012
In CHF 1,000		
Profit for the year	12,106	21,117
Minority interests to income statement	568	-127
Depreciation on tangible fixed assets	20,686	14,997
Amortisation on intangible assets	8,888	10,216
Other depreciation and amortisation	161	158
Change in long-term provisions	6,686	2,338
Change in impairments	33,540	14,195
Profit / loss from disposal of non-current assets	-134	-62
Result from associates	999	-1,576
Other non cash expenses and income	656	-170
<b>Cash flow before change in net current assets</b>	<b>84,156</b>	<b>61,086</b>
Change in receivables, inventories and prepayments and accrued income	-7,396	-12,125
Change in liabilities and accrued liabilities and deferred income	-3,227	-13,975
Change in short-term provisions	-2,554	119
<b>Cash flow from operating activities</b>	<b>70,979</b>	<b>35,105</b>
Outflows for investment in tangible fixed assets	-34,318	-26,891
Inflows from disposal of tangible fixed assets	12	418
Outflows for investment in intangible assets	-1,291	-837
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-11,184	-17,024
Inflows from disposal of financial assets	3,059	5,821
Acquisition of consolidated organisations, less cash	-120,368	-
<b>Cash flow from investing activities</b>	<b>-164,090</b>	<b>-38,513</b>
Issuance / repayment of short-term financial liabilities	10,059	5,368
Issuance / repayment of long-term financial liabilities	122,070	10,651
Payment of capital of minority shareholders of subsidiaries	-	3,520
Interests on capital due to the State	-3,200	-3,200
Distribution of profit to the State	-13,800	-11,000
<b>Cash flow from financing activities</b>	<b>115,129</b>	<b>5,339</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>62,815</b>	<b>60,884</b>
<b>Cash flow</b>	<b>22,018</b>	<b>1,931</b>
Conversion differences on cash and cash equivalents	82	0
<b>Cash and cash equivalents at the end of the year</b>	<b>84,915</b>	<b>62,815</b>

## Statement of changes in consolidated equity

	Endowment capital	Conversion differences	Retained earnings	Profit for the year	Equity attributable to AET	Minority interests	Total Group Equity
In CHF 1,000							
<b>Equity at 01.01.2012</b>	<b>40,000</b>	<b>-3,196</b>	<b>363,171</b>	<b>16,989</b>	<b>416,964</b>	<b>318</b>	<b>417,282</b>
Allocation of profit	-	-	16,989	-16,989	0	-	0
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of profit to the State	-	-	-11,000	-	-11,000	-	-11,000
Capital increase	-	-	-	-	0	3,920	3,920
Conversion differences	-	-399	37	-	-362	-	-362
Change in consolidation scope	-	-	-	-	0	-	0
Offset goodwill	-	-	-	-	0	-	0
Profit for 2012	-	-	-	21,117	21,117	-127	20,990
<b>Equity at 31.12.2012</b>	<b>40,000</b>	<b>-3,595</b>	<b>365,997</b>	<b>21,117</b>	<b>423,519</b>	<b>4,111</b>	<b>427,630</b>
Allocation of profit	-	-	21,117	-21,117	0	-	0
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of profit to the State	-	-	-13,800	-	-13,800	-	-13,800
Capital increase	-	-	-	-	0	-	0
Conversion differences	-	972	-333	-	639	-182	457
Change in consolidation scope	-	-	925	-	925	26,645	27,570
Offset goodwill	-	-	1,910	-	1,910	-	1,910
Profit for 2013	-	-	-	12,106	12,106	568	12,674
<b>Equity at 31.12.2013</b>	<b>40,000</b>	<b>-2,623</b>	<b>372,616</b>	<b>12,106</b>	<b>422,099</b>	<b>31,142</b>	<b>453,241</b>



# Notes to the consolidated financial statements

## 1. Accounting principles

The consolidated financial statements 2013 of the Azienda Elettrica Ticinese Group (AET Group) were prepared in accordance to the Swiss GAAP FER as a whole and approved by the Board of Directors on the 29.04.2014.

### 1.1. Consolidation principles

#### 1.1.1. Companies consolidated according to the full consolidation method

The following controlled companies, in which AET holds the majority of the voting rights, were consolidated with the full consolidation method:

Subsidiaries <sup>1</sup>	Currency	Nominal capital	Holding	Holding
		at 31.12.2013	at 31.12.2013	at 31.12.2012
		in 1,000	%	%
AET CoGen Srl	EUR	100	100.00	100.00
AET Idronord Srl	EUR	433	90.00	90.00
AET Italia Holding Srl	EUR	4,836	100.00	100.00
AET Italia SpA	EUR	4,000	100.00	100.00
Bio Elettricità Occimiano Srl (BEO) <sup>2</sup>	EUR	50	79.88	50.00
Calore SA <sup>4</sup>	CHF	2,000	90.55	48.90
CEG SpA <sup>2</sup>	EUR	6,700	79.88	50.00
Parco Eolico del San Gottardo SA	CHF	1,000	70.00	70.00
Senco Holding SA <sup>4</sup>	CHF	150	92.59	50.00
Senco Sagl <sup>4</sup>	CHF	220	92.59	50.00
SES Holding Ltd <sup>3</sup>	CHF	50,000	99.50	–
Società Elettrica Sopracenerina SA (SES) <sup>4</sup>	CHF	16,500	85.18	–
Società Locarnese di partecipazioni immobiliari SA <sup>4</sup>	CHF	2,064	84.71	–
SPE Società per Partecipazioni Energetiche SA	CHF	8,000	100.00	100.00
TERIS Teleriscaldamento del Bellinzonese SA	CHF	10,000	60.00	60.00

<sup>1</sup> Direct and indirect subsidiaries

<sup>2</sup> Consolidated the first time on the 10.01.2013

<sup>3</sup> Consolidated the first time on the 27.05.2013

<sup>4</sup> Consolidated the first time on the 09.07.2013

All consolidated companies have closed their financial year on the 31.12.2013.

At the time of acquisition, all net assets acquired are valued at fair value. Any difference between the acquisition price and the value of the net assets acquired is recognised as consolidation difference and immediately compensated with group equity. All transactions between the Group companies and the related income and expenses were eliminated in the consolidation process. For participations in which the AET Group holds less than 100%, the minority interests in the group equity and in the group profit are reported as separate items on the balance sheet and income statement.

### 1.1.2. Changes in consolidation scope

During 2013 the following changes in consolidation scope of the AET Group have incurred:

- On the 03.01.2013 AET has completed the sale of AET NE1 SA to Swissgrid AG.
- On the 10.01.2013 AET Group subscribed a capital increase of CEG SpA, raising its participation to 79.88% (before 50%). CEG SpA and its 100% subsidiary Bio Elettricità Occimiano Srl (BEO), included until 2012 in the group financial statements according to the equity method, have been consolidated for the first time in 2013.
- On the 27.05.2013 AET has subscribed 99.5% of the capital of the newly incorporated SES Holding Ltd (at the constitution time PRH Holding Ltd). On the 09.07.2013 SES Holding Ltd acquired 60.9% of the share capital of the Società Elettrica Sopracenerina SA (SES). With this acquisition the following companies became part of AET Group:
  - Società Elettrica Sopracenerina SA (SES), Locarno;
  - Società Locarnese di Partecipazioni e Immobiliare SA (SAP SA), Locarno;
  - Calore SA, Locarno (before held at 48.9% by AET and included in the group financial statements according to the equity method);
  - Senco Holding SA, Locarno (before held at 50% by AET and included in the group financial statements according to the equity method);
  - Senco Sagl, Locarno (before held at 48.9% by AET and included in the group financial statements according to the equity method).

No change incurred in the AET Group's consolidation scope in 2012.

The key balance sheet positions at the time of disposal or of acquisition / subscription of those companies present as follows:

	AET NE1 SA	CEG SpA	BEO Srl	SES Holding Ltd	SES SA
	CHF 1,000	EUR 1,000	EUR 1,000	CHF 1,000	CHF 1,000
Non-current assets	11,407	1,367	5,444	–	227,707
Current assets except cash	2,372	16,732	197	–	46,183
Cash and cash equivalents	–	250	321	100	10,767
<b>Total assets</b>	<b>13,779</b>	<b>18,349</b>	<b>5,962</b>	<b>100</b>	<b>284,657</b>

Equity	4,546	–4	50	100	144,269
Long-term liabilities	3,739	8,506	4,400	–	106,257
Current liabilities	5,494	9,847	1,512	–	34,131
<b>Total liabilities and equity</b>	<b>13,779</b>	<b>18,349</b>	<b>5,962</b>	<b>100</b>	<b>284,657</b>

	Calore SA	Senco Holding SA	Senco Sagl	SAP SA
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Non-current assets	3,227	416	–	27,271
Current assets except cash	516	36	128	292
Cash and cash equivalents	1,837	136	138	2,219
<b>Total assets</b>	<b>5,580</b>	<b>588</b>	<b>266</b>	<b>29,782</b>

Equity	3,242	282	190	29,287
Long-term liabilities	2,096	300	–	–
Current liabilities	242	6	76	495
<b>Total liabilities and equity</b>	<b>5,580</b>	<b>588</b>	<b>266</b>	<b>29,782</b>

### 1.1.3. Companies included according to the equity method

The shareholdings in companies over which the AET Group exercises significant influence but no control are included in the Group consolidated financial statements according to the equity method (recognition of the share of shareholder's equity and net profit, with neutral treatment of the differences attributable to exchange rate fluctuations).

As for the fully consolidated companies, any positive or negative difference between acquisition price and the value of the net assets acquired is immediately compensated with group equity without impact on the result of the period.

Associates <sup>1</sup>	Currency	Nominal capital	Holding at 31.12.2013	Holding at 31.12.2012
		in 1,000	%	%
Bio Energia Guarcino Srl (BEG)	EUR	1,100	39.94	25.00
Biogen Chivasso Srl	EUR	20	39.94	25.00
Biomassa Blenio SA	CHF	300	29.88	16.14
Energie Rinnovabili Losone (ERL) SA	CHF	2,700	28.39	–
Enerti SA	CHF	200	28.15	–
Metanord SA	CHF	18,594	37.06	30.95
Nord Energia SpA	EUR	10,200	40.00	40.00
Quadra Srl	EUR	20	50.00	50.00
SES Controlli Sagl	CHF	20	34.07	–

<sup>1</sup> Direct and indirect associates

### 1.1.4. Other participations

The shareholdings in companies over which AET does not exercise significant influence are valued at their cost value adjusted for any impairment.

### 1.1.5. Conversion of financial statements held in foreign currency

The consolidated financial statements are reported in thousands of Swiss francs (CHF 1,000). The assets and liabilities of foreign subsidiaries are converted at the balance sheet date exchange rates. The income statement figures are converted at the yearly average exchange rates.

Conversion differences are recorded within the Group equity, without impact on the result of the year.

Exchange rates applied (CHF / EUR)	2013	2012
Exchange rate on the closing date 31.12	1.2255	1.2068
Average exchange rate	1.2308	1.2053

## 1.2. Accounting principles

Assets and liabilities are valued with uniform principles. The most significant accounting principles are:

### 1.2.1. Tangible fixed assets

Tangible fixed assets are valued on the basis of the acquisition or construction cost, taking into account the necessary technical-economical depreciation and any necessary impairment. Depreciation is computed on a straight-line basis, considering the technical life of the assets generally accepted within the sector.

Land is not depreciated. Buildings are valued at their acquisition or construction cost and depreciated like operating plant and equipment. Operating equipment is depreciated on the basis of its useful life. Tangible fixed assets under construction are reported at construction cost, with no interest capitalisation. Tangible fixed assets under construction are not depreciated. The minimum and maximum depreciation periods for each tangible fixed asset category are as follows:

Civil work	40 – 75 years
Electromechanical installations	20 – 50 years
Electromechanical equipments	10 – 35 years
Power grids	30 – 55 years
Substations and transformation plants	20 – 35 years
Buildings	40 – 50 years
Photovoltaic plants	12 – 25 years
Machinery and tools	4 – 25 years
Vehicles	3 – 10 years
IT equipments	3 – 5 years

Renewal or optimisation investments on plants are capitalised if the useful life, the performance or the quality of the involved plant are significantly improved. Tangible fixed assets acquired through financial leases are capitalised and the corresponding liabilities reported as financial liabilities.

### 1.2.2. Financial assets

Financial assets are reported at their cost value, adjusted for any impairment. Long-term advances in foreign currency are converted at the lower of year-end or acquisition exchange rates.

### 1.2.3. Intangible assets

Intangible assets are capitalised at their acquisition cost adjusted by amortisation and any necessary impairment. Plants and equipment usage rights refer to energy transmission on third party gridlines. They are amortised on a straight-line basis taking into account the contractual agreements and the technical life of the plant (40-75 years); the energy procurement rights are straight-line amortised on the basis of their useful life (10-20 years); other intangible assets are straight-line amortised on the basis of their useful life.

### 1.2.4. Receivables

Receivables are reported at their face value, taking into account potential losses.

Foreign currency receivables are converted at the year-end exchange rates.



### 1.2.5. Inventories

Inventories include small tools, spare parts and energy related certificates. Inventories are valued at the lower of weighted average purchase price or market value. The carrying value of inventories is adjusted for slow-moving items.

### 1.2.6. Cash and cash equivalents

Cash and cash equivalents are reported at their face value and include cash in hand, post and bank accounts as well as term deposits with banks with duration of less than three months. Balances in foreign currency are converted at year-end exchange rates.

### 1.2.7. Impairment

At each balance sheet date, all assets are tested for indicators of impairment. In case of existence of such indicators, the recoverable amount, the higher of the net selling price and the value in use, is computed. The value in use is generally computed on the basis of the expected future cash flows. If necessary, the carrying value is adjusted to the recoverable amount. In case of improvement of the recoverable amount the carrying value is revaluated at maximum to the value according to the planned depreciation scheme.

### 1.2.8. Provisions

Provisions are deemed to cover probable future disbursements related to legal or implicit obligations and to events of the past. Long-term provisions are reported at the present value on the balance sheet day of the expected future disbursement.

### 1.2.9. Liabilities

All liabilities are reported at their nominal value. Liabilities in foreign currency are converted at year-end exchange rates.

### 1.2.10. Off-balance-sheet transactions

All contingent liabilities and other non-recognisable commitments existing at the balance sheet date are disclosed in the notes to the consolidated financial statements.

### 1.2.11. Income

Revenues are recorded in the income statement at the moment of the settlement of the delivery. They are recorded net of price reduction, sales taxes and value added taxes. All energy sale operations relate to physical energy deliveries.

### 1.2.12. Pension funds

Pension benefits for employees hired by Swiss entities are covered by autonomous pension funds. The financial implications of the pension schemes in place, regardless of their structure and legal form, are included in the consolidated financial statements. Surplus payments or deficits are determined on the basis of the latest available financial statements of the pension funds involved. Any liabilities (economic obligations) or any assets (economic benefits) in addition to the payment of the regular premiums are recorded in the financial statements. Economic obligations are recognised when pension liabilities are undercovered, generating a cash outflow for the company in the form of restructuring contributions. Economic benefits consists of possible future positive cash flow resulting from the use of employer's contribution reserves or other benefits.

The personnel employed in Italy are covered for pension according to the ordinary Italian pension scheme. The Group companies operating abroad thus have no obligation or benefit related to the pension schemes, which are not recorded in the financial statements.

The yearly contributions, the yearly change in any economic obligations and economic benefits, as well as the change in the employer's contribution reserve, are recorded in the income statements under personnel expenses.

### 1.2.13. Income taxes

Income tax expense includes all current and deferred taxes. Deferred taxes arise from valuation differences between the tax financial statements and the financial statements used for consolidated reporting purposes. AET is not subject to any direct tax.

### 1.2.14. Related party transactions

Transactions with associates include all transactions and debit / credit relationships with companies in which AET holds between 20% and 50% of the voting rights and which have been included in the consolidated financial statements according to the equity method. Transactions with other related parties include transactions with the power generation / procurement companies Officine idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA, Verzasca SA held by the Canton Ticino as well as Kraftwerke Mattmark AG, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern and Trianel Kohlekraftwerk Lünen GmbH & Co. KG held by AET for less than 20%. AET takes the respective share of energy and covers the respective share of production / procurement costs.

## 2. Tangible fixed assets

	Operating plants and equipment	Land and buildings	Tangible fixed assets under construction	Tangible fixed assets on lease	Other tangible fixed assets	Total
In CHF 1,000						
<b>Cost value at 01.01.2012</b>	<b>549,722</b>	<b>44,690</b>	<b>30,509</b>	<b>18,613</b>	<b>7,909</b>	<b>651,443</b>
Change in consolidation scope	–	–	–	–	–	0
Reclassification	13,885	1,031	–15,860	–	29	–915
Additions	675	23	25,777	–	416	26,891
Disposals	–1,073	–227	–	–82	–173	–1,555
Conversion differences	–44	–3	–	–109	–2	–158
<b>Cost value at 31.12.2012</b>	<b>563,165</b>	<b>45,514</b>	<b>40,426</b>	<b>18,422</b>	<b>8,179</b>	<b>675,706</b>
Change in consolidation scope	433,965	14,257	26,266	986	9,925	485,399
Reclassification	42,289	1,218	–44,583	–	382	–694
Additions	12,775	322	20,427	–	794	34,318
Disposals	–3,533	–1,039	–27	–	–78	–4,677
Conversion differences	257	9	–	300	7	573
<b>Cost value at 31.12.2013</b>	<b>1,048,918</b>	<b>60,281</b>	<b>42,509</b>	<b>19,708</b>	<b>19,209</b>	<b>1,190,625</b>
<b>Accumulated depreciation at 01.01.2012</b>	<b>–292,861</b>	<b>–7,094</b>	<b>0</b>	<b>–13,813</b>	<b>–6,434</b>	<b>–320,202</b>
Change in consolidation scope	–	–	–	–	–	0
Reclassification	–	–	–	–	–	0
Depreciation	–13,403	–410	–	–645	–539	–14,997
Disposals	298	227	–	–	169	694
Impairments	–2,848	–56	–	–2,174	–71	–5,149
Conversion differences	10	1	–	80	1	92
<b>Accumulated depreciation at 31.12.2012</b>	<b>–308,804</b>	<b>–7,332</b>	<b>0</b>	<b>–16,552</b>	<b>–6,874</b>	<b>–339,562</b>
Change in consolidation scope	–257,254	–2,658	–	–498	–7,791	–268,201
Reclassification	–	–	–	–	–	0
Depreciation	–19,296	–630	–	–40	–719	–20,685
Disposals	3,600	–	–	–	78	3,678
Impairments	–1,359	–20	–	–	–12	–1,391
Conversion differences	–71	–3	–	–102	–3	–179
<b>Accumulated depreciation at 31.12.2013</b>	<b>–583,184</b>	<b>–10,643</b>	<b>0</b>	<b>–17,192</b>	<b>–15,321</b>	<b>–626,340</b>
<b>Net carrying amount at 01.01.2012</b>	<b>256,861</b>	<b>37,596</b>	<b>30,509</b>	<b>4,800</b>	<b>1,475</b>	<b>331,241</b>
<b>Net carrying amount at 31.12.2012</b>	<b>254,361</b>	<b>38,182</b>	<b>40,426</b>	<b>1,870</b>	<b>1,305</b>	<b>336,144</b>
<b>Net carrying amount at 31.12.2013</b>	<b>465,734</b>	<b>49,638</b>	<b>42,509</b>	<b>2,516</b>	<b>3,888</b>	<b>564,285</b>

The insured value of tangible fixed assets against fire risk amounts to CHF 872.5 million at 01.01.2014 (CHF 474 million at 01.01.2013). The value impairments refer to Italian power generation units and are due the deterioration of the market conditions to which they are exposed.

### 3. Participations in associates

<b>31.12.2013</b>	Equity	Holding	AET's share of the equity	AET's share of the profit
In CHF 1,000		%		
Bio Energia Guarcino Srl (BEG)	0	50.00	0	0
Biogen Chivasso Srl	0	50.00	0	0
Biomassa Blenio SA	270	33.00	89	-2
Energie Rinnovabili Losone (ERL) SA	2,111	33.33	704	-19
Enerti SA	205	33.05	67	7
Metanord SA	14,035	38.12	5,350	-133
Nord Energia SpA	28,010	40.00	11,204	2,977
Quadra Srl	0	50.00	0	0
SES Controlli Sagl	192	40.00	77	7
Terravent AG	-	-	-	-370
<b>Total</b>			<b>17,491</b>	<b>2,467</b>

<b>31.12.2012</b>	Equity	Holding	AET's share of the equity	AET's share of the profit
In CHF 1,000		%		
Calore SA	2,416	48.90	1,182	46
CEG SpA	0	50.00	0	0
Metanord SA	14,420	30.95	4,463	-356
Nord Energia SpA	28,783	40.00	11,513	2,273
Quadra Srl	0	50.00	0	0
Senco Holding SA	212	50.00	106	7
Terravent AG	7,818	21.40	1,673	-394
<b>Total</b>			<b>18,937</b>	<b>1,576</b>

The addition of associate companies in the AET Group financial statements is related to the consolidation of CEG SpA, which caused the equity method valuation of Bio Energia Guarcino Srl (BEG) e Biogen Chivasso Srl (before included in the values CEG SpA) and to the acquisition of Società Elettrica Sopracenerina SA (SES). At the end of 2013 Terravent AG increased its capital. AET only marginally subscribed this capital increase reducing its participation from 21.4% to 15%; the shareholding has therefore been reclassified within long-term securities.



## 4. Long-term securities

	31.12.2013	31.12.2012
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co. KG	38,178	38,178
./ impairment	-20,700	-
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-10,200	-8,700
Kraftwerke Mattmark AG	12,273	12,430
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Swissgrid AG	3,756	-
Terravent AG	2,250	-
Other	465	142
<b>Total</b>	<b>48,000</b>	<b>64,028</b>

The holding in Trianel Kohlekraftwerk Lünen GmbH & Co. KG is impaired because of the deterioration of the market conditions in which the power plant owned by the company operates.

The shares of Renewable Energy Investments SPC (REI) are valued at their historical cost. The impairment amount was determined on the basis of the latest available NAV information (31.12.2012) and of current financial and economical expectations; the increase of the impairment has been recorded as financial expense. The shareholding in Swissgrid AG, consisting of 1.7 million shares (corresponding to 0.64% of the share capital) has been subscribed in 2013 in the context of the disposal of AET NE1 SA to Swissgrid AG.

## 5. Advances and loans to participations

	31.12.2013	31.12.2012
In CHF 1,000		
Terravent AG	12,750	6,587
Metanord SA	11,300	7,500
Swissgrid AG	5,248	-
Nord Energia SpA	4,092	6,122
Other	1,306	476
<b>Total</b>	<b>34,696</b>	<b>20,685</b>

The advance to Swissgrid AG represents part of the payment for the disposal of AET NE1 SA; the advance is subordinated and underlies to mandatory convertibility in case of reduction of the grade of own capitalisation below certain limits defined by the Federal Electricity Commission (Elcom).

## 6. Other financial assets

	31.12.2013	31.12.2012
In CHF 1,000		
Advance to PurEnergy SA	1,708	1,620
Advance to Axpo Trading AG	630	1,426
Other	1,624	1,893
<b>Total</b>	<b>3,962</b>	<b>4,939</b>

The advance to PurEnergy SA is secured through the transfer of credits.

The advance to Axpo Trading AG was made within the context of an energy supply agreement on the Italian market.

## 7. Intangible assets

	Plant and equipment use rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2012</b>	<b>10,892</b>	<b>151,583</b>	<b>892</b>	<b>8,922</b>	<b>172,289</b>
Change in consolidation scope	–	–	–	–	0
Reclassification	103	–	812	–	915
Additions	47	–	327	463	837
Disposals	–160	–	–40	–68	–268
Conversion differences	–	–	–	–12	–12
<b>Cost value at 31.12.2012</b>	<b>10,882</b>	<b>151,583</b>	<b>1,991</b>	<b>9,305</b>	<b>173,761</b>
Change in consolidation scope	–1,473	–	–	8,973	7,500
Reclassification	306	–	–283	671	694
Additions	90	–	784	417	1,291
Disposals	–	–	–	–	0
Conversion differences	–	–	–	57	57
<b>Cost value at 31.12.2013</b>	<b>9,805</b>	<b>151,583</b>	<b>2,492</b>	<b>19,423</b>	<b>183,303</b>
<b>Accumulated amortisation at 01.01.2012</b>	<b>–3,720</b>	<b>–36,383</b>	<b>0</b>	<b>–4,111</b>	<b>–44,214</b>
Change in consolidation scope	–	–	–	–	0
Reclassification	–	–	–	–	0
Amortisation	–286	–8,759	–	–1,171	–10,216
Disposals	160	–	–	24	184
Impairments	–	–2,200	–	56	–2,144
Conversion differences	–	–	–	1	1
<b>Accumulated amortisation at 31.12.2012</b>	<b>–3,846</b>	<b>–47,342</b>	<b>0</b>	<b>–5,201</b>	<b>–56,389</b>
Change in consolidation scope	833	–	–	–5,725	–4,892
Reclassification	–	–	–	–	0
Amortisation	–236	–6,949	–	–1,703	–8,888
Disposals	–	–	–	–	0
Impairments	–	–5,537	–	472	–5,065
Conversion differences	–	–	–	–27	–27
<b>Accumulated amortisation at 31.12.2013</b>	<b>–3,249</b>	<b>–59,828</b>	<b>0</b>	<b>–12,184</b>	<b>–75,261</b>
<b>Net carrying amount at 01.01.2012</b>	<b>7,172</b>	<b>115,200</b>	<b>892</b>	<b>4,811</b>	<b>128,075</b>
<b>Net carrying amount at 31.12.2012</b>	<b>7,036</b>	<b>104,241</b>	<b>1,991</b>	<b>4,104</b>	<b>117,372</b>
<b>Net carrying amount at 31.12.2013</b>	<b>6,556</b>	<b>91,755</b>	<b>2,492</b>	<b>7,239</b>	<b>108,042</b>

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027) and an agreement for energy procurement from a german gas-fired power plant (termination 31.12.2027). Both contracts are impaired because of the adverse conditions on the reference markets.

## 8. Receivables from goods and services

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	15,389	910
Other related parties	90	30
Third parties	160,986	165,396
<b>Total</b>	<b>176,465</b>	<b>166,336</b>

The balance includes receivables in foreign currency for EUR 80 million (EUR 94.1 million at 31.12.2012).

## 9. Other short-term receivables

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	–	244
Other related parties	–	–
Third parties	19,759	6,678
<b>Total</b>	<b>19,759</b>	<b>6,922</b>

## 10. Inventories

	31.12.2013	31.12.2012
In CHF 1,000		
Stock and consumables	8,123	2,430
Energy related certificates	30,409	10,419
<b>Total</b>	<b>38,532</b>	<b>12,849</b>

The energy related certificates include stock in guarantees of origin for renewable energy as well as CO2 emission certificates. Energy related certificates are valued at the lower of cost or market.

## 11. Prepayments and accrued income

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	7,164	1,040
Other related parties	6,510	4,658
Third parties	52,789	50,675
Work in progress	2,034	1,857
<b>Total</b>	<b>68,497</b>	<b>58,230</b>

Work in progress refers to works in course of execution for third party customers.

## 12. Cash and cash equivalents

	31.12.2013	31.12.2012
In CHF 1,000		
Balances in CHF	69,086	46,428
Balances in foreign currency (at the end of year equivalent)	15,829	16,387
<b>Total</b>	<b>84,915</b>	<b>62,815</b>

All balances are freely available, with the exception of assets with equivalent value of CHF 5.7 million (CHF 5.5 million at 31.12.2012) deposited in foreign bank accounts in euro for the coverage of commercial transactions in international markets.

## 13. Provisions

	Onerous contracts	Indemnifications and plant decommissioning	Tax provisions	Other provisions	Total
In CHF 1,000					
<b>Carrying amount at 01.01.2012</b>	<b>3,500</b>	<b>13,762</b>	<b>44</b>	<b>7,166</b>	<b>24,472</b>
<i>thereof long-term</i>	3,500	13,762	0	1,035	18,297
<i>thereof short-term</i>	0	0	44	6,131	6,175
Change in consolidation scope	–	–	–	–	0
Increase	2,000	548	149	1,998	4,695
Utilisation	–	–	–3	–1,766	–1,769
Release	–	–	–45	–425	–470
<b>Carrying amount at 31.12.2012</b>	<b>5,500</b>	<b>14,310</b>	<b>145</b>	<b>6,973</b>	<b>26,928</b>
<i>thereof long-term</i>	5,500	14,310	0	824	20,634
<i>thereof short-term</i>	0	0	145	6,149	6,294
Change in consolidation scope	–	–	7,679	5,327	13,006
Increase	4,940	598	939	2,946	9,423
Utilisation	–	–	90	–1,484	–1,394
Release	–	–	–276	–3,608	–3,884
<b>Carrying amount at 31.12.2013</b>	<b>10,440</b>	<b>14,908</b>	<b>8,577</b>	<b>10,154</b>	<b>44,079</b>
<i>thereof long-term</i>	10,440	14,908	6,434	3,994	35,776
<i>thereof short-term</i>	0	0	2,143	6,160	8,303

The provision for the onerous contracts covers expected disbursements related to commitments of the AET Group. In 2013 the deterioration of the expected market conditions to which the activities of thermoelectric production in Italy are exposed required the increase of this position.

The provision for indemnifications and plant decommissioning covers the expected cost of indemnification related to the operation of Group's plants as well as the expected future cost of decommissioning AET plants at the end of their utilisation. The present value at the balance sheet date of the expected expense is computed by applying a 4% discount rate; the provision increase in the year reflects the impact of the discounting.



## 14. Long-term financial liabilities

	31.12.2013			31.12.2012		
	Financial debts	Debts for finance leases	Total	Financial debts	Debts for finance leases	Total
In CHF 1,000						
Liabilities due between 1 and 5 years	173,850	2,309	176,159	15,319	2,786	18,105
Liabilities due between 5 and 10 years	160,000	3,820	163,820	68,000	3,400	71,400
Liabilities due after 10 years	96,035	1,668	97,703	138,807	1,534	140,341
<b>Total</b>	<b>429,885</b>	<b>7,797</b>	<b>437,682</b>	<b>222,126</b>	<b>7,720</b>	<b>229,846</b>

## 15. Payables from goods and services

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	1,735	814
Other related parties	2,158	2,028
Third parties	86,219	103,137
<b>Total</b>	<b>90,112</b>	<b>105,979</b>

The balance includes payables in foreign currency for EUR 47.2 million (EUR 72.5 million at 31.12.2012).

## 16. Short-term financial liabilities

	31.12.2013	31.12.2012
In CHF 1,000		
Liabilities toward financial institutions in CHF	5,619	–
Liabilities toward financial institutions in foreign currency	42,431	27,170
<b>Total</b>	<b>48,050</b>	<b>27,170</b>

## 17. Other short-term liabilities

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	–	–
Other related parties	–	33
Third parties	19,921	4,826
<b>Total</b>	<b>19,921</b>	<b>4,859</b>

## 18. Accrued liabilities and deferred income

	31.12.2013	31.12.2012
In CHF 1,000		
Associates	3,504	124
Other related parties	–	697
Third parties	65,404	46,024
<b>Total</b>	<b>68,908</b>	<b>46,845</b>

## 19. Energy sales

	2013	2012
In CHF 1,000		
Energy sales in Ticino	212,219	201,159
Energy sales in Switzerland	107,222	97,267
Energy sales in Italy	304,959	545,327
Energy sales in Germany	183,152	257,925
Energy sales in France	32,696	49,035
Other income energy sales	43,062	17,278
<b>Total</b>	<b>883,310</b>	<b>1,167,991</b>

## 20. Other operating income

	2013	2012
In CHF 1,000		
Own costs capitalised	6,447	3,428
Income from services	10,072	4,724
Other	5,199	3,554
<b>Total</b>	<b>21,718</b>	<b>11,706</b>

## 21. Energy purchase

	2013	2012
In CHF 1,000		
Purchases from participations	–78,401	–46,048
Purchases in Ticino	–24,923	–31,079
Purchases outside of Ticino	–692,917	–1,000,600
<b>Total</b>	<b>–796,241</b>	<b>–1,077,727</b>

The costs related to the energy withdrawn from the production participation held by the State of Canton Ticino (Officine idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA and Verzasca SA) are included within purchases from participations.

## 22. Personnel expenses

	2013	2012
In CHF 1,000		
Salaries and other compensation	-32,015	-22,813
Social contributions	-7,848	-4,806
Other expenses	-615	-452
Recoveries from insurance companies	400	188
<b>Total</b>	<b>-40,078</b>	<b>-27,883</b>

## Employees of the Group

	31.12.2013	31.12.2012
Full time equivalent		
Permanent employees	394.3	222.3
Temporary auxiliary employees	17.2	12.4
Apprentices	24.0	13.0
<b>Total</b>	<b>435.5</b>	<b>247.7</b>

## 23. Other operating expenses

	2013	2012
In CHF 1,000		
Water fees to the Canton Ticino State	-11,358	-11,358
Local taxes and other contributions	-1,992	-2,093
Other	-18,533	-16,466
<b>Total</b>	<b>-31,883</b>	<b>-29,917</b>

## 24. Financial result

	2013	2012
In CHF 1,000		
Interest income	2,385	1,722
Income from participations	466	456
Other financial income	114	5
Exchange rate differences	846	427
Interest payments and commissions	-10,346	-7,836
Other financial expenses	-2,124	-2,384
<b>Total</b>	<b>-8,659</b>	<b>-7,610</b>

Other financial expenses include the impairment increase of the REI securities for CHF 1.5 million (2012: CHF 1.8 million).

## 25. Extraordinary result

	2013	2012
In CHF 1,000		
Reversal of impairments on non-current assets	1,484	345
Profit from disposal of non-current assets	205	62
Other extraordinary income	811	10
Impairments of non-current assets / provisions	-32,095	-12,336
Other extraordinary expenses	-301	-1,437
<b>Total</b>	<b>-29,896</b>	<b>-13,356</b>

The extraordinary result is particularly affected by the recording of the impairments and provisions due to the deterioration of the market conditions and of the regulatory framework to which certain group generating units are exposed.

The following table summarises the impairment charges recorded in 2013 by activity field.

### Impairments of non-current assets/provisions

	Tangible fixed assets	Intangible assets	Financial assets	Provisions	Total
In CHF 1,000					
Energy production Germany	-	-	-20,700	-	-20,700
Energy production Italy	-1,390	472	-	-4,940	-5,858
Contractual energy procurement France	-	-5,890	-	-	-5,890
Contractual energy procurement Germany	-	353	-	-	353
<b>Total</b>	<b>-1,390</b>	<b>-5,065</b>	<b>-20,700</b>	<b>-4,940</b>	<b>-32,095</b>

## 26. Goodwill

The positive differences between the acquisition cost of a participation and its equity value are treated as goodwill. It is offset with retained earnings with no impact on the result in the acquisition year.

If the goodwill paid were capitalised on the balance sheet and linearly amortised over 5 years, the consolidated balance sheet and the consolidated income statement would present the following variations:

	2013	2012
In CHF 1,000		
Historical cost	1,752	1,752
Goodwill	350	701
Equity (retained earnings)	350	701
Amortisation goodwill of the year	-350	-350
Profit	-350	-350



## 27. Contingent liabilities

### Guarantees

	31.12.2013	31.12.2012
In CHF 1,000		
Biogen Chivasso Srl	30,209	29,748
Bio Energia Guarcino Srl (BEG)	18,842	23,962
CEG SpA	–	14,361
<b>Total</b>	<b>49,051</b>	<b>68,071</b>

### Other commitments

	31.12.2013	31.12.2012
In CHF 1,000		
Acquisition of a stake in Parco eolico del San Gottardo SA	2,000	2,000
Squeeze-out minorities Società Elettrica Sopracenerina SA (SES)	2,073	–
<b>Total</b>	<b>4,073</b>	<b>2,000</b>

Guarantees are issued in favor of foreign financial institutions as security of financing facilities granted to group affiliates. The guarantees in favor of creditors of Biogen Chivasso and BEG relate to leasing contracts with residual debt as of 31.12.2013 of CHF 36.0 million.

## 28. Other non-recognisable commitments

In the context of the management of its energy portfolio, the AET Group has entered into transactions on the futures markets and finalised various long-term energy acquisition contracts with irrevocable obligation:

### Energy purchase contracts and market operations

	Market operations	Long-term contracts
Cumulative volume in CHF million		
2014	224	102
from 2 to 5 year	34	284
over 5 year	–	399

In addition AET Group is obliged to withdraw the energy produced by its own power generation participations and the participations of the Canton Ticino, paying its production cost quota. The duration of these obligations is undetermined and depends on the future developments of those participations.

Finally, the AET Group has entered into an interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 8.5 million (countervalue based on year end exchange rate and contract price index 2013).

As of 31.12.2013 the total amount of operating leasing not recognised on the balance sheet amounts to CHF 1 million (31.12.2012: none, the change is due to the change in consolidation scope); operating leasing expenses for 2013 amount to CHF 0.6 million.

## 29. Pension benefit obligations

	Coverage rate	Economic benefit/economic obligations for the Group	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
<b>31.12.2013</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	107.20%	–	–	–2,841	–2,841
Inflation indemnities to pensioners <sup>1</sup>		–1,301	–32	–	–32
Fondo Pensionamento Anticipato dell'AET	104.23%	–940	–940	–526	–1,466
<b>Total</b>		<b>–2,241</b>	<b>–972</b>	<b>–3,367</b>	<b>–4,339</b>

<sup>1</sup> Provisions for future payments for inflation indemnities to pensioners

	Coverage rate	Economic benefit/economic obligations for the Group	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
<b>31.12.2012</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	106.30%	–	–	–1,530	–1,530
Fondo Pensionamento Anticipato dell'AET	104.01%	–	–200	–405	–605
<b>Total</b>		<b>0</b>	<b>–200</b>	<b>–1,935</b>	<b>–2,135</b>

During 2013 AET recorded a provision of CHF 0.94 million for future recapitalisation contributions to the "Fondo per il pensionamento anticipato del personale dell'Azienda Elettrica Ticinese".

## 30. Transaction with related parties

### Transactions with associates

	2013	2012
In CHF 1,000		
Energy sales	18,295	27
Service and other income	1,104	510
Financial income	1,141	796
Energy purchase	42,855	7,734
Service and other expenses	720	8
Advances paid	15,542	20,685
Receivables from goods and services	15,389	910
Prepayments and accrued income	7,256	1,040
Payables from goods and services	1,735	814
Accrued liabilities and deferred income	3,504	125
Guarantees	49,051	68,071

## Transactions with other related parties

	2013	2012
In CHF 1,000		
Energy sales	82	177
Service and other income	280	131
Financial income	836	417
Energy purchase	79,213	45,697
Service and other expenses	364	1,557
Advances paid	19,154	672
Receivables from goods and services	90	30
Prepayments and accrued income	6,511	4,658
Payables from goods and services	2,158	2,028
Accrued liabilities and deferred income	–	697
Guarantees	–	–

## 31. Risk assessment

The Board of Directors and Management give the utmost attention and deploy the necessary resources for the valuation and management of risks in order to adhere to the standards of the sector. The management and valuation of the company's risks have been integrated into the company operating procedures, in order to guarantee the maximum effectiveness.

From a financial point of view the AET Group is exposed to following main risk factors:

**Volume risk:** is the risk associated with the variation in the sales volume, respectively of production compared to the forecasted volumes. It's principal cause is the meteorological risk in that the meteorological deviations from the long-term averages cause variations in consumption and production from the hydroelectric plants that are difficult to predict. In the long-term the AET Group manages this risk by diversifying it's supplies with long-term contracts and participations. In the medium to short-term this risk is managed with a gradual rebalancing of the portfolio using updated forecasts and historical data. In addition the AET Group can count on a certain reserve capacity from it's own hydroelectric plants.

**Market risk:** this is the risk associated with the variations in the price of energy on the markets and the fluctuation of exchange rates. The AET Group manages this risk by monitoring the evolutions and the expectations of market prices and consequently cover the positions. The foreign exchange risk is managed through hedging operations. Market risks mostly have an effect on the quantity of energy sold and produced resulting from the volume risk that can not be efficiently hedged in advance because unknown.

**Counterparty risk:** is the risk of loss related to the default of payment by commercial counterparties. The wholesale activity is mainly performed with large Swiss and bordering countries power companies. Limits of exposure are fixed for each counterpart, based on their economic and financial situation. In the context of the commercial activity on the Italian market, the counterparty risks are for the large part insured against potential default. Counterparty risk related to the Swiss commercial / distribution activity is managed through the constant monitoring of the receivable positions, the request of bank guarantees or deposits as well as the installation of prepayment machines at the retail clients.

**Regulatory risk:** relates to the introduction or modification of laws, acts or rules at Swiss or European level, which might have an impact on the activity of the AET Group. The AET Group constantly monitors the regulatory developments, adopting the necessary adjustments.

## 32. Subsequent events

2013: on the 03.01.2014 AET has finalised the disposal of certain transport grid to Swissgrid AG.

The transaction has been conducted with no financial nor economic impact.

2012: on the 03.01.2013 AET has completed the sale of AET NE1 SA to Swissgrid AG.





### Inlet tunnel

The Stalvedro power plant makes use of the head of the gorge bearing the same name. It is fed by the Airolo regulating reservoir via an inlet tunnel under pressure comprised of an 1,480-metre long concrete channel and – adjoining the pipeline the leads over the Garegna stream near the Airolo sports ground – a 4,130-metre long tunnel in the rock.

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Total length	5,610 m
Diameter	2.60 m
Maximum flow rate	12.5 m <sup>3</sup> /s
Gradient	from +0.149‰ to -5.414‰

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# Audit report by Ernst & Young Ltd on the consolidated financial statements



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To the Board of Directors of  
**Azienda Elettrica Ticinese, Bellinzona**

Lugano, 29 April 2014

## **Report of the independent auditor on the consolidated financial statements**

As independent auditor and in accordance with your instructions, we have audited the accompanying consolidated financial statements of Azienda Elettrica Ticinese, Bellinzona, which comprise balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages from 31 to 56) for the year ended 31 December 2013.

### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss GAAP FER. 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 consolidated financial statements based on our audit. We conducted our audit in accordance with 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 judgment, 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 2013 present a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.

  
Ernst & Young Ltd  
  
Stefano Caccia  
Licensed audit expert  
(Auditor in charge)

  
Claudio Cereghetti  
Licensed audit expert





### Cleaning of the inlet tunnel leading into the rock

Around 350 m<sup>3</sup> of loose material was removed during the cleaning of the tunnel leading into the rock. Particular attention was given to safety aspects, as, owing to the geological properties of the rock, material breakage and rockfalls are not uncommon. The team, composed of four specialists, worked a total of 40 days and covered a total distance of approximately 450 km in the 4-km long tunnel. Including the work time spent by the technicians responsible for safety and site supervision, the work on the tunnel took a total of 1,400 hours. Thanks to the caution exercised by all involved, no accidents occurred.

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Starting point of tunnel	pipework area and feed to Canaria connector
Height of tunnel at starting point	1,112.76 m.a.s.l.
End of tunnel	area of pressure tunnel and damper chamber
Height of tunnel at end point	1,101.60 m.a.s.l.
Tunnel length	4,130 m
Man hours	1,400
Volume of material removed	350 m <sup>3</sup>
Materials	sludge, sand, gravel, rock

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### South part of inlet tunnel

In the south of the area bordered by the former Piotta sanatorium, the tunnel runs through terrain that is especially problematic from a geological perspective. Faults and mylonitic, ductile rock formations are found there. In these areas concrete arched elements were constructed during the original building whereas in other areas simple shot concrete was used.

# Financial statements

# Balance sheet

## Assets

		31.12.2013	31.12.2012
In CHF 1,000	Notes		
Operating plants and equipment		240,866	232,678
Land and buildings		36,172	36,413
Tangible fixed assets under construction		25,366	37,722
Other tangible fixed assets		1,298	1,131
<b>Tangible fixed assets</b>	2	<b>303,702</b>	<b>307,944</b>
Participations	3	70,270	26,660
Long-term securities	4	47,677	64,028
Advances and loans to participations	5	54,229	44,802
Other financial assets	6	3,070	3,858
<b>Financial assets</b>		<b>175,246</b>	<b>139,348</b>
Plant and equipment use rights		6,476	6,334
Energy procurement rights		91,755	104,241
Intangible assets under construction		1,182	1,010
Other intangible assets		3,032	3,497
<b>Intangible assets</b>	7	<b>102,445</b>	<b>115,082</b>
<b>Total Non-current assets</b>		<b>581,393</b>	<b>562,374</b>
Receivables from goods and services	8	185,416	198,544
Other short-term receivables	9	3,418	2,478
Inventories	10	33,189	12,565
Prepayments and accrued income	11	33,004	21,781
Cash and cash equivalents	12	42,867	46,594
<b>Total Current assets</b>		<b>297,894</b>	<b>281,962</b>
<b>Total Assets</b>		<b>879,287</b>	<b>844,336</b>

## Liabilities and equity

		31.12.2013	31.12.2012
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
General reserves		67,000	60,000
Statutory reserves		51,000	51,000
Profit brought forward		247,514	250,323
Profit for the year		3,516	21,191
<b>Total Equity</b>		<b>409,030</b>	<b>422,514</b>
Long-term provisions	13	28,450	23,410
Other long-term liabilities		2,343	–
Long-term financial liabilities	14	246,000	211,000
<b>Long-term liabilities</b>		<b>276,793</b>	<b>234,410</b>
Payables from goods and services	15	96,316	114,807
Short-term financial liabilities	16	29,412	24,136
Other short-term liabilities	17	17,705	3,623
Accrued liabilities and deferred income	18	44,065	38,706
Short-term provisions	13	5,966	6,140
<b>Current liabilities</b>		<b>193,464</b>	<b>187,412</b>
<b>Total Liabilities</b>		<b>470,257</b>	<b>421,822</b>
<b>Total Liabilities and equity</b>		<b>879,287</b>	<b>844,336</b>



# Income statement

		2013	2012
In CHF 1,000	Notes		
<b>Operating income</b>			
Energy sales	19	895,998	1,193,980
Grid income		44,538	40,974
Other operating income	20	14,453	15,802
<b>Total Operating income</b>		<b>954,989</b>	<b>1,250,756</b>
<b>Operating expenses</b>			
Energy purchase	21	-820,208	-1,111,925
Grid expenses		-14,765	-12,479
Personnel expenses	22	-26,879	-26,214
Services and material		-8,028	-10,235
Depreciation on tangible fixed assets		-13,369	-13,346
Amortisation on intangible assets		-8,321	-9,993
Other depreciation and amortisation		-157	-157
Other operating expenses	23	-20,024	-22,855
<b>Total Operating expenses</b>		<b>-911,751</b>	<b>-1,207,204</b>
<b>Operating result</b>		<b>43,238</b>	<b>43,552</b>
Financial result	24	-6,058	-8,040
<b>Ordinary result</b>		<b>37,180</b>	<b>35,512</b>
Non-operating result		4	4
Extraordinary result	25	-33,668	-14,325
<b>Profit for the year</b>		<b>3,516</b>	<b>21,191</b>

## Cash flow statement

	2013	2012
In CHF 1,000		
Profit for the year	3,516	21,191
Depreciation on tangible fixed assets	13,369	13,346
Amortisation on intangible assets	8,321	9,993
Other depreciation and amortisation	157	157
Change in long-term provisions	5,040	5,348
Change in impairments	32,546	9,764
Profit / loss from disposal of non-current assets	-168	-55
Other non cash expenses and income	123	701
<b>Cash flow before change in net current assets</b>	<b>62,904</b>	<b>60,445</b>
Change in receivables from goods and services	12,019	3,687
Change in inventories	-20,624	-8,435
Change in other receivables and prepayments and accrued income	-12,163	-2,053
Change in payables from goods and services	-18,491	-34,670
Change in other liabilities and accrued liabilities and deferred income	19,441	21,145
Change in short-term provisions	-174	12
<b>Cash flow from operating activities</b>	<b>42,912</b>	<b>40,131</b>
Outflows for investment in tangible fixed assets	-10,820	-16,464
Inflows from disposal of tangible fixed assets	12	3,851
Outflows for investment in intangible assets	-527	-579
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-61,400	-33,845
Inflows from disposal of financial assets	898	4,942
<b>Cash flow from investing activities</b>	<b>-71,837</b>	<b>-42,095</b>
Issuance / repayment of short-term financial liabilities	4,853	4,821
Issuance / repayment of long-term financial liabilities	37,345	-52
Interests on capital due to the State	-3,200	-3,200
Distribution of profit to the State	-13,800	-11,000
<b>Cash flow from financing activities</b>	<b>25,198</b>	<b>-9,431</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>46,594</b>	<b>57,989</b>
<b>Cash flow</b>	<b>-3,727</b>	<b>-11,395</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>42,867</b>	<b>46,594</b>

## Statement of changes in equity

	Endowment capital	General reserves	Statutory reserves	Profit brought forward	Profit for the year	Total Equity
In CHF 1,000						
<b>Equity at 01.01.2012</b>	<b>40,000</b>	<b>60,000</b>	<b>51,000</b>	<b>249,816</b>	<b>14,707</b>	<b>415,523</b>
Allocation of profit	–	–	–	14,707	–14,707	0
Interest on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of profit to the State	–	–	–	–11,000	–	–11,000
Profit for 2012	–	–	–	–	21,191	21,191
<b>Equity at 31.12.2012</b>	<b>40,000</b>	<b>60,000</b>	<b>51,000</b>	<b>250,323</b>	<b>21,191</b>	<b>422,514</b>
Allocation of profit	–	7,000	–	14,191	–21,191	0
Interest on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of profit to the State	–	–	–	–13,800	–	–13,800
Profit for 2013	–	–	–	–	3,516	3,516
<b>Equity at 31.12.2013</b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>247,514</b>	<b>3,516</b>	<b>409,030</b>

# Notes to the financial statements

## 1. Accounting principles

The financial statements 2013 of the Azienda Elettrica Ticinese (AET) were prepared in accordance to the Swiss GAAP FER as a whole and approved by the Board of Directors on the 29.04.2014.

Assets and liabilities are valued with uniform principles. The most significant accounting principles are:

### 1.1. Tangible fixed assets

Tangible fixed assets are valued on the basis of the acquisition or construction cost, taking into account the necessary technical-economical depreciation and any necessary impairment. Depreciation is computed on a straight-line basis, considering the technical life of the assets generally accepted within the sector.

Land is not depreciated. Buildings are valued at their acquisition or construction cost and depreciated like operating plant and equipment. Operating equipment is depreciated on the basis of its useful life. Tangible fixed assets under construction are reported at construction cost, with no interest capitalisation. Tangible fixed assets under construction are not depreciated. The minimum and maximum depreciation periods for each tangible fixed asset category are as follows:

Civil work	40 – 75 years
Electromechanical installations	40 – 50 years
Electromechanical equipments	15 – 35 years
Power grids	30 – 55 years
Substations and transformation plants	20 – 35 years
Buildings	40 – 50 years
Photovoltaic plants	12 – 25 years
Machinery and tools	5 – 25 years
Vehicles	3 – 10 years
IT equipments	3 – 5 years

Renewal or optimisation investments on plants are capitalised if the useful life, the performance or the quality of the involved plant are significantly improved.

### 1.2. Financial assets

Financial assets are reported at their cost value, adjusted for any impairment. Long-term advances in foreign currency are converted at the lower of year-end or acquisition exchange rates.

### 1.3. Intangible assets

Intangible assets are capitalised at their acquisition cost adjusted by amortisation and any necessary impairment. Plants and equipment usage rights refer to energy transmission on third party gridlines. They are amortised on a straight-line basis taking into account the contractual agreements and the technical life of the plant (40-75 years); the energy procurement rights are straight-line amortised on the basis of their useful life (10-20 years); other intangible assets are straight-line amortised on the basis of their useful life.

#### **1.4. Receivables**

Receivables are reported at their face value, taking into account potential losses.

Foreign currency receivables are converted at the year-end exchange rates.

#### **1.5. Inventories**

Inventories include small tools, spare parts and energy related certificates. Inventories are valued at the lower of weighted average purchase price or market value. The carrying value of inventories is adjusted for slow-moving items.

#### **1.6. Cash and cash equivalents**

Cash and cash equivalents are reported at their face value and include cash in hand, post and bank accounts as well as term deposits with banks with duration of less than three months. Balances in foreign currency are converted at year-end exchange rates.

#### **1.7. Impairment**

At each balance sheet date, all assets are tested for indicators of impairment. In case of existence of such indicators, the recoverable amount, the higher of the net selling price and the value in use, is computed. The value in use is generally computed on the basis of the expected future cash flows. If necessary, the carrying value is adjusted to the recoverable amount. In case of improvement of the recoverable amount, the carrying value is revaluated at maximum to the value according to the planned depreciation scheme.

#### **1.8. Provisions**

Provisions are deemed to cover probable future disbursements related to legal or implicit obligations and to events of the past. Long-term provisions are reported at the present value on the balance sheet day of the expected future disbursement.

#### **1.9. Liabilities**

All liabilities are reported at their nominal value. Liabilities in foreign currency are converted at year-end exchange rates.

#### **1.10. Off-balance-sheet transactions**

All contingent liabilities and other non-recognisable commitments existing at the balance sheet date are disclosed in the notes to the financial statements.

#### **1.11. Income**

Revenues are recorded in the income statement at the moment of the settlement of the delivery. They are recorded net of price reduction, sales taxes and value added taxes. All energy sale operations relate to physical energy deliveries.



### 1.12. Pension funds

The personnel of the AET are affiliated with a multi-employer pension scheme together with other companies operating in the energy sector. This is an independent insurance institution structured on the basis of a defined benefit plan. In order to facilitate early retirement for its employees, AET is also affiliated with the "Fondo di pensionamento anticipato a favore del personale dell'Azienda Elettrica Ticinese". The financial implications of the pension schemes in place, regardless of their structure and legal form, are included in the financial statements. Surplus payments or deficits are determined on the basis of the latest available financial statements of the pension funds involved. Any liabilities (economic obligations) or any assets (economic benefits) in addition to the payment of the regular premiums are recorded in the financial statements. Economic obligations are recognised when pension liabilities are undercovered, generating a cash outflow for the company in the form of restructuring contributions. Economic benefits consists of possible future positive cash flow resulting from the use of employer's contribution reserves or other benefits.

The yearly contributions, the yearly change in any economic obligations and economic benefits, as well as the change in the employer's contribution reserve, are recorded in the income statements under personnel expenses.

### 1.13. Income taxes

AET is not subject to any direct tax.

### 1.14. Related party transactions

Transactions with subsidiaries include all transactions and debit / credit relationships with companies in which AET holds the majority of the voting rights. Transactions with associates include all transactions and debit / credit relationships with companies in which AET holds between 20% and 50% of the voting rights and which have been included in the consolidated financial statements according to the equity method. Transactions with other related parties include transactions with the power generation / procurement companies Officine idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA, Verzasca SA held by the Canton Ticino as well as Kraftwerke Mattmark AG, AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern and Trianel Kohlekraftwerk Lünen GmbH & Co. KG held by AET for less than 20%. AET takes the respective share of energy and covers the respective share of production / procurement costs.

## 2. Tangible fixed assets

	Operating plants and equipment	Land and buildings	Tangible fixed assets under construction	Other tangible fixed assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2012</b>	<b>504,476</b>	<b>44,150</b>	<b>29,754</b>	<b>7,514</b>	<b>585,894</b>
Reclassification	5,147	186	-6,174	29	-812
Additions	5,737	11	14,142	379	20,269
Disposals	-8,806	-853	-	-173	-9,832
<b>Cost value at 31.12.2012</b>	<b>506,554</b>	<b>43,494</b>	<b>37,722</b>	<b>7,749</b>	<b>595,519</b>
Reclassification	20,602	1,202	-22,881	382	-695
Additions	71	-	10,551	198	10,820
Disposals	-2,373	-1,039	-26	-78	-3,516
<b>Cost value at 31.12.2013</b>	<b>524,854</b>	<b>43,657</b>	<b>25,366</b>	<b>8,251</b>	<b>602,128</b>
<b>Accumulated depreciation at 01.01.2012</b>	<b>-262,737</b>	<b>-6,918</b>	<b>0</b>	<b>-6,298</b>	<b>-275,953</b>
Reclassification	-	-	-	-	0
Depreciation	-12,468	-390	-	-488	-13,346
Additions	-3,805	-	-	-	-3,805
Disposals	5,134	227	-	168	5,529
<b>Accumulated depreciation at 31.12.2012</b>	<b>-273,876</b>	<b>-7,081</b>	<b>0</b>	<b>-6,618</b>	<b>-287,575</b>
Reclassification	-	-	-	-	0
Depreciation	-12,552	-404	-	-413	-13,369
Additions	-	-	-	-	0
Disposals	2,440	-	-	78	2,518
<b>Accumulated depreciation at 31.12.2013</b>	<b>-283,988</b>	<b>-7,485</b>	<b>0</b>	<b>-6,953</b>	<b>-298,426</b>
<b>Net carrying amount at 01.01.2012</b>	<b>241,739</b>	<b>37,232</b>	<b>29,754</b>	<b>1,216</b>	<b>309,941</b>
<b>Net carrying amount at 31.12.2012</b>	<b>232,678</b>	<b>36,413</b>	<b>37,722</b>	<b>1,131</b>	<b>307,944</b>
<b>Net carrying amount at 31.12.2013</b>	<b>240,866</b>	<b>36,172</b>	<b>25,366</b>	<b>1,298</b>	<b>303,702</b>

The insured value of tangible fixed assets against fire risk amounts to CHF 565.2 million at 01.01.2014 (CHF 451.0 million at 01.01.2013).

### 3. Participations

	31.12.2013	31.12.2012
In CHF 1,000		
SES Holding Ltd	49,750	–
SPE Società per Partecipazioni Energetiche SA	8,000	8,000
./ impairment	–3,551	–3,551
TERIS Teleriscaldamento del Bellinzonese SA	6,000	6,000
Metanord SA	5,505	5,505
Parco eolico del San Gottardo SA	2,452	2,452
Senco Holding SA	1,136	1,136
Calore SA	978	978
AET NE1 SA	–	4,000
Terravent AG	–	2,140
<b>Total</b>	<b>70,270</b>	<b>26,660</b>

In 2013 AET has subscribed 99.5% of the capital of CHF 50 million of SES Holding Ltd, a company set up for the purpose of acquiring Società Elettrica Sopracenerina SA (SES). The participation in AET NE1 SA has been sold on the 03.01.2013 to Swissgrid AG. The shareholding of AET in Terravent AG decreased to 15% because of the marginal participation of AET to a capital increase made in 2013; the shareholding has thus been reclassified within long-term securities.

### 4. Long-term securities

	31.12.2013	31.12.2012
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co.KG	38,178	38,178
./ impairment	–20,700	–
Renewable Energy Investments SPC	15,678	15,678
./ impairment	–10,200	–8,700
Kraftwerke Mattmark AG	12,273	12,430
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Swissgrid AG	3,756	–
Terravent AG	2,250	–
Other	142	142
<b>Total</b>	<b>47,677</b>	<b>64,028</b>

The holding in Trianel Kohlekraftwerk Lünen GmbH & Co. KG is impaired because of the deterioration of the market conditions in which the power plant owned by the company operates.

The shares of Renewable Energy Investments SPC (REI) are valued at their historical cost. The impairment amount was determined on the basis of the latest available NAV information (31.12.2012) and of current financial and economical expectations; the increase of the impairment has been recorded as financial expense.

The shareholding in Swissgrid AG, consisting of 1.7 million shares (corresponding to 0.64% of the share capital) has been subscribed in 2013 in the context of the disposal of AET NE1 SA to Swissgrid AG.

## 5. Advances and loans to participations

	31.12.2013	31.12.2012
In CHF 1,000		
SPE Società per Partecipazioni Energetiche SA	28,877	27,977
./ impairment	-6,402	-2,449
Terravent AG	12,750	6,587
Metanord SA	11,300	7,500
Swissgrid AG	5,248	-
Other	2,456	5,187
<b>Total</b>	<b>54,229</b>	<b>44,802</b>

The advance to SPE Società per Partecipazioni Energetiche SA (SPE) is subordinated for an amount of CHF 15 million (31.12.2012: CHF 15 million) and it is subject to an impairment due to the durable value reduction of its participated companies held by SPE. The advance to Swissgrid AG represents part of the payment for the disposal of AET NE1 SA; the advance is subordinated and underlies to mandatory convertibility in case of reduction of the grade of own capitalisation below certain limits defined by the Federal Electricity Commission (Elcom).

## 6. Other financial assets

	31.12.2013	31.12.2012
In CHF 1,000		
Advance to PurEnergy SA	1,708	1,620
Advance to Axpo Trading AG	630	1,426
Other	732	812
<b>Total</b>	<b>3,070</b>	<b>3,858</b>

The advance to PurEnergy SA is secured through the transfer of credits.

The advance to Axpo Trading AG was made within the context of an energy supply agreement on the Italian market.

## 7. Intangible assets

	Plant and equipment use rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2012</b>	<b>8,522</b>	<b>151,583</b>	<b>0</b>	<b>6,839</b>	<b>166,944</b>
Reclassification	–	–	812	–	812
Additions	985	–	198	114	1,297
Disposals	–160	–	–	–	–160
<b>Cost value at 31.12.2012</b>	<b>9,347</b>	<b>151,583</b>	<b>1,010</b>	<b>6,953</b>	<b>168,893</b>
Reclassification	306	–	–283	671	694
Additions	72	–	455	–	527
Disposals	–	–	–	–	0
<b>Cost value at 31.12.2013</b>	<b>9,725</b>	<b>151,583</b>	<b>1,182</b>	<b>7,624</b>	<b>170,114</b>
<b>Accumulated amortisation at 01.01.2012</b>	<b>–2,257</b>	<b>–36,382</b>	<b>0</b>	<b>–2,421</b>	<b>–41,060</b>
Reclassification	–	–	–	–	0
Amortisation	–198	–8,760	–	–1,035	–9,993
Additions	–718	–	–	–	–718
Disposals	160	–	–	–	160
Impairments	–	–2,200	–	–	–2,200
<b>Accumulated amortisation at 31.12.2012</b>	<b>–3,013</b>	<b>–47,342</b>	<b>0</b>	<b>–3,456</b>	<b>–53,811</b>
Reclassification	–	–	–	–	0
Amortisation	–236	–6,949	–	–1,136	–8,321
Additions	–	–	–	–	0
Disposals	–	–	–	–	0
Impairments	–	–5,537	–	–	–5,537
<b>Accumulated amortisation at 31.12.2013</b>	<b>–3,249</b>	<b>–59,828</b>	<b>0</b>	<b>–4,592</b>	<b>–67,669</b>
<b>Net carrying amount at 01.01.2012</b>	<b>6,265</b>	<b>115,201</b>	<b>0</b>	<b>4,418</b>	<b>125,884</b>
<b>Net carrying amount at 31.12.2012</b>	<b>6,334</b>	<b>104,241</b>	<b>1,010</b>	<b>3,497</b>	<b>115,082</b>
<b>Net carrying amount at 31.12.2013</b>	<b>6,476</b>	<b>91,755</b>	<b>1,182</b>	<b>3,032</b>	<b>102,445</b>

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027) and an agreement for energy procurement from a German gas-fired power plant (termination 31.12.2027). Both contracts are impaired because of the adverse conditions on the reference markets.

## 8. Receivables from goods and services

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	95,119	69,764
Other related parties	18	30
Third parties	90,279	128,750
<b>Total</b>	<b>185,416</b>	<b>198,544</b>

The balance includes receivables in foreign currency for EUR 105.5 million (EUR 116.6 million at 31.12.2012).



## 9. Other short-term receivables

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	–	–
Other related parties	–	–
Third parties	3,418	2,478
<b>Total</b>	<b>3,418</b>	<b>2,478</b>

## 10. Inventories

	31.12.2013	31.12.2012
In CHF 1,000		
Stock and consumables	2,520	2,361
Energy related certificates	30,669	10,204
<b>Total</b>	<b>33,189</b>	<b>12,565</b>

The energy related certificates include stock in guarantees of origin for renewable energy as well as CO2 emission certificates. Energy related certificates are valued at the lower of cost or market.

## 11. Prepayments and accrued income

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	6,074	486
Other related parties	6,505	4,658
Third parties	18,338	14,780
Work in progress	2,087	1,857
<b>Total</b>	<b>33,004</b>	<b>21,781</b>

Work in progress refers to works in course of execution for third party customers.

## 12. Cash and cash equivalents

	31.12.2013	31.12.2012
In CHF 1,000		
Balances in CHF	35,433	37,638
Balances in foreign currency (at the end of year equivalent)	7,434	8,956
<b>Total</b>	<b>42,867</b>	<b>46,594</b>

All balances are freely available, with exception of the assets with equivalent value of CHF 5.7 million (CHF 5.5 million at 31.12.2012) deposited in foreign bank accounts in euro for the coverage of commercial transactions in international markets.

### 13. Provisions

	Onerous contracts of participations	Indemnifications and plant decommissioning	Other provisions	Total
In CHF 1,000				
<b>Carrying amount at 01.01.2012</b>	<b>3,500</b>	<b>13,762</b>	<b>6,928</b>	<b>24,190</b>
<i>thereof long-term</i>	3,500	13,762	800	18,062
<i>thereof short-term</i>	0	0	6,128	6,128
Increase	5,953	548	1,028	7,529
Utilisation	–	–	–1,749	–1,749
Release	–	–	–420	–420
<b>Carrying amount at 31.12.2012</b>	<b>9,453</b>	<b>14,310</b>	<b>5,787</b>	<b>29,550</b>
<i>thereof long-term</i>	8,500	14,310	600	23,410
<i>thereof short-term</i>	953	0	5,187	6,140
Increase	9,015	598	2,488	12,101
Utilisation	–	–	–1,145	–1,145
Release	–5,205	–	–885	–6,090
<b>Carrying amount at 31.12.2013</b>	<b>13,263</b>	<b>14,908</b>	<b>6,245</b>	<b>34,416</b>
<i>thereof long-term</i>	12,500	14,908	1,042	28,450
<i>thereof short-term</i>	763	0	5,203	5,966

The provision for the onerous contracts of participations covers expected disbursements due to the commitments of AET in respect of the activity of its participations. In 2013 the deterioration of the expected market conditions to which the activities of thermoelectric production in Italy are exposed required the increase of this position.

The provision for indemnifications and plant decommissioning covers the expected cost of indemnification related to the operation of AET's plants as well as the expected future cost of decommissioning AET plants at the end of their utilisation. The present value at the balance sheet date of the expected expense is computed by applying a 4% discount rate; the provision increase in the year reflects the impact of the discounting.

### 14. Long-term financial liabilities

	31.12.2013			31.12.2012		
	Financial debts	Debts for finance leases	Total	Financial debts	Debts for finance leases	Total
In CHF 1,000						
Liabilities due between 1 and 5 years	90,000	–	90,000	15,000	–	15,000
Liabilities due between 5 and 10 years	73,000	–	73,000	63,000	–	63,000
Liabilities due after 10 years	83,000	–	83,000	133,000	–	133,000
<b>Total</b>	<b>246,000</b>	<b>0</b>	<b>246,000</b>	<b>211,000</b>	<b>0</b>	<b>211,000</b>

## 15. Payables from goods and services

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	39,584	17,131
Other related parties	2,121	2,028
Third parties	54,611	95,648
<b>Total</b>	<b>96,316</b>	<b>114,807</b>

The balance includes payables in foreign currency for EUR 67.0 million (EUR 80.7 million at 31.12.2012).

## 16. Short-term financial liabilities

	31.12.2013	31.12.2012
In CHF 1,000		
Liabilities toward financial institutions in CHF	–	–
Liabilities toward financial institutions in foreign currency	29,412	24,136
<b>Total</b>	<b>29,412</b>	<b>24,136</b>

## 17. Other short-term liabilities

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	–	87
Other related parties	–	33
Third parties	17,705	3,503
<b>Total</b>	<b>17,705</b>	<b>3,623</b>

## 18. Accrued liabilities and deferred income

	31.12.2013	31.12.2012
In CHF 1,000		
Group companies	10,253	8,755
Other related parties	–	697
Third parties	33,812	29,254
<b>Total</b>	<b>44,065</b>	<b>38,706</b>

## 19. Energy sales

	2013	2012
In CHF 1,000		
Energy sales in Ticino	204,030	201,088
Energy sales in Switzerland	107,222	97,267
Energy sales in Italy	318,951	536,327
Energy sales in Germany	204,309	266,082
Energy sales in France	35,048	72,772
Other income energy sales	26,438	20,444
<b>Total</b>	<b>895,998</b>	<b>1,193,980</b>

## 20. Other operating income

	2013	2012
In CHF 1,000		
Own costs capitalised	2,898	3,368
Income from services	8,275	8,131
Other	3,280	4,303
<b>Total</b>	<b>14,453</b>	<b>15,802</b>

## 21. Energy purchase

	2013	2012
In CHF 1,000		
Purchases from participations	-78,401	-46,048
Purchases in Ticino	-24,688	-31,049
Purchases outside of Ticino	-717,119	-1,034,828
<b>Total</b>	<b>-820,208</b>	<b>-1,111,925</b>

The costs related to the energy withdrawn from the production participation held by the State of Canton Ticino (Officine idroelettriche della Maggia SA, Officine idroelettriche di Blenio SA and Verzasca SA) are included within purchases from participations.

## 22. Personnel expenses

	2013	2012
In CHF 1,000		
Salaries and other compensation	-21,375	-21,523
Social contributions	-5,381	-4,484
Other expenses	-402	-395
Recoveries from insurance companies	279	188
<b>Total</b>	<b>-26,879</b>	<b>-26,214</b>

## Employees of the company

	31.12.2013	31.12.2012
Full time equivalent		
Permanent employees	195.2	201.8
Temporary auxiliary employees	11.2	10.6
Apprentices	13.0	13.0
<b>Total</b>	<b>219.4</b>	<b>225.4</b>

## 23. Other operating expenses

	2013	2012
In CHF 1,000		
Water fees to the Canton Ticino State	-11,358	-11,358
Local taxes and other contributions	-1,992	-2,092
Other	-6,674	-9,405
<b>Total</b>	<b>-20,024</b>	<b>-22,855</b>

## 24. Financial result

	2013	2012
In CHF 1,000		
Interest income	1,587	1,293
Income from participations	555	456
Exchange rate differences	1,225	-155
Interest payments and commissions	-7,302	-7,250
Other financial expenses	-2,123	-2,384
<b>Total</b>	<b>-6,058</b>	<b>-8,040</b>

Other financial expenses include the impairment increase of the REI securities for CHF 1.5 million (2012: CHF 1.8 million).



## 25. Extraordinary result

	2013	2012
In CHF 1,000		
Reversal of impairments on non-current assets	1,484	345
Profit from disposal of non-current assets	168	54
Other extraordinary income	1,005	7
Impairments of non-current assets	-32,530	-8,309
Increase of provision for onerous contracts of participations	-3,795	-5,959
Other extraordinary expenses	0	-463
<b>Total</b>	<b>-33,668</b>	<b>-14,325</b>

## 26. Contingent liabilities

### Guarantees

	31.12.2013	31.12.2012
In CHF 1,000		
AET Italia SpA	43,282	42,742
Biogen Chivasso Srl	30,209	29,748
AET CoGen Srl	20,218	21,792
Bio Energia Guarcino Srl (BEG)	18,842	23,962
CEG SpA	7,147	14,361
<b>Total</b>	<b>119,698</b>	<b>132,605</b>

### Other commitments

	31.12.2013	31.12.2012
In CHF 1,000		
Acquisition of a stake in Parco eolico del San Gottardo SA	2,000	2,000
Commitment to the financing of SES Holding Ltd	3,300	-
<b>Total</b>	<b>5,300</b>	<b>2,000</b>

Guarantees are issued in favor of foreign financial institutions to guarantee loans granted to Group participations or to guarantee obligations related to market activities. The guarantees issued in favor of AET Italia cover the short term obligation of this subsidiary towards the Italian managing and operating companies of the energy market and energy system, such as the Gestore dei Mercati Energetici, the Gestore dei Servizi Energetici and Terna. The guarantees were granted in favour of creditors of the CEG group and are related for CHF 49.1 million to leasing contracts with residual debt of CHF 36.0 million on 31.12.2013.

## 27. Other non-recognisable commitments

In the context of the management of its energy portfolio, the AET has entered into transactions on the futures markets and finalised various long-term energy acquisition contracts with irrevocable obligation:

### Energy purchase contracts and market operations

	Market operations	Long-term contracts
Cumulative volume in CHF million		
2014	224	99
from 2 to 5 year	34	268
over 5 year	–	399

In addition AET is obliged to withdraw the energy produced by its own power generation participations and the participations of the Canton Ticino, paying its production cost quota. The duration of these obligations is undetermined and depends on the future developments of those participations.

Finally, the AET has entered into an interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 4.3 million (countervalue based on year end exchange rate and contract price index 2013).

At 31.12.2013 AET has no off-balance sheet lease commitments (31.12.2012: unchanged).

## 28. Pension benefit obligations

	Coverage rate	Economic benefit/ economic obligations for the company	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
<b>31.12.2013</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	107.20%	–	–	–1,554	–1,554
Fondo Pensionamento Anticipato dell'AET	104.23%	–940	–940	–526	–1,466
<b>Total</b>		<b>–940</b>	<b>–940</b>	<b>–2,080</b>	<b>–3,020</b>

	Coverage rate	Economic benefit/ economic obligations for the company	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
<b>31.12.2012</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	106.30%	–	–	–1,530	–1,530
Fondo Pensionamento Anticipato dell'AET	104.01%	–	–200	–405	–605
<b>Total</b>		<b>0</b>	<b>–200</b>	<b>–1,935</b>	<b>–2,135</b>

During 2013 AET recorded a provision of CHF 0.94 million for future recapitalisation contributions to the “Fondo per il pensionamento anticipato del personale dell'Azienda Elettrica Ticinese”.

## 29. Transactions with related parties

### Transactions with subsidiaries

	2013	2012
In CHF 1,000		
Energy sales	205,836	171,961
Service and other income	13,416	4,466
Financial income	8	167
Energy purchase	129,924	96,642
Service and other expenses	1,995	51
Advances paid	23,776	29,567
Receivables from goods and services	94,317	68,915
Prepayments and accrued income	6,074	406
Payables from goods and services	39,584	17,131
Accrued liabilities and deferred income	10,244	8,755
Guarantees	70,647	64,534

### Transactions with associates

	2013	2012
In CHF 1,000		
Energy sales	1,798	5
Service and other income	502	457
Financial income	365	219
Energy purchase	–	–
Service and other expenses	1	8
Advances paid	11,300	14,563
Receivables from goods and services	802	849
Prepayments and accrued income	92	80
Payables from goods and services	–	–
Accrued liabilities and deferred income	9	–
Guarantees	49,051	68,071

## Transactions with other related parties

	2013	2012
In CHF 1,000		
Energy sales	14	177
Service and other income	112	131
Financial income	816	417
Energy purchase	78,323	45,697
Service and other expenses	364	1,557
Advances paid	19,154	672
Receivables from goods and services	18	30
Prepayments and accrued income	6,506	4,658
Payables from goods and services	2,121	2,028
Accrued liabilities and deferred income	–	697
Guarantees	–	–

## 30. Risk assessment

The Board of Directors and Management give the utmost attention and deploy the necessary resources for the valuation and management of risks in order to adhere to the standards of the sector. The management and valuation of the company's risks have been integrated into the company operating procedures, in order to guarantee the maximum effectiveness.

From a financial point of view AET is exposed to following main risk factors:

**Volume risk:** is the risk associated with the variation in the sales volume, respectively of production compared to the forecasted volumes. It's principal cause is the meteorological risk in that the meteorological deviations from the long-term averages cause variations in consumption and production from the hydroelectric plants that are difficult to predict. In the long-term AET manages this risk by diversifying it's supplies with long-term contracts and participations. In the medium to short-term this risk is managed with a gradual rebalancing of the portfolio using updated forecasts and historical data. In addition AET can count on a certain reserve capacity from it's own hydroelectric plants.

**Market risk:** this is the risk associated with the variations in the price of energy on the markets and the fluctuation of exchange rates. AET manages this risk by monitoring the evolutions and the expectations of market prices and consequently cover the positions. The foreign exchange risk is managed through hedging operations. Market risks mostly have an effect on the quantity of energy sold and produced resulting from the volume risk that can not be efficiently hedged in advance because unknown.

**Counterparty risk:** is the risk of loss related to the default of payment by commercial counterparties. The wholesale activity is mainly performed with large Swiss and bordering countries power companies. Limits of exposure are fixed for each counterpart, based on their economic and financial situation.

**Regulatory risk:** relates to the introduction or modification of laws, acts or rules at Swiss or European level, which might have an impact on the activity of AET. AET constantly monitors the regulatory developments, adopting the necessary adjustments.

### **31. Subsequent events**

2013: on the 03.01.2014 AET has finalised the disposal of certain transport grid to Swissgrid AG.

The transaction has been conducted with no financial nor economic impact.

2012: on the 03.01.2013 AET has completed the sale of AET NE1 SA to Swissgrid AG.



# Audit report by Ernst & Young Ltd on the financial statements



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To the Board of Directors of  
**Azienda Elettrica Ticinese, Bellinzona**

Lugano, 29 April 2014

## **Report of the independent auditor on the financial statements**

As independent auditor and in accordance with your instructions, we have audited the accompanying financial statements of Azienda Elettrica Ticinese, Bellinzona, which comprise balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages from 63 to 85) for the year ended 31 December 2013.

### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss GAAP FER. 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 Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation 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 2013 present a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.

  
Ernst & Young Ltd  
  
Stefano Caccia  
Licensed audit expert  
(Auditor in charge)

  
Claudio Cereghetti  
Licensed audit expert

# Grand Council auditors' report

## AUDITOR'S REPORT

To the Grand Council of the Canton of Ticino  
via the State Council  
6500 Bellinzona

Bellinzona, June 12, 2014

Mr President,  
Dear Councillors,

In our capacity as Auditors, in accordance to the "Legge istituyente l'Azienda Elettrica Ticinese", we have conducted our audit procedures on the financial statements for the 2013 financial year.

We have taken note of the report and the relative proposal for allocation of profit and of the minutes of the Board of Directors and have reviewed the corresponding financial statement entries. We have also performed sample tests, ascertaining the correctness of the positions and the information in the financial statements.

We have also reviewed the Auditors' report dated April 29, 2014, issued by Ernst & Young SA, Lugano, which performed its audit in accordance with art. 727b and art. 729a of the Swiss Code of Obligations.

Based on our audit, we have ascertained that:

- the financial statements (consisting of balance sheet, income statement, notes and cash flow statement), which have been submitted to us and proposed for publication, agree with the entries of the financial accounting records;
- the financial accounting records have been kept properly;
- the proposal of the Board of Directors regarding the allocation of profit complies with the spirit of articles 18 and 19 of the "Legge istituyente l'Azienda Elettrica Ticinese".

We have taken note of the consolidated financial statements of the AET Group, certified by Ernst & Young SA with its report dated April 29, 2014.

We note that the clear reduction of the net profit compared to the previous financial year, incurred against a substantially stable operating result, is mainly due to important impairments mainly recorded on certain foreign participations. These measures reduce the potential consequences of the risks, we have signaled on the audit report on the financial statement 2012.

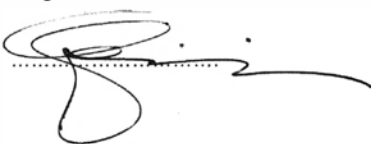
Based on these considerations, we propose that you:

- approve the financial statements for the year 2013, which closed with a profit for the year of CHF 3'515'617;
- accept the proposal for the allocation of the profit presented by the Board of Directors.

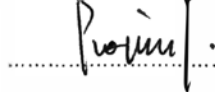
In conclusion, we propose that you discharge the Board of Directors and the Executive Committee for their management during 2013.

The auditors:


Sergio Gianini



Lic. rer. pol. Gianluigi Piazzini



Dr. oec. Giancarlo Prada







**Removal of material  
through the pressure tunnel**

So as not to hamper the ongoing remediation work on the pressure tunnel, the material was removed from the tunnel by a crane truck. The claws of the crane descended down into the pressure tunnel through a "chimney" at the end of the inlet tunnel, which, when in operation, serves to help compensate for the effects of abrupt falloffs in the water flow rate.

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Height	53.90 m
Diameter	23.2 m <sup>2</sup>

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**Shot concrete lining of area between pressure tunnel and damper chamber**

These measures served to suppress the water outflow via the faults in this zone. The tunnel section in question benefited from the work in terms of both safety (prevention of rockfalls) and hydraulic aspects (walls less rough).

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Rock cleaning	approx. 600 m <sup>2</sup>
Reinforcement mesh K335	approx. 2,800 kg
Reinforcement mesh K131	approx. 800 kg
Box with anchors (8 mm)	1,650 pezzi
Canalette Aliva® duct	65 m
Shot concrete applied	160 m <sup>3</sup>

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## AET Group companies

	Value	Nominal equity at 31.12.2013 in 1,000	Participation at 31.12.2013	Participation at 31.12.2012
<b>AET NE1 SA</b> , CH-Bellinzona <i>Detention transit power grid in Ticino</i>	CHF	–	– <sup>1</sup>	100.00
<b>AKEB Aktiengesellschaft für Kernenergie – Beteiligungen Luzern (AKEB)</b> , CH-Luzern <i>Detention of sub-participation and nuclear energy procurement rights</i>	CHF	90,000	7.00	7.00
<b>Calore SA</b> , CH-Locarno <i>Production of heat/refrigeration</i>	CHF	2,000	90.55	48.90
<b>Biomassa Blenio SA</b> , CH-Blenio <i>Construction and management of thermal and renewable energy plants</i>	CHF	300	29.88	16.14
<b>Ingegneria Impiantistica TKM Sagl</b> , CH-Locarno <i>Engineering services in favour of Calore SA</i>	CHF	50	– <sup>1</sup>	48.90
<b>Geo-Energie Suisse AG</b> , CH-Basel <i>Research in the geothermal energy field</i>	CHF	1,900	5.26	14.29
<b>Geopower Basel AG</b> , CH-Basel <i>Research in the geothermal energy field</i>	CHF	6,136	4.76	4.76
<b>Kraftwerke Mattmark AG (KW Mattmark)</b> , CH-Saas Grund <i>Sub-participation through Axpo Trading AG. Hydroelectric production</i>	CHF	90,000	8.41	8.41
<b>Metanord SA</b> , CH-Bellinzona <i>Construction of gas distribution plants</i>	CHF	18,594	37.06	30.95
<b>Metanord Ingegneria SA</b> , CH-Bellinzona <i>Engineering services in favour of Metanord SA</i>	CHF	100	37.06	30.95
<b>Parco eolico del San Gottardo SA (PESG)</b> , CH-Airolo <i>Construction and management of windpark on St. Gotthard</i>	CHF	1,000	70.00	70.00
<b>Renewable Energy Investments SPC (REI)</b> , Grand Cayman <i>Investment vehicle for the construction of renewable energy plants</i>	EUR	50,187	20.09	20.09
<b>Senco Holding SA</b> , CH-Locarno <i>Acquisition of participations in the hydroelectric micro power plants</i>	CHF	150	92.59	50.00
<b>CEL Bedretto SA</b> , CH-Bedretto <i>Development of micro hydroelectric power plant</i>	CHF	200	18.52	10.00
<b>CEL Buseno SA</b> , CH-Buseno <i>Development of micro hydroelectric power plant</i>	CHF	100	18.52	10.00
<b>CEL Campo Vallemaggia SA</b> , CH-Campo Vallemaggia <i>Energy production, micro hydroelectric power plant</i>	CHF	200	18.52	10.00
<b>CEL Cauco SA</b> , CH-Cauco <i>Development of micro hydroelectric power plant</i>	CHF	100	18.52	10.00
<b>CEL Cerentino SA</b> , CH-Cerentino <i>Energy production, micro hydroelectric power plant</i>	CHF	200	18.52	10.00
<b>CEL Dalpe SA</b> , CH-Dalpe <i>Energy production, micro hydroelectric power plant</i>	CHF	200	16.67	9.00
<b>Senco Sagl</b> , CH-Locarno <i>Engineering services in favour of hydro power plants promoted by Senco Holding SA</i>	CHF	220	92.59	50.00

	Value	Nominal equity at 31.12.2013 in 1,000	Participation at 31.12.2013	Participation at 31.12.2012
<b>SES Holding Ltd</b> , CH-Locarno <i>Holding company for the acquisition of the SES participation</i>	CHF	50,000	99.50	–
<b>Società Elettrica Sopracenerina SA (SES)</b> , CH-Locarno <i>Electricity distribution company</i>	CHF	16,500	85.18	–
<b>Energie Rinnovabili Losone (ERL) SA</b> , CH-Losone <i>Development of a district heating in Losone</i>	CHF	2,700	28.39	–
<b>Enerti SA</b> , CH-Monteceneri <i>Service company</i>	CHF	200	28.15	–
<b>SES Controlli Sagl</b> , CH-Locarno <i>Service company</i>	CHF	20	34.07	–
<b>Società Della Funicolare Locarno - Madonna del Sasso SA (FLMS)</b> , CH-Locarno <i>Ownership and operation of the funicular</i>	CHF	900	11.60	–
<b>Società Locarnese di partecipazioni e immobiliare SA (SAP SA)</b> , CH-Locarno <i>Real estate company</i>	CHF	2,064	84.71	–
<b>SPE Società per Partecipazioni Energetiche SA (SPE)</b> , CH-Bellinzona <i>Holding</i>	CHF	8,000	100.00	100.00
<b>AET Italia Holding Srl</b> , I-Milan <i>Holding</i>	EUR	4,836	100.00	100.00
<b>AET CoGen Srl</b> , I-Milan <i>Energy production from thermal power plant gas</i>	EUR	100	100.00	100.00
<b>AET Idronord Srl</b> , I-Milan <i>Hydroelectric energy production</i>	EUR	433	90.00	90.00
<b>AET Italia SpA</b> , I-Milan <i>Energy trading</i>	EUR	4,000	100.00	100.00
<b>CEG SpA</b> , I-Milan <i>Production of electrical and thermal energy</i>	EUR	6,700	79.88	50.00
<b>Bio Elettricità Occimiano Srl (BEO)</b> , I-Milan <i>Energy production from biofuel power plant</i>	EUR	50	79.88	50.00
<b>Bio Energia Guarcino Srl (BEG)</b> , I-Guarcino <i>Energy production from biofuel power plant</i>	EUR	1,100	39.94	25.00
<b>Biogen Chivasso Srl</b> , I-Chivasso <i>Construction of biofuel power plant</i>	EUR	20	39.94	25.00
<b>Nord Energia SpA</b> , I-Milan <i>Management of cross-border interconnection power line (Merchant Line)</i>	EUR	10,200	40.00	40.00
<b>CMC MeSta SA</b> , CH-Bellinzona <i>Detention of Mendrisio – Stabio border power line</i>	CHF	14,000	40.00	40.00
<b>Quadra Srl</b> , I-Como <i>Main Contractor for the construction of biofuel-fired power plants</i>	EUR	20	50.00	50.00
<b>Swissgrid SA</b> , CH-Laufenburg <i>Swiss transmission system operator</i>	CHF	275,716	0.60	–
<b>TERIS Teleriscaldamento del Bellinzonese SA (TERIS)</b> , CH-Giubiasco <i>District heating</i>	CHF	10,000	60.00	60.00
<b>Terravent AG</b> , CH-Dietikon <i>Wind power production</i>	CHF	15,000	15.00	21.40
<b>Trianel Kohlekraftwerk Lünen GmbH &amp; Co. KG (TKL)</b> , D-Aachen <i>Production of energy from the coal-fired power plant in Lünen</i>	EUR	147,944	15.84	15.84

<sup>1</sup> sold in 2013

## Statistical informations

### Production and purchase of AET Group

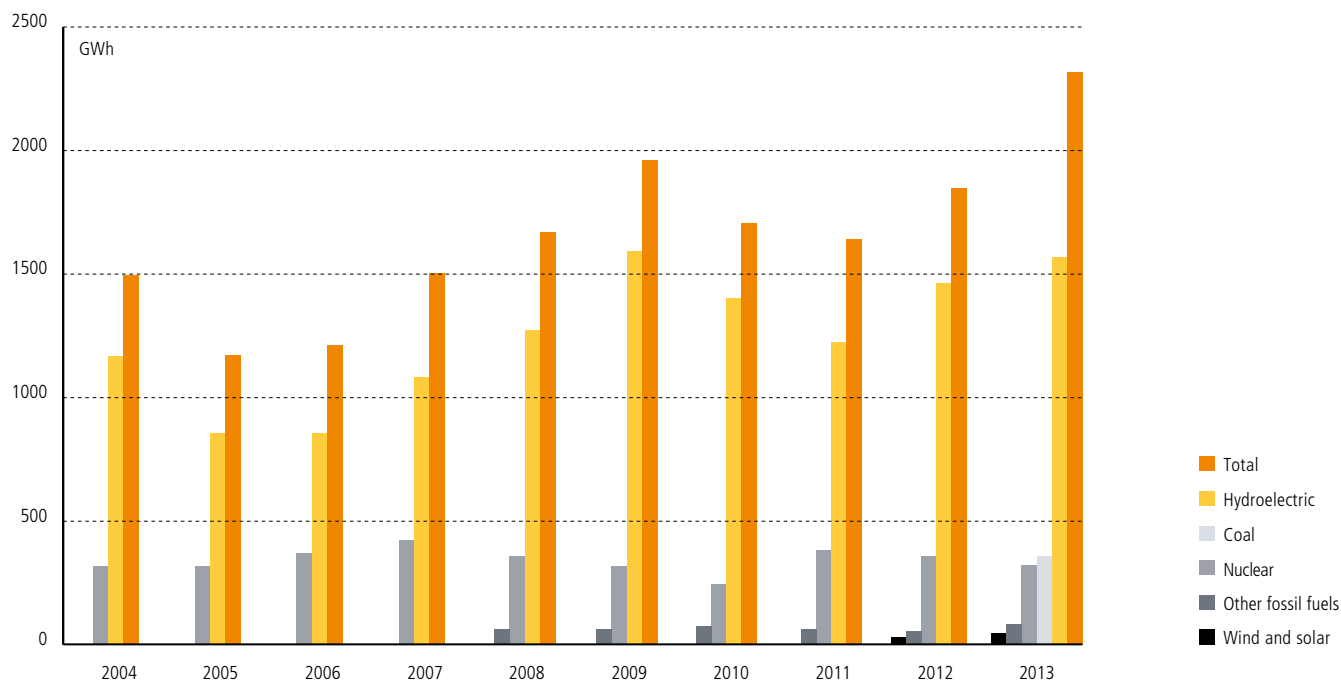
	Winter	Summer	2013	2012
In GWh				
<b>Production AET Group</b>				
AET Biaschina	158	307	465	434
AET Piottino	138	218	356	324
AET Stalvedro	14	43	57	61
AET Ofima payment	9	39	48	53
AET Ponte Brolla	4	8	12	14
AET Tremorgio	8	0	8	7
AET Idronord	0	1	1	1
AET CoGen	14	6	20	31
SES Giumaglio	6	3	9	–
SES Ticineto	2	4	6	–
Photovoltaic	0	1	1	1
<b>Total production AET Group</b>	<b>353</b>	<b>630</b>	<b>983</b>	<b>926</b>
<b>Production participations (share attributable to AET Group)</b>				
Maggia	107	149	256	285
Blenio	97	102	199	141
Verzasca	32	53	85	79
KW Mattmark	26	29	55	59
Senco Group	1	2	3	–
Terravent AG	8	16	24	–
AKEB	184	120	304	342
KK Leibstadt	8	7	15	12
CEG Group	18	20	38	–
Trianel TKL	172	176	348	–
<b>Total production participations</b>	<b>653</b>	<b>674</b>	<b>1,327</b>	<b>918</b>
Long-term contracts <sup>1</sup>	506	519	1,025	1,235
Purchases on the market	4,659	4,689	9,348	12,250
<b>Total</b>	<b>6,171</b>	<b>6,512</b>	<b>12,683</b>	<b>15,329</b>

<sup>1</sup> Delivery contractualised for more than 5 years

## Supply of AET Group

	Winter	Summer	2013	2012
In GWh				
Distribution companies	1,155	964	2,119	2,715
End customers	879	732	1,611	1,065
Sales on the market	4,126	4,773	8,899	11,502
Own consumption and losses	11	43	54	47
<b>Total</b>	<b>6,171</b>	<b>6,512</b>	<b>12,683</b>	<b>15,329</b>

## Production AET Group and participations







AET would like to thank all its staff and the employees of the facilities who assisted during the full halt in operations at the Stalvedro power plant while the remediation work was under way. Thanks to their dedication and great professionalism, the goals were achieved, including compliance with the timetable and budget. Moreover, the remediation project was completely accident-free, which is a tribute to the entire operation.

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Photograph: Stefano Mussio. © Azienda Elettrica Ticinese.





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