



Annual Report  
**2016**





Azienda Elettrica Ticinese

# Annual Report **2016**



**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 6 of the Act of the Azienda elettrica ticinese (LAET), we hereby submit for your approval (article 6, paragraph 4 LAET):

- the report of the Board of Directors for the year 2016;
- the auditors' report;
- the financial statements for the year 2016;
- the proposal for allocation of result.

The english version of the AET 2016 Annual Report is merely a translation:  
the official version is the italian text.



### **The renewal of the turbines of the Nuova Biaschina plant**

The images of the present publication have been taken between November 2016 and April 2017. They show different phases of the substitution of the first of the three turbines of the Nuova Biaschina hydropower plant in Personico.

The Nuova Biaschina plant was built between 1962 and 1967 and is the most powerful of AET's production chain in Leventina. The complete renewal of its three turbines started in autumn 2016 and will end at the beginning of 2019. The renewal will increase by 9% the total power of the plant.

On the cover: the Nuova Biaschina plant.

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BROWN BOVERI

The generators of the Nuova Biaschina are located under the vault designed by the architect Augusto Jäggi.







The extraction of the rotor.

## 2016 in summary

### Key figures

	2016	2015 <sup>1</sup>	2014	2013	2012
In CHF million					
Operating income	824	1,033	1,212	1,087	1,316
Operating result	-28	38	50	51	40
Result for the year	-31	-44	13	12	21
Equity	355	420	454	453	428
Equity in % of balance sheet total	43.6%	38.9%	39.5%	38.9%	49.2%
Non-current assets	510	729	771	776	562
Balance sheet total	816	1,079	1,149	1,165	869
Distribution of dividends to the State	-	-	5	10	14
Interest on capital due to the State	3	3	3	3	3
Employees of the Group (full time equivalent)	263.6	451.9	434.4	435.5	247.7
	2016	2015	2014	2013	2012
In GWh					
Production AET Group	872	1,023	1,020	983	926
Production participations	1,310	1,430	2,004	1,327	918

<sup>1</sup> 2015 figures restated

In 2016 the participation Società Elettrica Sopracenerina SA (SES) has been deconsolidated following the decrease of AET's shareholding from 53% to 30%.



**Management of AET**

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

# Company officers

## **Board of Directors**

Leonardi Giovanni, *Chairman*  
Netzer Marco, *Vice Chairman*  
Beffa Floriano  
Cereghetti Claudio  
Lombardi Sandro  
Ogna Ronald  
Passoni Alberto

## **Group auditor**

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*



The overhaul of the stator.

Report of  
the Board of Directors



The fitment of the stator.



# Introduction by the Chairman

## **An ever-evolving sector**

The Swiss electricity market operates at two levels. Upstream of the chain, we find the production companies, which have been operating in the free market since 2009 and are completely exposed to competition and the fluctuations of international markets. Downstream, we have the distribution companies, which take advantage of conditions arising from the opening of the market on the procurement side, relying on a solid core of tied-in clients they can sell on to.

The determining factor of the results of a production company like AET in these market conditions is the price of electricity on European markets, which in 2016 – despite a few tentative signs of recovery towards the end of the year – remained significantly below the production costs. Once again, therefore, AET has recorded a negative result, closing the year with a deficit of CHF 31 million.

The price of energy on European markets in turn depends on a combination of economic, technological and political factors, which have a reciprocal effect and influence on each other. Today, we are faced with a clear imbalance between supply and demand. Reduced energy consumption in Europe and the explosion in heavily subsidised renewable energy have brought about excess production, triggering a prolonged period of falling prices which we are faced with today. In the first half of 2016, a new historic low was reached. It took the unplanned shut-down for inspections of around 20 nuclear reactors in France and a particularly cold autumn to witness the first tentative signs of a rise in prices after eight years of continuous decline. Signs of a rise that clearly demonstrate the correlation between supply and demand, but which do not provide any certainty about the longed-for trend reversal. Prices remain below the cost of production. The market system needs to be rebalanced as at present, only state-subsidised production is able to generate a profit.

The Federal Assembly has acknowledged the problem and has provided a partial solution by introducing a market premium for large hydroelectric plants in the first package of its 2050 Energy Strategy, approved on 30 September 2016 and subject to a referendum. This measure will safeguard the main renewable resource that our country has; it will provide temporary relief, but will not resolve a situation that has become structural. A lasting solution must not ignore reform of the market model, taking into account the interests of all stakeholders in the sector and redefining policies on the transition to renewables throughout Europe.

## AET's response

The European and Swiss electricity markets are being transformed beyond a straightforward choice of energy policy. A return to the supply models of the past is now out of the question: technological requirements, market demands and consumer sensitivity have all changed. AET cannot avoid facing up to this situation, adapting its strategy and its own organisational structure. We have put numerous measures in place over the last two years and they are already yielding their first positive results.

Among the rationalisation measures aimed at reducing the economic impact of this difficult market climate, we should make special mention of the early renewal of the AET workers' collective employment agreement, with an increase in weekly working hours. Added to this is the change from a defined benefit to a defined contribution pension scheme. These two measures have also meant a sacrifice on the part of workers; they have demonstrated their awareness of the situation that the electricity market and the company find themselves in today. The Board of Directors extends its thanks to all its workers for the sense of responsibility shown on this occasion.

These measures were accompanied by a reorganisation of our internal structure which allowed us to centralise several outlying operations in Monte Carasso. The new organisation is able to provide a broad spectrum of services to third parties in the field of grid supply and maintenance – specific expertise that only AET can offer in Ticino. When it comes to making savings, we should mention that we have pulled out of major sponsorship commitments, including the Locarno Film Festival, the Ambri Piotta Hockey Club and Lugano Hockey Club.

The heart of AET's strategy remains focused on developing the energy resources that the Canton of Ticino has to offer and on expanding its renewable output. The sale of assets in some foreign companies, such as the CEG power plants in Guarino and Occimiano, AET Idronord's "Le Valli" plant and the commercial division of AET Italia, are part of this plan. Further assets may be divested in the future if the opportunity arises.

At the same time, projects and partnerships within our Canton are being strengthened. The construction of the new Ritom power plant, the St. Gotthard wind farm and the complete overhaul of generators at the Nuova Biaschina power plant are the three main projects that the company will be involved in over the next few years.

As for partnerships, we are making progress on two fronts. Firstly, there are the agreements for the long-term supply of Ticino hydroelectric energy at a price linked to the production cost. These were entered into at the end of 2016 with most of the distribution companies. Signing these agreements, the result of a discussion forum on the electricity sector in the Canton called by the Department of Finance and Economy (DFE) in the autumn of 2015, provides a secured outlet for a significant share of AET's hydroelectric production, giving distributors the opportunity to stabilise long-term tariffs for the end user. Secondly, discussions are under way with Officine Idroelettriche della Maggia SA and Officine Idroelettriche di Blenio SA with the aim of strengthening cooperation and making the most of possible synergies in the field of plant maintenance. This important step will help AET protect specialised jobs in the valleys and to acquire precious know-how in view of the future return into public ownership of these plants.

We are experiencing times of great change: technological development, the important energy policies decisions and the strategy that we will adopt will be crucial not only for the company performance over the next few years, but also and more importantly for the reliability and quality of our energy supply.



A handwritten signature in blue ink, appearing to read 'Leonardi'.

Giovanni Leonardi  
Chairman



New lacquering of the stator.





The coupling of the shaft.

# Management report

## Another difficult year

In 2016, AET closed the financial year at a loss for the second year in a row, recording a net loss of CHF 31 million. The result can be attributed to extremely low market prices which do not cover production costs. The gross margin on the sale of energy has in fact been virtually nil. This resulted in a negative operating result of CHF – 24 million (compared with CHF +15 million in the previous year).

The loss was anticipated and its size is in line with expectations. In current market conditions, no production operation can be profitable unless it is backed by state incentives. The indicators available to us hint at a slow reversal of the trend, but price levels are likely to cause losses for some years to come. The negative result does not allow any dividend distribution to the State.

AET has the advantage of a financial structure that is solid enough to see us through this difficult period. However, it is crucial to concentrate our investments on production with a secure future and to consolidate a series of income-producing collateral operations beside the power generation.

From a governance perspective, we should point out that the “new” Act of the Azienda elettrica ticinese (LAET) has come into force following a relatively long parliamentary process. The LAET of 10 May 2016 has reallocated competences between the Council of State, Parliament and corporate institutions, bringing it in line with procedures normally in place at federal level.

## Production

### Electricity

After a number of years characterised by rainfall above the multi-year average, 2016 stood out for being particularly dry, especially in the second half of the year. The group’s hydroelectric production was down by 16% compared with 2015, standing at 826 GWh. For the first time, this figure includes the 93 GWh produced by the Lucendro plant. A similar situation characterised the hydroelectric production from participations, which ended the year at 526 GWh, a fall of 18% compared with the previous year.

During 2016, the organisational structure of AET’s energy production was revised, integrating staff previously employed at the Lucendro power plant. The new organisation makes it easier to provide maintenance services to third parties.

As for the company’s plants, the project to replace the turbines at the Nuova Biaschina plant deserves a mention. In autumn, work began to replace the three turbines and generators at the biggest plant in the Leventina valley production chain. The project, which plans to replace one turbine unit a year between 2016 and 2018, will improve the plant’s output, increasing its overall power output by 9%.

With regard to thermoelectric participations, we can report that the German plant of Lünen has been operating normally. As for the hydroelectric plants, market prices have prevented it from covering its production costs.

The production from nuclear participations, standing at 282 GWh, is down by 24% compared with the previous year, due to the planned outages of French power plants and the shutdown of the Leibstadt reactor, which stood still from August until the end of the year due to oxidation problems on the combustion elements.

Four new photovoltaic plants came into service in Ticino, two of which were part of a new partnership with the Canton's Logistics Department. As a result, AET's solar power has increased by a further 520 kWp, bringing annual production to 3 GWh.

### **Thermal energy**

TERIS Teleriscaldamento del Bellinzonese SA, a company that is 60% owned by AET, has continued to work to expand its thermal energy distribution network, commissioning 17 new connections. These include the new back-up unit for Government building in Bellinzona. Laying of pipes has also continued to the north of Giubiasco, with a further 2 km section towards Palasio and towards Banca Stato.

Calore SA, a joint participation between AET and Società Elettrica Sopracenerina SA (SES), is continuing with its project to upgrade the Morettina thermal plant in Locarno and a study for construction of a new plant in the Solduno neighbourhood.

Metanord SA, 31% owned by AET, has recently expanded its methane gas distribution network, concentrating its efforts in the Bellinzona district. The gas network now exceeds 100 km in size and the volume sold is constantly growing in the domestic, tertiary and SME segments (with growth rates around 50% compared with the previous year), while in the large clients segment, we have seen a decrease (-8%) caused by competition from gasoline, which reached record low prices at the begin of the 2016 financial year. When drawing up the balance sheet, AET booked an impairment on its investment as a result of the financial losses in the company's first few years of business. The expansion of the distribution network and the interest shown by the industrial, SME and domestic sectors (especially for large buildings) bode well for the future of the company. We also need to take environmental factors into account: the volume of gas delivered in 2016 contributed to a reduction of CO<sub>2</sub> emissions by about 5,500 tonnes (compared to gasoline).

Also progressing according to plan is the project to build a woodchip fired district heating network in the area around Tesserete, developed by Capriasca Calore SA, together with the Azienda Elettrica di Massagno (AEM) SA and the Municipality of Capriasca.



## Energy trade

### Sales

The offer of products and services connected with the sale of energy must be constantly updated to respond to pressure from the liberalised market. AET has developed a range of products and solutions to manage supply using an online platform, which considerably improve the quality of service to distribution companies and customers in general. These efforts have made it possible to maintain strong relationships with the distribution companies in Ticino, many of which have renewed their supply contracts until 2021, as well as to increase the number of customers outside the Canton, which now numbers around thirty.

With regard to collaboration within the Canton, we should also highlight that a long-term agreement has been signed for the supply of hydroelectric energy from Ticino power plants at a price directly linked to the cost of production. The agreement, signed by nine of the eleven distribution companies operating in Ticino, will provide an outlet for a significant share of AET's production. Distributors, for their part, can guarantee a long-term supply of local hydroelectric energy to their customers at more stable prices. Collaboration with Enerti for the sale of eco-friendly products, renewable and certified Ticino energy, has also been extended throughout 2017.

Moving on to sales activity abroad, against the background of redefining the company strategy, AET has stopped the sale of energy to end customers in Italy, selling the commercial division of AET Italia SpA to a large multiutility company. AET Italia SpA will only continue to operate in the area of Merchant Line management.

### Trading

Electricity prices on European markets continued on the relentless fall that started back in 2008, for the entire first half of the year. This year-on-year trend recorded a further fall compared to 2015, which has had a negative effect on company results. From September onwards, due to the outage of several nuclear reactors in France and a particularly cold start of the autumn compared with seasonal averages, we started to see the first signs of recovery of future prices, even though in Switzerland they were tempered by a strong currency.

### Grid

2016 saw the completion of several maintenance and modernisation projects on the AET distribution grid throughout the Canton – from the construction of buildings to house the new substations at Acquarossa and Monte Carasso to completion of the cable tunnel for the Vezia-Crespera power line.

There has also been an increase in specialised work for third parties, in particular for Swissgrid AG, for the other network operators in Ticino, for AlpTransit and for the Federal Roads Office (FEDRO): this specialist work continues its upward trend and brings in positive results for the company.

## Strategic projects

### Società Elettrica Sopracenerina SA (SES): decrease of shareholding

At begin of 2016 AET has sold 23% of SES's shareholders capital to the Municipalities of its catchment area. This disposal, which had been planned since the original acquisition of the SES participation and was foreseen in the agreement between the initiators of the SES acquisition project, let AET's participation in SES decrease to 30%. Following this decrease in participation AET deconsolidated SES (the financial statements of SES are no more fully consolidated), and recognises it according to the equity method.

Considering the revaluation of SES's power grid assets to the ElCom values the disposal of the 23% of SES had the following impact on AET's consolidated financial statements.

	2015 group financial statement with SES at 53 % (fully consolidated)	Change in consolidation scope from the 23% stake disposal (1)	2015 Pro-forma group financial statement with SES at 30% (equity method)
In CHF million			
Non-current assets	729	- 200	529
<i>thereof SES participation</i>	-	56	56
Current assets	351	- 25	326
<b>Total assets</b>	<b>1'080</b>	<b>- 225</b>	<b>855</b>
Equity	420	- 32	388
Financial debt	353	- 102	251
Provisions	37	- 13	24
Current liabilities	270	- 78	192
<b>Total equity and liabilities</b>	<b>1'080</b>	<b>- 225</b>	<b>855</b>
Operating income	1'033	- 89	944
Operating result	38	- 21	17
<b>Result for the year</b>	<b>- 44</b>	<b>- 3</b>	<b>- 47</b>

(1) pro-forma impact on the group financial statements of the disposal of the 23% stake in SES and the consequent deconsolidation and recognition according to the equity method, considering the grid assets revaluation to the ElCom values.

### The new Ritom power plant

The company belongs to the Swiss Federal Railways – SBB (75%) and to the Canton of Ticino (25%). As is already the case with the Canton's shares in Verzasca SA, Officine Idroelettriche della Maggia SA and Officine Idroelettriche di Blenio SA, the Canton transfers the energy and related production costs to AET. Ritom SA intends to build a new hydroelectric plant to replace its existing one: 2016 was spent preparing the construction application which will be submitted to the Canton in the first half of 2017. This includes technical plans refined by a consortium of Ticino designers and an environmental impact report (RIA 2).

Current market conditions prompted the shareholders SBB and AET (on behalf of the Canton) to look in depth at alternatives for the project in order to identify the best solution over the entire duration of the concession. SBB and AET are convinced that the solution identified is the right one and that it will ensure effective management of the new plant over the next decades.

#### **Parco eolico del San Gottardo (St. Gotthard wind farm)**

Throughout 2016, designers worked alongside AET engineers to prepare the construction application. This comprised a technical report for each single wind turbine and an environmental impact report (RIA 2) including an outline of planned compensation measures. The application was published by the Municipality of Airolo in November. For the umpteenth time, an appeal was lodged by the Società Ticinese per l'Arte e la Natura (STAN).

#### **Foreign investments**

AET holds some investments in foreign production companies. These were acquired in the early 2000s following the obligation (in force at the time) to ensure supply in the Canton. The sharp decline in energy prices and the resulting loss in value of these participations have prompted AET to gradually dispose them. The timing and method of sale will depend on the opportunities that arise in a particularly unfavourable market.

#### **CEG Group**

Work has continued to streamline and restructure CEG Group operations, a group now completely owned by AET. CEG now completely owns Biogen Chivasso Srl, which itself owns a production plant in the Chivasso industrial estate. Attention has turned to implementing measures to optimise operations and finances aimed at improving overall economic performance. CEG also owns the entire shareholding in Bio Energia Occimiano (BEO) Srl, a company no longer in operation and now placed in liquidation.

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

The Greek wind farms Mitikas and Makedonias regularly produce energy, which is off-taken and paid for by the operator of the national power grid. The weakness of the whole Greek economy severely affects the financial autonomy of the companies owning the wind farms, for that reason the investment is completely impaired (booked at the end of 2015 financial year).

## Conclusion and forecast

The liberalisation process, the explosion of subsidies for “new renewables” and recent European energy policies have shaken the electricity market in the last few years beyond all expectations. The price is being paid by the large power producers in general, including companies focused on the hydroelectrical power generation, a renewable resource known for its extreme flexibility, which however currently is more expensive than the average price on the markets.

As a result of the current market climate, in recent years, AET has had to book impairments on all investments in foreign production plants. These investments were made between 2000 and 2010, when for supply security reasons, AET was required to provide overall supply for the Canton, even above the consumption of the time (in 2010, the Cantonal Energy Plan working group aimed at a 30% supply surplus compared with the action plan with a balanced mix between local production, investment in plants in Switzerland and abroad, and by entering into long-term contracts).

A large part of the impaired foreign investments are not expected have any repercussions on future financial years. However, this is not the case for long-term investments relating to the long-term supply contracts with EDF and investment in the coal-fired power station at Lünen. These two investments generated a mark-to-market loss of over CHF 30 million in 2016. Under year-end market conditions, for the years to come a smaller impact is expected.

AET's financial results are therefore affected by the commitments made over the last decade to ensure the electricity supply to the Canton. Unfortunately, traditional business related to the “renewable hydroelectricity” is penalised by current market levels and it is unable to produce profit margins. This is a common problem for all hydroelectricity producers in Switzerland and, if it is not resolved soon, it will have an impact on the country's electricity supply. Deferment of sizeable investment, even for special maintenance projects, will not help either hydroelectric production nor protect the resource in the medium term.

## Proposal for allocation of result

The Board of Directors, in accordance with article 18 LAET (respectively article 671, Paragraph 2 of the Swiss Code of Obligations), proposes to allocate the result as follows:

In CHF 1,000	
Result for the year 2016	-31,407
- to the State: 8% interest on the endowment capital	-3,200
- dividend to the State	-
- allocation to the general reserves	-
<b>Allocation to the profit brought forward</b>	<b>-34,607</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 2016;
- the financial statements for the year 2016;
- the proposal for allocation of result;

granting the discharge to the directors and the management for their activity.



The new Francis turbine.





The welding of a retaining ring.



# Consolidated financial statements

# Consolidated balance sheet

## Assets

In CHF 1,000	Notes	31.12.2016	31.12.2015 <sup>1</sup>
Operating plants and equipment		238,096	480,514
Land and buildings		52,784	63,369
Tangible fixed assets under construction		32,536	41,277
Tangible fixed assets on lease		169	188
Other tangible fixed assets		1,007	3,773
<b>Tangible fixed assets</b>	2	<b>324,592</b>	<b>589,121</b>
Participations in associates	3	69,502	15,725
Long-term securities	4	48,954	50,192
Advances and loans to participations	5	42,795	45,894
Other financial assets		1,682	1,873
<b>Financial assets</b>		<b>162,933</b>	<b>113,684</b>
Plant and equipment usage rights		7,942	8,404
Energy procurement rights		9,898	10,798
Intangible assets under construction		3,468	2,633
Other intangible assets		1,158	4,054
<b>Intangible assets</b>	6	<b>22,466</b>	<b>25,889</b>
<b>Total Non-current assets</b>		<b>509,991</b>	<b>728,694</b>
Receivables from goods and services	7	28,631	81,534
Other short-term receivables	8	64,951	43,609
Inventories	9	8,483	23,927
Prepayments and accrued income	10	107,896	111,937
Cash and cash equivalents	11	96,183	89,501
<b>Total Current assets</b>		<b>306,144</b>	<b>350,508</b>
<b>Total Assets</b>		<b>816,135</b>	<b>1,079,202</b>

<sup>1</sup> 2015 figures restated

## Liabilities and equity

		31.12.2016	31.12.2015 <sup>1</sup>
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
Conversion differences		-8,702	-7,998
Retained earnings		348,158	373,800
Result for the year		-30,636	-44,037
<b>Equity attributable to AET</b>		<b>348,820</b>	<b>361,765</b>
Minority interests		6,649	57,824
<b>Total Group equity</b>		<b>355,469</b>	<b>419,589</b>
Long-term provisions	12	323	37,200
Other long-term liabilities		2,921	5,325
Long-term financial liabilities	13	292,508	347,353
<b>Long-term liabilities</b>		<b>295,752</b>	<b>389,878</b>
Payables from goods and services	14	22,243	40,407
Short-term financial liabilities	15	1,958	85,946
Other short-term liabilities	16	27,032	35,060
Accrued liabilities and deferred income	17	92,587	98,813
Short-term provisions	12	21,094	9,509
<b>Current liabilities</b>		<b>164,914</b>	<b>269,735</b>
<b>Total Liabilities</b>		<b>460,666</b>	<b>659,613</b>
<b>Total Liabilities and equity</b>		<b>816,135</b>	<b>1,079,202</b>

<sup>1</sup> 2015 figures restated

## Consolidated income statement

In CHF 1,000	Notes	2016	2015 <sup>1</sup>
<b>Operating income</b>			
Energy sales	18	752,449	800,307
Grid income		50,042	201,741
Other operating income	19	21,229	30,549
<b>Total Operating income</b>		<b>823,720</b>	<b>1,032,597</b>
<b>Operating expenses</b>			
Energy purchases	20	-732,707	-729,805
Grid expenses		-33,437	-123,116
Personnel expenses	21	-28,007	-52,598
Service and material expenses		-10,449	-13,419
Depreciation on tangible fixed assets		-15,203	-29,877
Amortisation on intangible assets		-2,575	-8,198
Other depreciation and amortisation		-1,014	-1,014
Other operating expenses	22	-27,950	-36,855
<b>Total Operating expenses</b>		<b>-851,342</b>	<b>-994,882</b>
<b>Operating result</b>		<b>-27,622</b>	<b>37,715</b>
Financial result	23	-6,323	-19,409
Result from associates	3	2,527	2,712
<b>Ordinary result</b>		<b>-31,418</b>	<b>21,018</b>
Non-operating result		-	5
Extraordinary result	24	9	-55,228
<b>Result before income taxes</b>		<b>-31,409</b>	<b>-34,205</b>
Income taxes		969	-4,117
<b>Group result for the year</b>		<b>-30,440</b>	<b>-38,322</b>
Minority interests		-196	-5,715
<b>Result for the year attributable to AET</b>		<b>-30,636</b>	<b>-44,037</b>

<sup>1</sup> 2015 figures restated

## Consolidated cash flow statement

	2016	2015
In CHF 1,000		
Result for the year	-30,636	-44,037
Minority interests to income statement	196	5,715
Depreciation on tangible fixed assets	15,203	29,877
Amortisation on intangible assets	2,575	8,198
Other depreciation and amortisation	1,014	1,014
Change in long-term provisions	-177	2,675
Change in impairments	772	54,467
Profit / loss from disposal of non-current assets	-8,182	-521
Result from associates	666	-151
Other non cash expenses and income	417	1,585
Change in receivables, inventories and prepayments and accrued income	39,014	54,544
Change in liabilities and accrued liabilities and deferred income	-1,849	-9,103
Change in short-term provisions	3,499	-1,194
<b>Cash flow from operating activities</b>	<b>22,512</b>	<b>103,069</b>
Outflows for investment in tangible fixed assets	-20,007	-60,885
Inflows from disposal of tangible fixed assets	7,440	10,218
Outflows for investment in intangible assets	-868	-2,951
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-609	-6,384
Inflows from disposal of financial assets	2,189	12,344
Acquisition of consolidated organisations, less cash	-780	-7,236
Disposal of consolidated organisations, less cash	6,342	14,026
<b>Cash flow from investing activities</b>	<b>-6,293</b>	<b>-40,868</b>
Issuance / repayment of short-term financial liabilities	-38,693	-42,384
Issuance / repayment of long-term financial liabilities	32,533	14,344
Distribution of dividends to minority shareholders of subsidiaries	-	-625
Interests on capital due to the State	-3,200	-3,200
Distribution of dividends to the State	-	-5,000
<b>Cash flow from financing activities</b>	<b>-9,360</b>	<b>-36,865</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>89,501</b>	<b>64,440</b>
<b>Cash flow</b>	<b>6,859</b>	<b>25,336</b>
Conversion differences on cash and cash equivalents	-177	-275
<b>Cash and cash equivalents at the end of the year</b>	<b>96,183</b>	<b>89,501</b>

## Statement of changes in consolidated equity

	Endowment capital	Conversion differences	Retained earnings	Result for the year	Equity attributable to AET	Minority interests	Total Group Equity
In CHF 1,000							
<b>Equity at 01.01.2015<sup>1</sup></b>	<b>40,000</b>	<b>-3,754</b>	<b>374,460</b>	<b>13,414</b>	<b>424,120</b>	<b>34,528</b>	<b>458,648</b>
Allocation of result	-	-	13,414	-13,414	-	-	-
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of dividends	-	-	-5,000	-	-5,000	-625	-5,625
Conversion differences	-	-4,244	-42	-	-4,286	5	-4,281
Change in consolidation scope	-	-	-6,192	-	-6,192	18,201	12,009
Offset consolidation difference	-	-	360	-	360	-	360
Result for the year 2015 <sup>1</sup>	-	-	-	-44,037	-44,037	5,715	-38,322
<b>Equity at 31.12.2015<sup>1</sup></b>	<b>40,000</b>	<b>-7,998</b>	<b>373,800</b>	<b>-44,037</b>	<b>361,765</b>	<b>57,824</b>	<b>419,589</b>
Allocation of result	-	-	-44,037	44,037	-	-	-
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of dividends	-	-	-	-	-	-	-
Conversion differences	-	-704	150	-	-554	-	-554
Change in consolidation scope	-	-	21,445	-	21,445	-51,371	-29,926
Offset consolidation difference	-	-	-	-	-	-	-
Result for the year 2016	-	-	-	-30,636	-30,636	196	-30,440
<b>Equity at 31.12.2016</b>	<b>40,000</b>	<b>-8,702</b>	<b>348,158</b>	<b>-30,636</b>	<b>348,820</b>	<b>6,649</b>	<b>355,469</b>

<sup>1</sup> 2015 figures restated

Equity modifications due to change in consolidation scope mainly refer to the deconsolidation and subsequent recognition according to the equity method of the participation into Società Elettrica Sopracenerina SA (SES).

# Notes to the consolidated financial statements

## Restatement of the 2015 consolidated financial statements

Starting from the financial year 2016 AET has introduced the mark to market valuation of its trading portfolio. In order to enable the comparability with prior year figures the 2015 consolidated financial statements have been restated taking into account this accounting practice. The restatement determines a decrease of the result of the year 2015 of CHF 0.5 million and an increase of equity as of 31.12.2015 of CHF 4.1 million.

## 1. Accounting principles

The 2016 group financial statements of 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 12.05.2017.

### 1.1. Consolidation principles

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

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

Subsidiaries <sup>1</sup>	Currency	Share capital	Shareholding at 31.12.2016	Shareholding at 31.12.2015
		in 1,000	%	%
AET Idronord Srl	EUR	100	100.00	100.00
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)	EUR	50	100.00	80.00
Biogen Chivasso Srl	EUR	20	100.00	*
Calore SA	CHF	2,000	63.57	74.93
CEG SpA	EUR	120	100.00	80.00
Lucendro SA	CHF	3,000	100.00	100.00
Parco eolico del San Gottardo SA	CHF	1,000	70.00	70.00
Senco Holding SA	CHF	150	65.00	76.62
Senco Sagl	CHF	220	65.00	76.62
Società Elettrica Sopracenerina SA (SES)	CHF	16,500	**	53.23
Società Locarnese di Partecipazioni e Immobiliare SA	CHF	2,064	**	52.94
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

\* First consolidation on the 01.08.2016

\*\* From 01.01.2016 included into the equity method valuation of the SES Group

All consolidated companies have closed their financial year on the 31.12.2016.

At the time of acquisition, all acquired net assets are valued at fair value. Any difference between the acquisition price and the value of the acquired net assets 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 of which the AET Group holds less than 100%, the minority interests in the equity and in the profit are reported as separate items on the balance sheet and income statement.

### 1.1.2. Changes in consolidation scope

During 2016 the following changes in consolidation scope of the AET Group have incurred:

- at the beginning of 2016 AET sold 23.23% of the shareholders' capital of Società Elettrica Sopracenerina SA (SES) to the Municipalities of its catchment area. Following this transaction the participation SES and its subsidiary Società Locarnese di Partecipazioni e Immobiliare SA (SAP SA) have been deconsolidated from AET Group's balance sheet effective 01.01.2016. The value of the affiliated company is recognised through the equity method. As of 01.01.2016 SES has revalued its power grid assets to the regulatory values used for the determination of the grid usage fees (ECom values). The effect of this revaluation has been considered by AET within the first equity method recognition of SES without impact on the income statement.
- Following the disposal of the 23.23% shareholding in SES the AET holding quota in Senco Holding SA, Senco Sagl and Calore SA have decreased accordingly.
- On the 25.07.2016 SPE Società per Partecipazioni Energetiche SA acquired 100% control over its subsidiary CEG SpA. Consequently the indirect participation into Bio Elettricità Occimiano Srl (BEO) increased to 100%.
- On the 31.07.2016 CEG SpA acquired a further 50% stake into Biogen Chivasso Srl. The latter has thus been fully consolidated starting from 01.08.2016.

During 2015 the following changes in consolidation scope of the AET Group have incurred:

- 194,268 shares of the Società Elettrica Sopracenerina SA (SES) have been sold to the Municipalities of its catchment area. The participation of AET into SES therefore decreased from 70.89% to 53.23%. The shareholdings in all the SES subsidiaries decreased consequently.
- On the 13.04.2015 the subsidiary CEG SpA sold 49% of the capital of Bio Energia Guarcino Srl (BEG).
- On the 28.04.2015, in the context of a restructuring of its financial positions, AET increased its shareholding into AET Idronord Srl to 100% (previously 90%).
- On the 02.06.2015 AET acquired 100% of Lucendro SA (previously Alpiq Hydro Ticino SA).
- On the 24.09.2015 the Group completed the disposal of 100% of the capital of AET CoGen Srl.
- On the 25.11.2015 AET subscribed 33.3% of the capital of the newly incorporated Capriasca Calore SA.

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

	Biogen Chivasso Srl 31.07.2016 EUR 1,000	SES SA 31.12.2015 CHF 1,000	SAP SA 31.12.2015 CHF 1,000
Non-current assets	8	269,008	30,148
Current assets except cash	6,802	44,097	739
Cash and cash equivalents	189	9,591	1,114
<b>Total assets</b>	<b>6,999</b>	<b>322,696</b>	<b>32,001</b>
Equity	-14,829	84,505	30,665
Long-term liabilities	13,951	133,785	-
Current liabilities	7,877	104,406	1,336
<b>Total liabilities and equity</b>	<b>6,999</b>	<b>322,696</b>	<b>32,001</b>



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

The shareholdings in companies over which the AET Group exercises significant influence but no control are recognised in the Group consolidated financial statements according to the equity method (recognition of the share of shareholder's equity and net profit according to the Group accounting principles, 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	Share capital	Shareholding at 31.12.2016	Shareholding at 31.12.2015
		in 1,000	%	%
Bio Energia Guarcino Srl (BEG)	EUR	1,100	–	0.80
Biogen Chivasso Srl	EUR	20	*	40.00
Biomassa Blenio SA	CHF	870	20.98	24.73
Capriasca Calore SA	CHF	210	33.33	33.33
Energie Rinnovabili Losone (ERL) SA	CHF	2,700	**	17.74
Enerti SA	CHF	200	**	17.59
Metanord SA	CHF	18,594	33.10	34.77
Nord Energia SpA	EUR	10,200	40.00	40.00
Quadra Srl	EUR	20	50.00	50.00
SES Controlli Sagl	CHF	20	**	21.29
Società Elettrica Sopracenerina SA (SES)	CHF	16,500	30.00	***

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

\* As of 01.08.2016 fully consolidated

\*\* From 01.01.2016 included into the equity method valuation of the SES Group

\*\*\* Previously fully consolidated, from 01.01.2016 recognised through the equity method valuation

### 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 (EUR / CHF)	2016	2015
Exchange rate on the closing date 31.12	1.0720	1.0874
Average exchange rate	1.0901	1.0681

## 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 at their 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 works	40 – 80 years
Electromechanical installations	40 – 50 years
Electromechanical equipments	15 – 35 years
Power lines	30 – 55 years
Substations and transformers	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. Tangible fixed assets acquired through financial leases are capitalised and the corresponding debt 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 power lines. 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; 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, liquid biofuels and energy related certificates. Tools and materials are valued at their weighted average purchase price, the book value is impaired for slow-moving items or obsolescence.

Energy related certificates acquired within the trading portfolio are booked at their market value (mark to market) at the balance sheet date, changes in market value incurred during the reporting financial year are recorded in the income statement within other income energy sales.

Energy related certificates acquired for the purpose of hedging of the generation portfolio of AET are booked at the weighted average purchase price.

### 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 currencies 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, that is the higher between the net selling price and the value in use, is computed. The value in use is generally computed on the basis of the present value 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 original depreciation scheme.

### 1.2.8. Provisions

Provisions are deemed to cover probable future disbursements related to legal or implicit obligations arising from past events. Long-term provisions are reported at the present value at 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. Energy forward sale and purchase transactions

Energy forward sale and purchase transactions as well as the economic result of energy related transactions with financial instruments made within the trading portfolio are booked at their market value at the balance sheet date (mark to market). Positive and negative replacement values (the difference between the market price at the balance sheet date and the contract price) are booked within other short-term receivables and other short-term liabilities respectively. Changes in market value incurred during the reporting financial year are recorded in the income statement within other income energy sales.

Energy forward sale and purchase transactions as well as the economic result of energy related transactions entered for the purpose of hedging of the generation portfolio of AET are recognised on the income statement at delivery.

### 1.2.12. Revenues

Grid income and other operating income are recognised within the income statement at settlement of the delivery or service. All revenues are recorded net of price reduction, sale taxes and value added taxes.

### 1.2.13. Pension funds

Pension benefits for employees hired by Swiss entities are covered by autonomous pension funds. From 01.04.2017 AET's personnel is affiliated to a defined contribution pension scheme. 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 future cash outflow for the company in the form of restructuring contributions. Economic benefits consist of future positive cash flow resulting from the use of employer's contribution reserves or other benefits. The personnel employed in Italy is 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.

### 1.2.14. 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.

The Group parent company AET is not subject to any income tax.

### 1.2.15. Related party transactions

Transactions with associates include all transactions and debit / credit relationships with companies of which AET holds between 20% and 50% of the voting rights and which have been recognised 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, Ritom 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 offtakes the respective share of energy and pays the related 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 01.01.2015</b>	<b>1,027,914</b>	<b>61,686</b>	<b>50,769</b>	<b>18,580</b>	<b>19,030</b>	<b>1,177,979</b>
Change in consolidation scope	112,128	1,593	1,246	-16,599	-85	98,283
Reclassification	54,101	12,362	-66,898	-	318	-117
Additions	1,870	1,566	56,322	-	1,127	60,885
Disposals	-21,845	-335	-162	-	-680	-23,022
Conversion differences	-1,572	-56	-	-1,776	-49	-3,453
<b>Cost value at 31.12.2015</b>	<b>1,172,596</b>	<b>76,816</b>	<b>41,277</b>	<b>205</b>	<b>19,661</b>	<b>1,310,555</b>
Change in consolidation scope	-545,301	-15,446	-14,922	21,333	-11,843	-566,179
Reclassification	11,203	2,135	-13,508	-	170	-
Additions	189	11	19,730	-	77	20,007
Disposals	-317	-	-41	-	-485	-843
Conversion differences	-	-1	-	-3	-4	-8
<b>Cost value at 31.12.2016</b>	<b>638,370</b>	<b>63,515</b>	<b>32,536</b>	<b>21,535</b>	<b>7,576</b>	<b>763,532</b>
<b>Accumulated depreciation at 01.01.2015</b>	<b>-570,885</b>	<b>-11,619</b>	<b>-</b>	<b>-17,151</b>	<b>-15,570</b>	<b>-615,225</b>
Change in consolidation scope	-106,889	-559	-	15,511	85	-91,852
Reclassification	-	-	-	-	-	-
Depreciation	-26,985	-1,618	-	-226	-1,048	-29,877
Disposals	11,833	303	-	2	679	12,817
Impairments	315	24	-	1,117	-65	1,391
Conversion differences	529	22	-	730	31	1,312
<b>Accumulated depreciation at 31.12.2015</b>	<b>-692,082</b>	<b>-13,447</b>	<b>-</b>	<b>-17</b>	<b>-15,888</b>	<b>-721,434</b>
Change in consolidation scope	305,455	3,565	-	-21,333	9,134	296,821
Reclassification	3	-3	-	-	-	-
Depreciation	-13,961	-847	-	-16	-379	-15,203
Disposals	317	-	-	-	485	802
Impairments	-6	-	-	-	75	69
Conversion differences	-	1	-	0	4	5
<b>Accumulated depreciation at 31.12.2016</b>	<b>-400,274</b>	<b>-10,731</b>	<b>-</b>	<b>-21,366</b>	<b>-6,569</b>	<b>-438,940</b>
<b>Net carrying amount at 01.01.2015</b>	<b>457,029</b>	<b>50,067</b>	<b>50,769</b>	<b>1,429</b>	<b>3,460</b>	<b>562,754</b>
<b>Net carrying amount at 31.12.2015</b>	<b>480,514</b>	<b>63,369</b>	<b>41,277</b>	<b>188</b>	<b>3,773</b>	<b>589,121</b>
<b>Net carrying amount at 31.12.2016</b>	<b>238,096</b>	<b>52,784</b>	<b>32,536</b>	<b>169</b>	<b>1,007</b>	<b>324,592</b>

### 3. Participations in associates

	31.12.2016	31.12.2015
In CHF 1,000		
Opening balance	15,725	16,478
Purchases	–	70
Disposals	–	–
Change in consolidation scope	54,602	–
Conversion differences	–159	–974
Result from associates	2,527	2,712
Received dividends	–3,193	–2,561
<b>Closing balance</b>	<b>69,502</b>	<b>15,725</b>

Equity method values of associates (according to Swiss GAAP FER).

	Metanord SA	Nord Energia Group	SES Group <sup>1</sup>	Various	Total
In CHF 1,000					
Non-current assets	55,945	19,680	399,009	2,371	477,005
Current assets	2,035	20,328	58,914	626	81,903
<b>Total assets</b>	<b>57,980</b>	<b>40,008</b>	<b>457,923</b>	<b>2,997</b>	<b>558,908</b>
Equity	0	27,471	193,942	1,000	222,413
Long-term liabilities	55,730	7,890	150,347	1,600	215,567
Current liabilities	2,250	4,647	113,634	397	120,928
<b>Total liabilities and equity</b>	<b>57,980</b>	<b>40,008</b>	<b>457,923</b>	<b>2,997</b>	<b>558,908</b>
Revenues	4,385	21,778	144,796	218	171,177
EBITDA	57	13,683	29,532	105	43,377
Net result	–11,113	6,946	9,494	–17	5,310
<b>AET's shareholdings, in %</b>	<b>33%</b>	<b>40%</b>	<b>30%</b>	<b>various</b>	
<b>AET's share of the equity</b>	<b>0</b>	<b>10,988</b>	<b>58,183</b>	<b>331</b>	<b>69,502</b>

<sup>1</sup> Excluding Senco Holding SA, Senco Sagl and Calore SA, because fully consolidated

The shares of Metanord SA are pledged in favour of creditors of the company.

## 4. Long-term securities

	31.12.2016	31.12.2015
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co. KG	36,472	37,325
./ impairment	-20,700	-20,700
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-15,678	-15,678
Swissgrid AG	12,589	12,589
Kraftwerke Mattmark AG	11,802	11,959
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	241	469
<b>Total</b>	<b>48,954</b>	<b>50,192</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 booked at their historical cost. The impairment amount is determined on the basis of the critical economic and financial conditions towards which the investment is exposed.

## 5. Advances and loans to participations

	31.12.2016	31.12.2015
In CHF 1,000		
Swissgrid AG	15,552	15,552
Metanord SA	14,200	14,200
Terravent AG	12,750	12,750
Other	293	3,392
<b>Total</b>	<b>42,795</b>	<b>45,894</b>

The loan to Swissgrid AG represents part of the consideration of the disposal of grid assets belonging to the national power transportation grid; the loan is subordinated and is subject to mandatory convertibility in case of reduction of the own capitalisation ratio of Swissgrid AG below certain limits defined by the Federal Electricity Commission (ElCom).

## 6. Intangible assets

	Plant and equipment usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2015</b>	<b>12,203</b>	<b>151,583</b>	<b>2,946</b>	<b>19,811</b>	<b>186,543</b>
Change in consolidation scope	655	–	–	–132	523
Reclassification	–	–	–821	938	117
Additions	3,064	–	547	393	4,004
Disposals	–656	–7,028	–39	–1,227	–8,950
Conversion differences	–	–	–	–355	–355
<b>Cost value at 31.12.2015</b>	<b>15,266</b>	<b>144,555</b>	<b>2,633</b>	<b>19,428</b>	<b>181,882</b>
Change in consolidation scope	–100	–	–	–6,237	–6,337
Reclassification	–	–	–	–	–
Additions	9	–	835	24	868
Disposals	–	–	–	–876	–876
Conversion differences	–	–	–	–31	–31
<b>Cost value at 31.12.2016</b>	<b>15,175</b>	<b>144,555</b>	<b>3,468</b>	<b>12,308</b>	<b>175,506</b>
<b>Accumulated amortisation at 01.01.2015</b>	<b>–5,443</b>	<b>–82,491</b>	<b>–</b>	<b>–14,189</b>	<b>–102,123</b>
Change in consolidation scope	–579	–	–	132	–447
Reclassification	–	–	–	–	–
Amortisation	–366	–5,394	–	–2,438	–8,198
Additions	–1,053	–	–	–	–1,053
Disposals	579	7,028	–	1,191	8,798
Impairments	–	–52,900	–	–341	–53,241
Conversion differences	–	–	–	271	271
<b>Accumulated amortisation at 31.12.2015</b>	<b>–6,862</b>	<b>–133,757</b>	<b>–</b>	<b>–15,374</b>	<b>–155,993</b>
Change in consolidation scope	–	–	–	4,245	4,245
Reclassification	–	–	–	–	–
Amortisation	–371	–900	–	–1,304	–2,575
Additions	–	–	–	–	–
Disposals	–	–	–	640	640
Impairments	–	–	–	619	619
Conversion differences	–	–	–	24	24
<b>Accumulated amortisation at 31.12.2016</b>	<b>–7,233</b>	<b>–134,657</b>	<b>–</b>	<b>–11,150</b>	<b>–153,040</b>
<b>Net carrying amount at 01.01.2015</b>	<b>6,760</b>	<b>69,092</b>	<b>2,946</b>	<b>5,622</b>	<b>84,420</b>
<b>Net carrying amount at 31.12.2015</b>	<b>8,404</b>	<b>10,798</b>	<b>2,633</b>	<b>4,054</b>	<b>25,889</b>
<b>Net carrying amount at 31.12.2016</b>	<b>7,942</b>	<b>9,898</b>	<b>3,468</b>	<b>1,158</b>	<b>22,466</b>

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027). Its value is impaired following the deterioration of its reference market conditions.



## 7. Receivables from goods and services

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	5,006	4,176
Other related parties	635	89
Third parties	26,345	80,985
./. allowance for doubtful accounts	-3,355	-3,716
<b>Total</b>	<b>28,631</b>	<b>81,534</b>

The balance includes amounts in foreign currency for EUR 12.5 million (EUR 40.6 million at 31.12.2015).

## 8. Other short-term receivables

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	-	-
Other related parties	-	272
Third parties	36,525	33,237
Positive replacement values of transactions valued at market value	27,376	9,882
Deferred income tax assets	1,050	218
<b>Total</b>	<b>64,951</b>	<b>43,609</b>

## 9. Inventories

	31.12.2016	31.12.2015
In CHF 1,000		
Stock and consumables	4,564	7,303
Energy related certificates	3,919	16,624
<b>Total</b>	<b>8,483</b>	<b>23,927</b>

The energy related certificates include CO<sub>2</sub> emission rights.

## 10. Prepayments and accrued income

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	5,293	4,007
Other related parties	8,817	6,290
Third parties	90,671	99,669
Work in progress	3,115	1,971
<b>Total</b>	<b>107,896</b>	<b>111,937</b>

The balance includes amounts in foreign currency for EUR 64.1 million (EUR 72.0 million at 31.12.2015).

## 11. Cash and cash equivalents

	31.12.2016	31.12.2015
In CHF 1,000		
Balances in CHF	76,351	61,490
Balances in foreign currencies (conversion at year-end exchange rates)	19,832	28,011
<b>Total</b>	<b>96,183</b>	<b>89,501</b>

## 12. Provisions

	Onerous contracts	Indemnifications and plant decommissioning	Tax	Personnel related expenses	Other	Total
In CHF 1,000						
<b>Carrying amount at 01.01.2015</b>	<b>7,990</b>	<b>15,527</b>	<b>10,016</b>	<b>6,000</b>	<b>5,710</b>	<b>45,243</b>
<i>thereof long-term</i>	7,990	15,527	7,625	1,807	1,601	34,550
<i>thereof short-term</i>	–	–	2,391	4,193	4,109	10,693
Change in consolidation scope	–	–	–	–	–	–
Increase	4,510	90	1,486	9,772	2,643	18,501
Utilisation	–	–	–	–1,595	–1,130	–2,725
Release	–	–13,267	–	–251	–792	–14,310
<b>Carrying amount at 31.12.2015</b>	<b>12,500</b>	<b>2,350</b>	<b>11,502</b>	<b>13,926</b>	<b>6,431</b>	<b>46,709</b>
<i>thereof long-term</i>	12,500	2,350	8,626	10,325	3,399	37,200
<i>thereof short-term</i>	–	–	2,876	3,601	3,032	9,509
Change in consolidation scope	–12,500	–	–11,093	–2,190	–2,772	–28,555
Increase	–	75	105	3,943	3,789	7,912
Utilisation	–	–	–	–198	–	–198
Release	–	–2,425	–	–841	–1,185	–4,451
<b>Carrying amount at 31.12.2016</b>	<b>–</b>	<b>–</b>	<b>514</b>	<b>14,640</b>	<b>6,263</b>	<b>21,417</b>
<i>thereof long-term</i>	–	–	271	52	–	323
<i>thereof short-term</i>	–	–	243	14,588	6,263	21,094

### 13. Long-term financial liabilities

	31.12.2016			31.12.2015		
	Financial debt	Debt from finance leases	Total	Financial debt	Debt from finance leases	Total
In CHF 1,000						
Liabilities due between 1 and 5 years	78,950	5,171	84,121	84,400	172	84,572
Liabilities due between 5 and 10 years	83,075	7,072	90,147	156,475	–	156,475
Liabilities due after 10 years	118,240	–	118,240	106,306	–	106,306
<b>Total</b>	<b>280,265</b>	<b>12,243</b>	<b>292,508</b>	<b>347,181</b>	<b>172</b>	<b>347,353</b>

### 14. Payables from goods and services

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	1,276	1,694
Other related parties	5,394	1,927
Third parties	15,573	36,786
<b>Total</b>	<b>22,243</b>	<b>40,407</b>

The balance includes amounts in foreign currency for EUR 8.9 million (EUR 15.4 million at 31.12.2015).

### 15. Short-term financial liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Liabilities towards financial institutions in CHF	100	52,037
Liabilities towards financial institutions in foreign currency	1,858	33,909
<b>Total</b>	<b>1,958</b>	<b>85,946</b>

### 16. Other short-term liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	–	–
Other related parties	27	6
Third parties	8,426	28,657
Negative replacement values of transactions valued at market value	18,579	6,397
<b>Total</b>	<b>27,032</b>	<b>35,060</b>

## 17. Accrued liabilities and deferred income

	31.12.2016	31.12.2015
In CHF 1,000		
Associates	5	1,463
Other related parties	855	2,229
Third parties	91,727	95,121
<b>Total</b>	<b>92,587</b>	<b>98,813</b>

The balance includes amounts in foreign currency for EUR 61.8 million (EUR 54.8 million at 31.12.2015).

## 18. Energy sales

	2016	2015
In CHF 1,000		
Energy sales in Switzerland	262,370	255,257
Energy sales in Italy	217,239	229,191
Energy sales in Germany	166,658	182,029
Energy sales in France	68,481	80,036
Other income energy sales	37,701	53,794
<b>Total</b>	<b>752,449</b>	<b>800,307</b>

The item other income energy sales includes the economic effect of the mark to market valuation of forward sale and purchase transactions and of CO<sub>2</sub> emission rights.

## 19. Other operating income

	2016	2015
In CHF 1,000		
Own work capitalised	3,918	13,930
Income from services	12,644	12,359
Other	4,667	4,260
<b>Total</b>	<b>21,229</b>	<b>30,549</b>

## 20. Energy purchases

	2016	2015
In CHF 1,000		
Purchases from participations	-84,192	-73,468
Long-term contractual purchases	-51,417	-56,448
Purchases on the market	-597,098	-599,889
<b>Total</b>	<b>-732,707</b>	<b>-729,805</b>

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

## 21. Personnel expenses

	2016	2015
In CHF 1,000		
Salaries and other compensation	-22,577	-42,150
Social contributions	-5,097	-10,046
Other expenses	-566	-903
Recoveries from insurance companies	233	501
<b>Total</b>	<b>-28,007</b>	<b>-52,598</b>

## Employees of the Group

	31.12.2016	31.12.2015
Full time equivalent		
Permanent employees	229.5	413.7
Auxiliary employees	12.1	9.2
Apprentices	22.0	29.0
<b>Total</b>	<b>263.6</b>	<b>451.9</b>

## 22. Other operating expenses

	2016	2015
In CHF 1,000		
Water fees	-14,860	-14,221
Local taxes and other contributions	-3,764	-2,607
Other	-9,326	-20,027
<b>Total</b>	<b>-27,950</b>	<b>-36,855</b>

Local taxes and contributions include the payment of accumulation contributions to power plants upstream to AET's plants for CHF 1.2 million.

## 23. Financial result

	2016	2015
In CHF 1,000		
Interest income	1,674	2,277
Income from participations	849	706
Other financial income	-	1
Exchange rate differences	-267	-6,727
Interest payments and commissions	-8,477	-12,468
Other financial expenses	-102	-3,198
<b>Total</b>	<b>-6,323</b>	<b>-19,409</b>

Exchange rate differences include the cost of foreign exchange currency hedging operations.

## 24. Extraordinary result

	2016	2015
In CHF 1,000		
Release of provisions	814	14,225
Profit from disposal of non-current assets	8,182	647
Other extraordinary income	48	641
Impairments of non-current assets	-5,193	-53,355
Increase of provisions	-3,826	-13,381
Loss from disposal of non-current assets	-	-126
Other extraordinary expenses	-16	-3,879
<b>Total</b>	<b>9</b>	<b>-55,228</b>

The profit from disposal of non-current assets refers for CHF 7.4 million to a price adjustment of the disposals to Swissgrid AG of grid elements included in the national power transportation grid finalised in 2013, 2014 and 2015.

## 25. Goodwill

The positive difference between the acquisition cost of a participation and its equity value is treated as goodwill. It is offset with retained earnings without impact on the income statement in the acquisition year.

If the goodwill paid were capitalised on the balance sheet and amortised on a straight-line basis over 5 years the consolidated balance sheet and the consolidated income statement would present the following variations:

	2016	2015
In CHF 1,000		
Historical cost	2,167	2,167
Goodwill	166	249
Equity (retained earnings)	166	249
Amortisation goodwill of the year	-83	-83
Result for the year	-83	-83

## 26. Contingent liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Guarantees in the interest of:		
Associates	–	26,804
Third parties	14,580	34,515
<b>Total</b>	<b>14,580</b>	<b>61,319</b>

Guarantees are issued as security of financing facilities granted to group associated companies or as security for operating commitments. Guarantees issued in the interest of third parties are related to the financing of disposed plants for which coverage AET obtained respective guarantees or pledges.

## 27. 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 purchase agreements involving irrevocable obligations:

### Energy purchase contracts and market transactions

	Market transactions	Long-term contracts
Cumulative volume in CHF 1,000		
2017	520,191	32,870
from 2 to 5 year	226,331	137,218
over 5 year	–	222,831

In addition, AET Group has an offtake commitment for 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 9.0 million (value of the indexed contact based on 2016 prices and year-end exchange rate).

At 31.12.2016 AET Group has derivative financial instruments subscribed for the interest rate hedging for a contractual volume of CHF 10 million (31.12.2015: CHF 54 million).

At 31.12.2016 Group AET has no off-balance sheet lease commitments (31.12.2015: CHF 0.6 million).

## 28. 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>31.12.2016</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	104.3%	–	–	–1,941	–1,941
Fondo Pensionamento Anticipato dell'AET	103.2%	–	–	–546	–546
<b>Total</b>		–	–	<b>–2,487</b>	<b>–2,487</b>

	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>31.12.2015</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	100.0%	–	–	–4,146	–4,146
Inflation indemnities to pensioners <sup>1</sup>		–1,070	–7	–	–7
Fondo Pensionamento Anticipato dell'AET	104.2%	–390	–	–613	–613
<b>Total</b>		<b>–1,460</b>	<b>–7</b>	<b>–4,759</b>	<b>–4,766</b>

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

From 01.04.2017 AET is affiliated to CPE Fondazione di previdenza Energia, a defined contribution pension fund. Its coverage ratio as per 31.12.2016 is 115.5%.

## 29. Transactions with related parties

### Transactions with associates

	2016	2015
In CHF 1,000		
Energy sales	32,952	18,122
Service and other income	18,698	1,333
Financial income	11	179
Energy purchases	1,627	42,265
Service and other expenses	13,097	1,610
Advances paid	14,447	14,657
Receivables from goods and services	5,006	6,231
Prepayments and accrued income	5,577	4,079
Payables from goods and services	1,276	1,694
Accrued liabilities and deferred income	6	1,463
Guarantees in favour of creditors	–	26,804



### Transactions with other related parties

	2016	2015
In CHF 1,000		
Energy sales	2,964	143
Service and other income	1,178	508
Financial income	550	560
Energy purchases	83,412	76,220
Service and other expenses	2,344	838
Advances paid	28,348	31,237
Receivables from goods and services	635	89
Prepayments and accrued income	9,035	6,742
Payables from goods and services	5,394	1,927
Accrued liabilities and deferred income	855	2,229
Guarantees in favour of creditors	–	–

### 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's 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 volumes compared to forecasts. Its 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 its 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 its own hydroelectric plants.

**Market risk:** 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 hedges 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 payment default of 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 retail operations 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.

**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.

### 31. Subsequent events

2016: as of 01.04.2017 AET changed its pension fund affiliation joining CPE Fondazione di previdenza Energia, a defined contribution pension fund.

As of 01.01.2017 AET Italia SpA sold its energy sale business unit.

2015: in January 2016 AET finalised the disposal of the second part of shares of Società Elettrica Sopracenerina SA (SES), corresponding to 23% of the shareholders' capital, to the Municipalities of the catchment area. With this transaction AET reduced its participation into SES to 30% (31.12.2015: 53%).



A phase of the turbine assembly.

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



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To the Gran Consiglio of  
**Repubblica e Cantone Ticino**

Lugano, 12 May 2017

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

As auditor, we have audited the accompanying consolidated financial statements of Azienda Elettrica Ticinese, which comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, statement of changes in consolidated equity and notes to the consolidated financial statements (pages from 31 to 56), for the year ended 31 December 2016.

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

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with the 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 law, Swiss Auditing Standards and Act of the Azienda elettrica ticinese. 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 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER, Swiss law and Act of the Azienda elettrica ticinese.



### Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

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

  
Dusica Mitrovic  
Licensed audit expert



A phase of the turbine assembly.

# Financial statements

# Balance sheet

## Assets

In CHF 1,000	Notes	31.12.2016	31.12.2015 <sup>1</sup>
Operating plants and equipment		203,908	211,395
Land and buildings		50,367	49,036
Tangible fixed assets under construction		31,286	23,265
Other tangible fixed assets		872	1,057
<b>Tangible fixed assets</b>	2	<b>286,433</b>	<b>284,753</b>
Participations	3	39,668	71,998
Long-term securities	4	48,738	49,848
Advances and loans to participations	5	59,760	57,323
Other financial assets		759	1,304
<b>Financial assets</b>		<b>148,925</b>	<b>180,473</b>
Plant and equipment usage rights		7,893	8,262
Energy procurement rights		9,898	10,798
Intangible assets under construction		1,488	1,020
Other intangible assets		879	1,975
<b>Intangible assets</b>	6	<b>20,158</b>	<b>22,055</b>
<b>Total Non-current assets</b>		<b>455,516</b>	<b>487,281</b>
Receivables from goods and services	7	45,584	60,181
Other short-term receivables	8	49,606	40,204
Inventories	9	5,813	18,511
Prepayments and accrued income	10	104,233	96,745
Cash and cash equivalents	11	75,431	58,394
<b>Total Current assets</b>		<b>280,667</b>	<b>274,035</b>
<b>Total Assets</b>		<b>736,183</b>	<b>761,316</b>

<sup>1</sup> 2015 figures restated



## Liabilities and equity

		31.12.2016	31.12.2015 <sup>1</sup>
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
General reserves		67,000	67,000
Statutory reserves		51,000	51,000
Profit brought forward		185,366	234,659
Result for the year		-31,407	-46,093
<b>Total Equity</b>		<b>311,959</b>	<b>346,566</b>
Long-term provisions	12	5,000	23,043
Other long-term liabilities		-	1,924
Long-term financial liabilities	13	266,000	231,000
<b>Long-term liabilities</b>		<b>271,000</b>	<b>255,967</b>
Payables from goods and services	14	24,656	30,761
Short-term financial liabilities	15	-	21,748
Other short-term liabilities	16	26,071	28,300
Accrued liabilities and deferred income	17	85,236	71,479
Short-term provisions	12	17,261	6,495
<b>Current liabilities</b>		<b>153,224</b>	<b>158,783</b>
<b>Total Liabilities</b>		<b>424,224</b>	<b>414,750</b>
<b>Total Liabilities and equity</b>		<b>736,183</b>	<b>761,316</b>

<sup>1</sup> 2015 figures restated

# Income statement

		2016	2015 <sup>1</sup>
In CHF 1,000	Notes		
<b>Operating income</b>			
Energy sales	18	697,544	777,765
Grid income		47,487	44,434
Other operating income	19	22,736	17,076
<b>Total Operating income</b>		<b>767,767</b>	<b>839,275</b>
<b>Operating expenses</b>			
Energy purchases	20	-695,278	-728,282
Grid expenses		-22,200	-18,139
Personnel expenses	21	-26,406	-25,932
Service and material expenses		-9,234	-8,169
Depreciation on tangible fixed assets		-13,831	-13,655
Amortisation on intangible assets		-2,365	-7,171
Other depreciation and amortisation		-1,010	-1,010
Other operating expenses	22	-21,479	-22,088
<b>Total Operating expenses</b>		<b>-791,803</b>	<b>-824,446</b>
<b>Operating result</b>		<b>-24,036</b>	<b>14,829</b>
Financial result	23	-3,895	-14,498
<b>Ordinary result</b>		<b>-27,931</b>	<b>331</b>
Non-operating result		-	5
Extraordinary result	24	-3,476	-46,429
<b>Result for the year</b>		<b>-31,407</b>	<b>-46,093</b>

<sup>1</sup> 2015 figures restated

## Cash flow statement

	2016	2015
In CHF 1,000		
Result for the year	-31,407	-46,093
Depreciation on tangible fixed assets	13,831	13,655
Amortisation on intangible assets	2,365	7,171
Other depreciation and amortisation	1,010	1,010
Change in long-term provisions	-7,038	-5,364
Change in impairments	18,637	55,197
Profit / loss from disposal of non-current assets	-7,682	-64
Other non cash expenses and income	847	-601
Change in receivables, inventories and prepayments and accrued income	10,405	70,987
Change in liabilities and accrued liabilities and deferred income	5,423	-45,421
Change in short-term provisions	-239	-1,384
<b>Cash flow from operating activities</b>	<b>6,152</b>	<b>49,093</b>
Outflows for investment in tangible fixed assets	-15,511	-24,980
Inflows from disposal of tangible fixed assets	7,437	7,575
Outflows for investment in intangible assets	-468	-2,520
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-9,303	-16,293
Inflows from disposal of financial assets	20,732	23,230
<b>Cash flow from investing activities</b>	<b>2,887</b>	<b>-12,988</b>
Issuance / repayment of short-term financial liabilities	-21,878	-42,580
Issuance / repayment of long-term financial liabilities	33,076	24,953
Interests on capital due to the State	-3,200	-3,200
Distribution of dividends to the State	-	-5,000
<b>Cash flow from financing activities</b>	<b>7,998</b>	<b>-25,827</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>58,394</b>	<b>48,116</b>
<b>Cash flow</b>	<b>17,037</b>	<b>10,278</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>75,431</b>	<b>58,394</b>

## Statement of changes in equity

	Endowment capital	General reserves	Statutory reserves	Profit brought forward	Result for the year	Total Equity
In CHF 1,000						
<b>Equity at 01.01.2015<sup>1</sup></b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>242,340</b>	<b>519</b>	<b>400,859</b>
Allocation of result	–	–	–	519	–519	–
Interests on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of dividends	–	–	–	–5,000	–	–5,000
Result for the year 2015 <sup>1</sup>	–	–	–	–	–46,093	–46,093
<b>Equity at 31.12.2015<sup>1</sup></b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>234,659</b>	<b>–46,093</b>	<b>346,566</b>
Allocation of result	–	–	–	–46,093	46,093	–
Interests on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of dividends	–	–	–	–	–	–
Result for the year 2016	–	–	–	–	–31,407	–31,407
<b>Equity at 31.12.2016</b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>185,366</b>	<b>–31,407</b>	<b>311,959</b>

<sup>1</sup> 2015 figures restated

# Notes to the financial statements

## Restatement of the 2015 financial statements

Starting from the financial year 2016 AET has introduced the mark to market valuation of its trading portfolio. In order to enable the comparability with prior year figures the 2015 financial statements have been restated taking into account this accounting practice. The restatement determines a decrease of the result of the year 2015 of CHF 0.5 million and an increase of equity as of 31.12.2015 of CHF 4.1 million.

## 1. Accounting principles

The financial statements 2016 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 12.05.2017.

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

### 1.1. Tangible fixed assets

Tangible fixed assets are valued at their 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 works	40 – 80 years
Electromechanical installations	40 – 50 years
Electromechanical equipments	15 – 35 years
Power lines	30 – 55 years
Substations and transformers	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 power lines. 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; 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. Tools and materials are valued at their weighted average purchase price, the book value is impaired for slow-moving items or obsolescence.

Energy related certificates acquired within the trading portfolio are booked at their market value (mark to market) at the balance sheet date, changes in market value incurred during the reporting financial year are recorded in the income statement within other income energy sales.

Energy related certificates acquired for the purpose of hedging of the generation portfolio of AET are booked at the weighted average purchase price.

#### **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 currencies 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, that is the higher between the net selling price and the value in use, is computed. The value in use is generally computed on the basis of the present value 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 original depreciation scheme.

#### **1.8. Provisions**

Provisions are deemed to cover probable future disbursements related to legal or implicit obligations arising from past events. Long-term provisions are reported at the present value at 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. Energy forward sale and purchase transactions**

Energy forward sale and purchase transactions as well as the economic result of energy related transactions with financial instruments made within the trading portfolio are booked at their market value at the balance sheet date (mark to market). Positive and negative replacement values (the difference between the market price at the balance sheet date and the contract price) are booked within other short-term receivables and other short-term liabilities respectively. Changes in market value incurred during the reporting financial year are recorded in the income statement within other income energy sales.

Energy forward sale and purchase transactions as well as the economic result of energy related transactions entered for the purpose of hedging of the generation portfolio of AET are recognised on the income statement at delivery.

### 1.12. Revenues

Grid income and other operating income are recognised within the income statement at settlement of the delivery or service. All revenues are recorded net of price reduction, sale taxes and value added taxes.

### 1.13. Pension funds

The personnel of AET is affiliated to a multi-employer independent pension institution of the energy sector. As of 31.12.2016 AET was affiliated to a defined benefit pension scheme. From 01.04.2017 AET's personnel is affiliated to a defined contribution pension scheme. 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 future cash outflow for the company in the form of restructuring contributions. Economic benefits consist of 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.

### 1.14. Income taxes

AET is not subject to any income tax.

### 1.15. Related party transactions

Transactions with subsidiaries include all transactions and debit / credit relationships with companies controlled by AET through its voting rights majority. Transactions with associates include all transactions and debit / credit relationships with companies of which AET holds between 20% and 50% of the voting rights and which have been recognised 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, Ritom 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 offtakes the respective share of energy and pays the related 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 01.01.2015</b>	<b>472,332</b>	<b>43,775</b>	<b>30,114</b>	<b>7,603</b>	<b>553,824</b>
Reclassification	14,947	12,215	-27,597	318	-117
Additions	5,623	1,304	20,798	145	27,870
Disposals	-9,413	-	-50	-603	-10,066
<b>Cost value at 31.12.2015</b>	<b>483,489</b>	<b>57,294</b>	<b>23,265</b>	<b>7,463</b>	<b>571,511</b>
Reclassification	5,201	2,135	-7,459	123	-
Additions	-	-	15,480	31	15,511
Disposals	-	-	-	-453	-453
<b>Cost value at 31.12.2016</b>	<b>488,690</b>	<b>59,429</b>	<b>31,286</b>	<b>7,164</b>	<b>586,569</b>
<b>Accumulated depreciation at 01.01.2015</b>	<b>-257,999</b>	<b>-7,718</b>	<b>-</b>	<b>-6,635</b>	<b>-272,352</b>
Reclassification	-	-	-	-	-
Depreciation	-12,741	-540	-	-374	-13,655
Additions	-2,890	-	-	-	-2,890
Disposals	1,536	-	-	603	2,139
<b>Accumulated depreciation at 31.12.2015</b>	<b>-272,094</b>	<b>-8,258</b>	<b>-</b>	<b>-6,406</b>	<b>-286,758</b>
Reclassification	3	-3	-	-	-
Depreciation	-12,691	-801	-	-339	-13,831
Additions	-	-	-	-	-
Disposals	-	-	-	453	453
<b>Accumulated depreciation at 31.12.2016</b>	<b>-284,782</b>	<b>-9,062</b>	<b>-</b>	<b>-6,292</b>	<b>-300,136</b>
<b>Net carrying amount at 01.01.2015</b>	<b>214,333</b>	<b>36,057</b>	<b>30,114</b>	<b>968</b>	<b>281,472</b>
<b>Net carrying amount at 31.12.2015</b>	<b>211,395</b>	<b>49,036</b>	<b>23,265</b>	<b>1,057</b>	<b>284,753</b>
<b>Net carrying amount at 31.12.2016</b>	<b>203,908</b>	<b>50,367</b>	<b>31,286</b>	<b>872</b>	<b>286,433</b>



### 3. Participations

	31.12.2016	31.12.2015
In CHF 1,000		
Società Elettrica Sopracenerina SA (SES)	21,052	37,357
SPE Società per Partecipazioni Energetiche SA	8,000	8,000
./ impairment	-8,000	-
Lucendro SA	7,551	10,071
TERIS Teleriscaldamento del Bellinzonese SA	6,000	6,000
Metanord SA	5,505	5,505
./ impairment	-5,505	-
Parco eolico del San Gottardo SA	2,868	2,868
Senco Holding SA	1,149	1,149
Calore SA	978	978
Capriasca Calore SA	70	70
<b>Total</b>	<b>39,668</b>	<b>71,998</b>

During 2016 AET disposed 23.23% of the shareholders' capital of Società Elettrica Sopracenerina SA (SES) to the Municipalities of its catchment area.

The shares in Metanord SA are pledged in favour of creditors of the company, the impairment has been determined on the basis of net equity of the participation.

### 4. Long-term securities

	31.12.2016	31.12.2015
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co.KG	36,472	37,325
./ impairment	-20,700	-20,700
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-15,678	-15,678
Swissgrid AG	12,589	12,589
Kraftwerke Mattmark AG	11,802	11,959
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	25	125
<b>Total</b>	<b>48,738</b>	<b>49,848</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 booked at their historical cost. The impairment amount is determined on the basis of the critical economic and financial conditions towards which the investment is exposed.

## 5. Advances and loans to participations

	31.12.2016	31.12.2015
In CHF 1,000		
SPE Società per Partecipazioni Energetiche SA	20,032	11,403
./. impairment	-3,900	-
Swissgrid AG	15,552	15,552
Metanord SA	14,200	14,200
Terravent AG	12,750	12,750
Other	1,126	3,418
<b>Total</b>	<b>59,760</b>	<b>57,323</b>

The advance to SPE Società per Partecipazioni Energetiche SA (SPE) has been increased in 2016 in the context of a restructuring of the financing structure of the Italian group companies. The advance is subordinated and has been impaired because of the deterioration of the financial and economic conditions of the participations held by SPE.

The loan to Swissgrid AG represents part of the consideration of the disposal of grid assets belonging to the national power transportation grid; the loan is subordinated and is subject to mandatory convertibility in case of reduction of the own capitalisation ratio of Swissgrid AG below certain limits defined by the Federal Electricity Commission (EiCom).

## 6. Intangible assets

	Plant and equipment usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2015</b>	<b>12,095</b>	<b>151,583</b>	<b>1,411</b>	<b>7,698</b>	<b>172,787</b>
Reclassification	–	–	–821	938	117
Additions	3,029	–	469	75	3,573
Disposals	–	–7,028	–39	–59	–7,126
<b>Cost value at 31.12.2015</b>	<b>15,124</b>	<b>144,555</b>	<b>1,020</b>	<b>8,652</b>	<b>169,351</b>
Reclassification	–	–	–	–	–
Additions	–	–	468	–	468
Disposals	–	–	–	–	–
<b>Cost value at 31.12.2016</b>	<b>15,124</b>	<b>144,555</b>	<b>1,488</b>	<b>8,652</b>	<b>169,819</b>
<b>Accumulated amortisation at 01.01.2015</b>	<b>–5,443</b>	<b>–82,491</b>	<b>–</b>	<b>–5,325</b>	<b>–93,259</b>
Reclassification	–	–	–	–	–
Amortisation	–366	–5,394	–	–1,411	–7,171
Additions	–1,053	–	–	–	–1,053
Disposals	–	7,028	–	59	7,087
Impairments	–	–52,900	–	–	–52,900
<b>Accumulated amortisation at 31.12.2015</b>	<b>–6,862</b>	<b>–133,757</b>	<b>–</b>	<b>–6,677</b>	<b>–147,296</b>
Reclassification	–	–	–	–	–
Amortisation	–369	–900	–	–1,096	–2,365
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
<b>Accumulated amortisation at 31.12.2016</b>	<b>–7,231</b>	<b>–134,657</b>	<b>–</b>	<b>–7,773</b>	<b>–149,661</b>
<b>Net carrying amount at 01.01.2015</b>	<b>6,652</b>	<b>69,092</b>	<b>1,411</b>	<b>2,373</b>	<b>79,528</b>
<b>Net carrying amount at 31.12.2015</b>	<b>8,262</b>	<b>10,798</b>	<b>1,020</b>	<b>1,975</b>	<b>22,055</b>
<b>Net carrying amount at 31.12.2016</b>	<b>7,893</b>	<b>9,898</b>	<b>1,488</b>	<b>879</b>	<b>20,158</b>

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027). Its value is impaired following the deterioration of its reference market conditions.

## 7. Receivables from goods and services

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	37,172	42,090
Other related parties	635	7
Third parties	7,777	18,084
<b>Total</b>	<b>45,584</b>	<b>60,181</b>

The balance includes amounts in foreign currency for EUR 27.8 million (EUR 46.3 million at 31.12.2015).

## 8. Other short-term receivables

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	4,000	15,000
Other related parties	–	272
Third parties	18,230	15,050
Positive replacement values of transactions valued at market value	27,376	9,882
<b>Total</b>	<b>49,606</b>	<b>40,204</b>

## 9. Inventories

	31.12.2016	31.12.2015
In CHF 1,000		
Stock and consumables	1,894	1,887
Energy related certificates	3,919	16,624
<b>Total</b>	<b>5,813</b>	<b>18,511</b>

The energy related certificates include CO<sub>2</sub> emission rights.

## 10. Prepayments and accrued income

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	13,050	23,341
Other related parties	8,812	6,278
Third parties	79,192	63,889
Work in progress	3,179	3,237
<b>Total</b>	<b>104,233</b>	<b>96,745</b>

The balance includes amounts in foreign currency for EUR 56.3 million (EUR 55.9 million at 31.12.2015).

## 11. Cash and cash equivalents

	31.12.2016	31.12.2015
In CHF 1,000		
Balances in CHF	66,868	38,331
Balances in foreign currencies (conversion at year-end exchange rates)	8,563	20,063
<b>Total</b>	<b>75,431</b>	<b>58,394</b>

## 12. Provisions

	Onerous contracts of participations	Indemnifications and plant decommissioning	Personnel related expenses	Other	Total
In CHF 1,000					
<b>Carrying amount at 01.01.2015</b>	<b>14,831</b>	<b>15,527</b>	<b>3,658</b>	<b>2,270</b>	<b>36,286</b>
<i>thereof long-term</i>	<i>12,500</i>	<i>15,527</i>	<i>380</i>	<i>–</i>	<i>28,407</i>
<i>thereof short-term</i>	<i>2,331</i>	<i>–</i>	<i>3,278</i>	<i>2,270</i>	<i>7,879</i>
Increase	–	90	8,996	206	9,292
Utilisation	–	–	–863	–983	–1,846
Release	–176	–13,267	–134	–617	–14,194
<b>Carrying amount at 31.12.2015</b>	<b>14,655</b>	<b>2,350</b>	<b>11,657</b>	<b>876</b>	<b>29,538</b>
<i>thereof long-term</i>	<i>12,500</i>	<i>2,350</i>	<i>8,193</i>	<i>–</i>	<i>23,043</i>
<i>thereof short-term</i>	<i>2,155</i>	<i>–</i>	<i>3,464</i>	<i>876</i>	<i>6,495</i>
Increase	–	75	3,900	852	4,827
Utilisation	–	–	–198	–	–198
Release	–8,154	–2,425	–798	–529	–11,906
<b>Carrying amount at 31.12.2016</b>	<b>6,501</b>	<b>–</b>	<b>14,561</b>	<b>1,199</b>	<b>22,261</b>
<i>thereof long-term</i>	<i>5,000</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>5,000</i>
<i>thereof short-term</i>	<i>1,501</i>	<i>–</i>	<i>14,561</i>	<i>1,199</i>	<i>17,261</i>

The provision for onerous contracts of participations covers expected disbursements due to the commitments of AET in respect of the activity of its participations. The provision has been reduced in 2016 following a decrease of group companies' liabilities guaranteed by AET.

## 13. Long-term financial liabilities

	31.12.2016			31.12.2015		
	Financial debt	Debt from finance leases	Total	Financial debt	Debt from finance leases	Total
In CHF 1,000						
Liabilities due between 1 and 5 years	73,000	–	73,000	50,000	–	50,000
Liabilities due between 5 and 10 years	83,000	–	83,000	93,000	–	93,000
Liabilities due after 10 years	110,000	–	110,000	88,000	–	88,000
<b>Total</b>	<b>266,000</b>	<b>–</b>	<b>266,000</b>	<b>231,000</b>	<b>–</b>	<b>231,000</b>

## 14. Payables from goods and services

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	11,945	15,894
Other related parties	5,394	1,927
Third parties	7,317	12,940
<b>Total</b>	<b>24,656</b>	<b>30,761</b>

The balance includes amounts in foreign currency for EUR 12.2 million (EUR 18.4 million at 31.12.2015).

## 15. Short-term financial liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Liabilities towards financial institutions in CHF	–	–
Liabilities towards financial institutions in foreign currency	–	21,748
<b>Total</b>	<b>–</b>	<b>21,748</b>

## 16. Other short-term liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	–	10
Other related parties	27	6
Third parties	7,465	21,887
Negative replacement values of transactions valued at market value	18,579	6,397
<b>Total</b>	<b>26,071</b>	<b>28,300</b>

## 17. Accrued liabilities and deferred income

	31.12.2016	31.12.2015
In CHF 1,000		
Group companies	2,639	5,755
Other related parties	855	2,229
Third parties	81,742	63,495
<b>Total</b>	<b>85,236</b>	<b>71,479</b>

The balance includes amounts in foreign currency for EUR 58.3 million (EUR 50.3 million at 31.12.2015).

## 18. Energy sales

	2016	2015
In CHF 1,000		
Energy sales in Switzerland	262,680	240,525
Energy sales in Italy	157,335	219,238
Energy sales in Germany	173,572	195,103
Energy sales in France	68,481	80,036
Other income energy sales	35,476	42,863
<b>Total</b>	<b>697,544</b>	<b>777,765</b>

The item other income energy sales includes the economic effect of the mark to market valuation of forward sale and purchase transactions and of CO<sub>2</sub> emission rights.

## 19. Other operating income

	2016	2015
In CHF 1,000		
Own work capitalised	3,530	3,346
Income from services	15,127	10,492
Other	4,079	3,238
<b>Total</b>	<b>22,736</b>	<b>17,076</b>

## 20. Energy purchases

	2016	2015
In CHF 1,000		
Purchases from participations	-89,632	-74,690
Long-term contractual purchases	-51,417	-56,448
Purchases on the market	-554,229	-597,144
<b>Total</b>	<b>-695,278</b>	<b>-728,282</b>

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

## 21. Personnel expenses

	2016	2015
In CHF 1,000		
Salaries and other compensation	-21,285	-20,842
Social contributions	-4,796	-4,938
Other expenses	-558	-465
Recoveries from insurance companies	233	313
<b>Total</b>	<b>-26,406</b>	<b>-25,932</b>

### Employees of the company

	31.12.2016	31.12.2015
Full time equivalent		
Permanent employees	204.1	191.5
Auxiliary employees	12.1	9.2
Apprentices	22.0	15.0
<b>Total</b>	<b>238.2</b>	<b>215.7</b>

The increase of the AET personnel includes the move to AET of the employment relationship of 8.6 full time equivalent employees from the controlled Lucendro SA. The increase in apprentices is due to the opening of the Campus Formativo Bodio.

## 22. Other operating expenses

	2016	2015
In CHF 1,000		
Water fees	-12,494	-12,494
Local taxes and other contributions	-3,452	-2,601
Other	-5,533	-6,993
<b>Total</b>	<b>-21,479</b>	<b>-22,088</b>

Local taxes and contributions include the payment of accumulation contributions to power plants upstream to AET's plants for CHF 1.2 million.

## 23. Financial result

	2016	2015
In CHF 1,000		
Interest income	1,617	2,035
Income from participations	3,075	2,175
Exchange rate differences	-847	-8,366
Interest payments and commissions	-7,642	-7,750
Other financial expenses	-98	-2,592
<b>Total</b>	<b>-3,895</b>	<b>-14,498</b>

Exchange rate differences include the cost of foreign exchange currency hedging operations.



## 24. Extraordinary result

	2016	2015
In CHF 1,000		
Release of provisions	11,279	13,267
Profit from disposal of non-current assets	7,682	190
Other extraordinary income	–	1,140
Impairments of non-current assets	–18,637	–52,900
Increase of provisions	–3,800	–8,000
Loss from disposal of non-current assets	–	–126
<b>Total</b>	<b>–3,476</b>	<b>–46,429</b>

The release of provisions refers for CHF 7.5 million to a risk position for which an according impairment on tangible fixed assets has been booked.

The profit from disposal of non-current assets refers for CHF 7.4 million to a price adjustment of the disposals to Swissgrid AG of grid elements included in the national power transportation grid finalised in 2013, 2014 and 2015.

## 25. Contingent liabilities

	31.12.2016	31.12.2015
In CHF 1,000		
Guarantees in the interest of:		
Group companies	65,504	71,719
Third parties	14,580	34,515
<b>Total</b>	<b>80,084</b>	<b>106,234</b>

Guarantees are issued as security of financing facilities granted to group companies or as security for operating commitments. Guarantees issued in the interest of third parties are related to the financing of disposed plants for which coverage AET obtained respective guarantees or pledges.

## 26. Other non-recognisable commitments

In the context of the management of its energy portfolio, AET has entered into transactions on the futures markets and finalised various long-term energy purchase agreements involving irrevocable obligations:

### Energy purchase contracts and market transactions

	Market transactions	Long-term contracts
Cumulative volume in CHF 1,000		
2017	520,191	32,870
from 2 to 5 years	226,331	137,218
over 5 years	–	222,831

In addition, AET has an offtake commitment for 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, AET has entered into an interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 4.5 million (value of the indexed contact based on 2016 prices and year-end exchange rate).

At 31.12.2016 AET has no off-balance sheet lease commitments (31.12.2015: unchanged).

## 27. 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>31.12.2016</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	104.3%	–	–	–1,941	–1,941
Fondo Pensionamento Anticipato dell'AET	103.2%	–	–	–546	–546
<b>Total</b>		–	–	<b>–2,487</b>	<b>–2,487</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>31.12.2015</b>					
In CHF 1,000					
CPE Cassa Pensione Energia	100.0%	–	–	–2,070	–2,070
Fondo Pensionamento Anticipato dell'AET	104.2%	–390	–	–613	–613
<b>Total</b>		<b>–390</b>	–	<b>–2,683</b>	<b>–2,683</b>

From 01.04.2017 AET is affiliated to CPE Fondazione di previdenza Energia, a defined contribution pension fund. Its coverage ratio as per 31.12.2016 is 115.5%.

## 28. Transactions with related parties

### Transactions with subsidiaries

	2016	2015
In CHF 1,000		
Energy sales	48,846	140,251
Service and other income	2,602	15,429
Financial income	1,147	1,535
Energy purchases	41,191	68,825
Service and other expenses	70	2,195
Advances paid	17,212	12,031
Receivables from goods and services	32,165	41,323
Prepayments and accrued income	8,075	20,612
Payables from goods and services	11,882	15,286
Accrued liabilities and deferred income	2,634	5,755
Guarantees in favour of creditors	65,504	44,915

Further, as of 31.12.2016, AET has a CHF 4 million receivable from its participation TERIS Teleriscaldamento del Bellinzonese SA (31.12.2015: CHF 15 million from Società Elettrica Sopracenerina SA (SES)).

### Transactions with associates

	2016	2015
In CHF 1,000		
Energy sales	30,220	4,672
Service and other income	18,466	431
Financial income	1,148	–
Energy purchases	382	12,147
Service and other expenses	1,946	19
Advances paid	14,200	14,200
Receivables from goods and services	5,006	767
Prepayments and accrued income	5,322	4,067
Payables from goods and services	64	609
Accrued liabilities and deferred income	6	–
Guarantees in favour of creditors	–	26,804

## Transactions with other related parties

	2016	2015
In CHF 1,000		
Energy sales	2,964	–
Service and other income	1,071	113
Financial income	504	508
Energy purchases	83,412	73,095
Service and other expenses	2,344	837
Advances paid	28,348	30,910
Receivables from goods and services	635	7
Prepayments and accrued income	9,030	6,729
Payables from goods and services	5,394	1,927
Accrued liabilities and deferred income	855	2,229
Guarantees in favour of creditors	–	–

## 29. 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's 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 volumes compared to forecasts. Its 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 its 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 its own hydroelectric plants.

**Market risk:** 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 hedges 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 payment default of commercial counterparties. Sales are mainly made to large Swiss and bordering countries power companies. Limits of exposure are fixed for each counterpart, based on their economic and financial situation. 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.

**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.

### 30. Subsequent events

2016: as of 01.04.2017 AET changed its pension fund affiliation joining CPE Fondazione di previdenza Energia, a defined contribution pension fund.

2015: in January 2016 AET finalised the disposal of the second part of shares of Società Elettrica Sopracenerina SA (SES), corresponding to 23% of the shareholders' capital, to the Municipalities of the catchment area. With this transaction AET reduced its participation into SES to 30% (31.12.2015: 53%).

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



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To the Gran Consiglio of  
**Repubblica e Cantone Ticino**

Lugano, 12 May 2017

## Report of the auditor on the financial statements

As auditor, we have audited the accompanying financial statements of Azienda Elettrica Ticinese, which comprise balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statements (from page 61 to 83), for the year ended 31 December 2016.

### Board of Directors' responsibility

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and Act of the Azienda elettrica ticinese. Those standards require that we comply with ethical requirements and 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 existence and 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 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER, Swiss law, Company's regulation and Act of the Azienda elettrica ticinese.



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### Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

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

  
Dusica Mitrovic  
Licensed audit expert



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The poles of the rotor (before inspection).







The assembly of the poles (after inspection).



## AET Group companies

	Value	Nominal equity at 31.12.2016 In 1,000	Participation at 31.12.2016 %	Participation at 31.12.2015 %
<b>AKEB Aktiengesellschaft für Kernenergie – Beteiligungen Luzern (AKEB), CH-Luzern</b> <i>Nuclear energy participations and offtake rights</i>	CHF	90,000	7.00	7.00
<b>Calore SA, CH-Locarno</b> <i>Thermal energy</i>	CHF	2,000	63.57	74.93
<b>Biomassa Blenio SA, CH-Blenio</b> <i>Biomass thermal energy</i>	CHF	870	20.98	24.73
<b>Capriasca Calore SA, CH-Capriasca</b> <i>Development of a thermal plant</i>	CHF	210	33.33	33.33
<b>Geo-Energie Suisse AG, CH-Basel</b> <i>Development of geothermal power</i>	CHF	1,900	5.26	5.26
<b>Kraftwerke Mattmark AG (KW Mattmark), CH-Saas Grund</b> <i>Sub-participation through Axpo Trading AG. Hydroelectric power generation</i>	CHF	90,000	8.41	8.41
<b>Lucendro SA, CH-Airolo</b> <i>Hydroelectric Generation</i>	CHF	3,000	100.00	100.00
<b>Metanord SA, CH-Bellinzona</b> <i>Gas distribution</i>	CHF	18,594	33.10	34.77
<b>Metanord Ingegneria SA, CH-Bellinzona</b> <i>Engineering services in favour of Metanord SA</i>	CHF	100	33.10	34.77
<b>Parco eolico del San Gottardo SA (PESG), CH-Airolo</b> <i>Wind power, development of a windpark on St. Gotthard</i>	CHF	1,000	70.00	70.00
<b>Renewable Energy Investments SPC (REI), Grand Cayman</b> <i>Investment vehicle in wind power</i>	EUR	50,187	20.09	20.09
<b>Senco Holding SA, CH-Locarno</b> <i>Holding participation into hydroelectric power generation (micro power plants)</i>	CHF	150	65.00	76.62
<b>CEL Bedretto SA, CH-Bedretto</b> <i>Hydroelectric Generation</i>	CHF	200	13.00	15.32
<b>CEL Buseno SA, CH-Buseno</b> <i>Development of a hydroelectric power plant</i>	CHF	100	13.00	15.32
<b>CEL Campo Vallemaggia SA, CH-Campo Vallemaggia</b> <i>Hydroelectric Generation</i>	CHF	200	13.00	15.32
<b>CEL Cauco SA, CH-Cauco</b> <i>Development of a hydroelectric power plant</i>	CHF	100	13.00	15.32
<b>CEL Cerentino SA, CH-Cerentino</b> <i>Hydroelectric Generation</i>	CHF	200	13.00	15.32
<b>CEL Dalpe SA, CH-Dalpe</b> <i>Hydroelectric Generation</i>	CHF	200	11.70	13.79
<b>CEL Lavizzara SA, CH-Lavizzara</b> <i>Development of a hydroelectric power plant</i>	CHF	200	13.00	15.32
<b>Senco Sagl, CH-Locarno</b> <i>Engineering services in favour of hydroelectric power plants promoted by Senco Holding SA</i>	CHF	220	65.00	76.62

	Value	Nominal equity at 31.12.2016 In 1,000	Participation at 31.12.2016 %	Participation at 31.12.2015 %
<b>Società Elettrica Sopracenerina SA (SES)</b> , CH-Locarno <i>Power distribution company</i>	CHF	16,500	30.00	53.23
<b>Energie Rinnovabili Losone (ERL) SA</b> , CH-Losone <i>Biomass thermal energy</i>	CHF	2,700	10.00	17.74
<b>Enerti SA</b> , CH-Monteceneri <i>Service company</i>	CHF	200	9.92	17.59
<b>SES Controlli Sagl</b> , CH-Locarno <i>Service company</i>	CHF	20	12.00	21.29
<b>Società Della Funicolare Locarno - Madonna del Sasso SA (FLMS)</b> , CH-Locarno <i>Ownership and operation of a funicular</i>	CHF	900	4.09	7.25
<b>Società Locarnese di partecipazioni e immobiliare SA (SAP SA)</b> , CH-Locarno <i>Real estate company</i>	CHF	2,064	29.84	52.94
<b>SPE Società per Partecipazioni Energetiche SA (SPE)</b> , CH-Monte Carasso <i>Holding company</i>	CHF	8,000	100.00	100.00
<b>AET Italia Holding Srl</b> , I-Milan <i>Holding company</i>	EUR	4,836	100.00	100.00
<b>AET Idronord Srl</b> , I-Milan <i>Hydroelectric power generation</i>	EUR	100	100.00	100.00
<b>AET Italia SpA</b> , I-Milan <i>Energy sales</i>	EUR	4,000	100.00	100.00
<b>CEG SpA</b> , I-Milan <i>Holding and services</i>	EUR	120	100.00	80.00
<b>Bio Elettricità Occimiano Srl (BEO)</b> , I-Milan <i>Biofuel power generation</i>	EUR	50	100.00	80.00
<b>Bio Energia Guarcino Srl (BEG)</b> , I-Guarcino <i>Biofuel power generation</i>	EUR	1,100	–	0.80
<b>Biogen Chivasso Srl</b> , I-Chivasso <i>Biofuel power generation</i>	EUR	20	100.00	40.00
<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-Monte Carasso <i>Detention of Mendrisio – Stabio cross-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 power plants</i>	EUR	20	50.00	50.00
<b>Swissgrid AG</b> , CH-Laufenbourg <i>Swiss transmission system operator</i>	CHF	317,917	1.68	1.70
<b>TERIS Teleriscaldamento del Bellinzonese SA (TERIS)</b> , CH-Giubiasco <i>Thermal energy from waste</i>	CHF	10,000	60.00	60.00
<b>Terravent AG</b> , CH-Dietikon <i>Wind power generation</i>	CHF	15,000	15.00	15.00
<b>Trianel Kohlekraftwerk Lünen GmbH &amp; Co. KG (TKL)</b> , D-Aachen <i>Coal power generation, Lünen</i>	EUR	147,944	15.84	15.84

## Statistical informations

### Production and purchases of AET Group

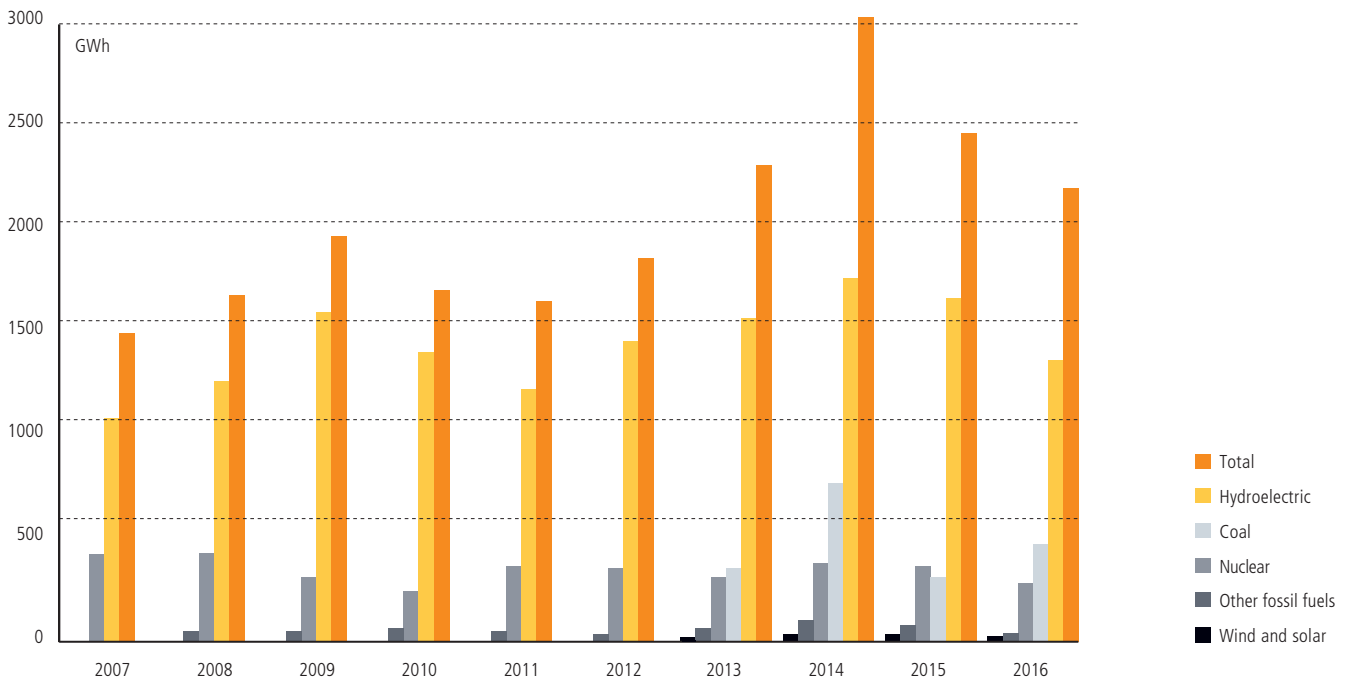
	Winter	Summer	2016	2015
In GWh				
<b>Production AET Group</b>				
AET Biaschina	129	223	352	443
AET Piottino	116	152	268	345
Lucendro	77	16	93	57
AET Stalvedro	21	31	52	67
AET Ofima exchange	7	36	43	53
AET Ponte Brolla	4	7	11	14
AET Tremorgio	6	1	7	9
SES Giumaglio	–	–	–	22
SES Ticinetto	–	–	–	10
Biogen Chivasso (CEG Group)	28	15	43	–
Photovoltaic	1	2	3	3
<b>Total production AET Group</b>	<b>389</b>	<b>483</b>	<b>872</b>	<b>1,023</b>
<b>Production participations (share attributable to AET Group)</b>				
Maggia	126	117	243	288
Blenio	61	96	157	227
Verzasca	18	48	66	73
KW Mattmark	21	25	46	46
Senco Group	2	3	5	6
SES Giumaglio	2	4	6	–
SES Ticinetto	1	2	3	–
Terravent AG	20	11	31	32
AKEB	158	115	273	360
KK Leibstadt	4	5	9	13
CEG Group	–	–	–	75
Trianel TKL	263	208	471	310
<b>Total production participations</b>	<b>676</b>	<b>634</b>	<b>1,310</b>	<b>1,430</b>
Long-term contracts <sup>1</sup>	421	505	926	1,009
Purchases on the market	6,639	6,132	12,771	12,889
<b>Total</b>	<b>8,125</b>	<b>7,754</b>	<b>15,879</b>	<b>16,351</b>

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

## Supply of AET Group

	Winter	Summer	2016	2015
In GWh				
Sales to distribution companies	1,082	844	1,926	2,100
Sales to end customers	633	511	1,144	1,412
Sales on the market	6,397	6,372	12,769	12,805
Own consumption and losses	13	27	40	34
<b>Total</b>	<b>8,125</b>	<b>7,754</b>	<b>15,879</b>	<b>16,351</b>

## Production AET Group and participations





A moment of the shaft coupling.





**Photos:**

Sven Stoppani, Lucasdesign (pp. 8, 12-100)

Foto Atelier Mattei (pp. 4-7)

Tatiana Scolari, Sertus Image (p. 10)

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