



# Annual Report 2017





Azienda Elettrica Ticinese

# Annual Report **2017**



**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 2017;
- the auditors' report;
- the financial statements for the year 2017;
- the proposal for allocation of result.

The english version of the AET 2017 Annual Report is merely a translation:  
the official version is the italian text.



### The Campus Formativo Bodio

The images of the 2017 Annual Report illustrate the activities of the Campus Formativo Bodio (CFB): a multi-company training centre for polymechanics and automation technicians apprentices, founded by AET and the major industries of the north of Ticino.

Opened in spring 2017, the CFB is located in Bodio, next to the Vecchia Biaschina former power plant, the mechanical workshop of AET and the training centre of ESI (Elettricità della Svizzera Italiana).

The CFB has a capacity of up to 32 apprentices divided in four apprenticeship years. The apprentices spend the first two education years in the centre and the second two years in one of the CFB's partner companies. Among them beside AET are: Imerys Graphite&Carbon Switzerland SA, Tenconi SA, Tensol Rail SA and, from September 2018, the Azienda Cantonale dei Rifiuti (ACR).

On the cover: the premises of the Campus Formativo Bodio

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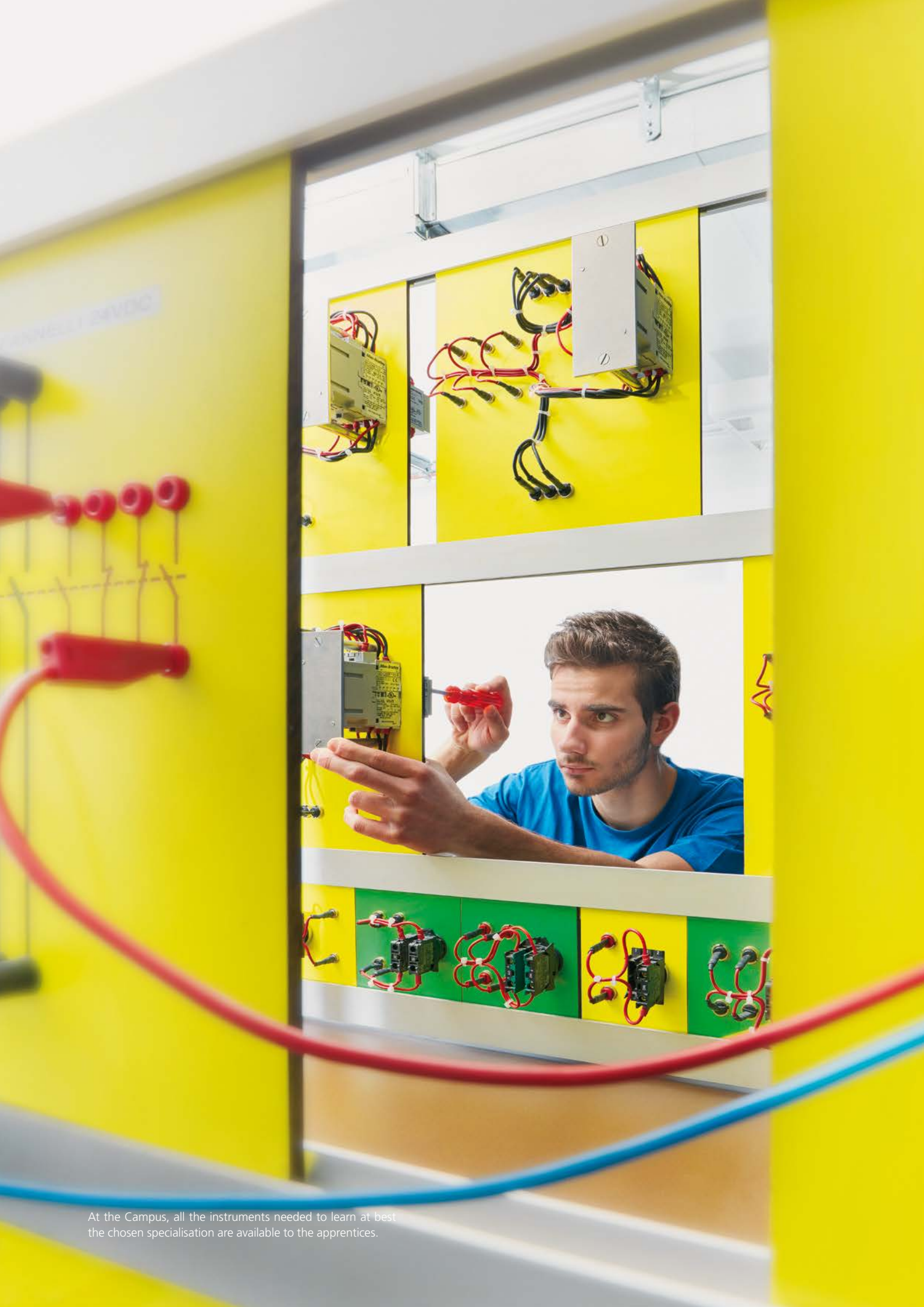
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The CFB extends on an 817 m<sup>2</sup> surface, completely renovated in 2017 and its workshops are equipped with modern machineries. Training is managed by a team of three teachers 100%-dedicated to the Campus and to the students' needs.







At the Campus, all the instruments needed to learn at best the chosen specialisation are available to the apprentices.

## 2017 in summary

### Key figures

	2017	2016 <sup>2</sup>	2015 <sup>1</sup>	2014	2013
In CHF million					
Operating income	872	824	1,033	1,212	1,087
Operating result	-19	-27	38	50	51
Result for the year	-13	-31	-44	13	12
Equity	328	342	420	454	453
Equity in % of balance sheet total	40.3%	41.9%	38.9%	39.5%	38.9%
Non-current assets	527	510	729	771	776
Balance sheet total	813	816	1,079	1,149	1,165
Distribution of dividends to the State	-	-	-	5	10
Interest on capital, due to the State	3	3	3	3	3
Employees of the Group (full time equivalent)	252.9	263.6	451.9	434.4	435.5
	2017	2016	2015	2014	2013
In GWh					
Production AET Group	814	872	1,023	1,020	983
Production participations	1,451	1,310	1,430	2,004	1,327

<sup>1</sup> 2015 figures restated

<sup>2</sup> 2016 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: Giorgio Tognola, Edy Losa, Claudio Nauer,  
Roberto Pronini, Fiorenzo Scerpella, Flavio Kurzo.

# Company officers

## Board of Directors

Leonardi Giovanni, *Chairman*

Netzer Marco, *Vice Chairman*

Beffa Floriano

Cereghetti Claudio

Lombardi Sandro

Ogna Ronald

Passoni Alberto

## Group auditor

KPMG SA, Lugano

## Management

Pronini Roberto, *CEO*

Nauer Claudio, *Co-CEO*

Kurzo Flavio, *Head of finance and risk management*

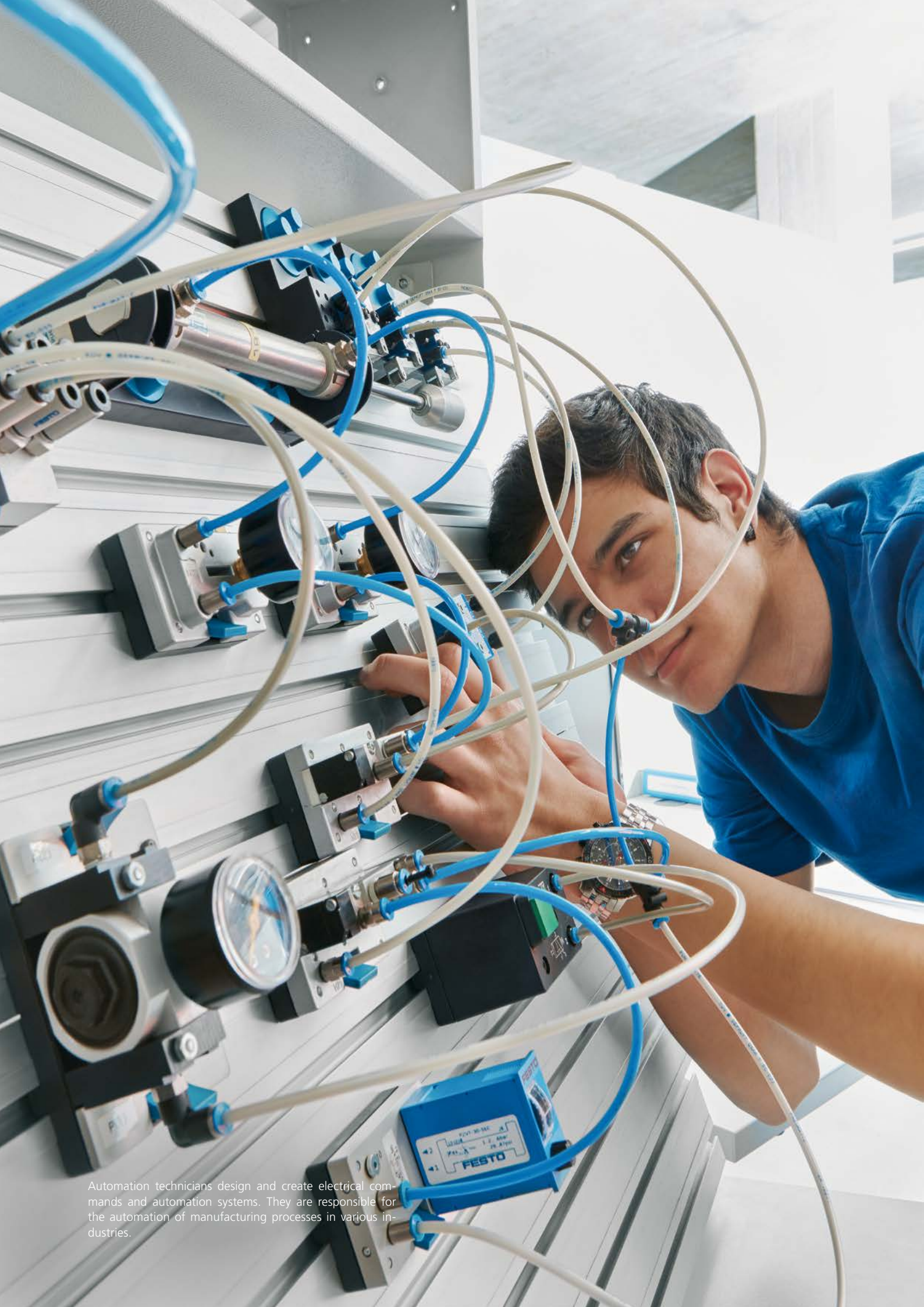
Losa Edy, *Head of energy production*

Scerpella Fiorenzo, *Head of grid*

Tognola Giorgio, *Head of energy trade*



Report of  
the Board of Directors



Automation technicians design and create electrical commands and automation systems. They are responsible for the automation of manufacturing processes in various industries.



# Introduction by the Chairman

## Signs of a turning point

The European energy markets are still in difficulty, and the typical distortions of the past ten years continued to make their effects felt in 2017. As predicted and announced, AET registered a further loss at the end of the financial year.

Nevertheless the first signs of a trend reversal appeared in 2017 and, if confirmed, will help bring the Company into calmer waters again.

In the course of the financial year, a slight rise in prices was witnessed for the first time since 2007. The levels reached are not yet sufficient to cover the production costs of the Company's plants over a whole year, but market indicators suggest that a balance between electricity supply and demand will once again be achieved, whereas supply currently outweighs demand throughout Europe.

With regard to national politics, it should be recalled that the population voted in favour of the first package of the Confederation's Energy Strategy 2050, whose measures include the introduction of a temporary market premium in favour of Swiss hydroelectric production. The new law is not in itself capable of resolving the difficulties affecting the electricity market, and its actual impact will not be measurable until the associated ordinance has been introduced. However, by approving the central role to be played by hydroelectric power in the future national energy system, it sets the reference framework within which AET will have to operate in the next few years. This represents an important step forwards which will allow the Company to plan its future investments with greater certainty.

These positive signs should not be taken to mean that a solution to the industry's problems is guaranteed, or even close. A large number of questions remain unanswered. We are referring, in particular, to the complete opening of the market, to the model of renewable energy incentives, to water fees, and to the numerous challenges arising from digitisation and the decentralisation of new production facilities. Politicians and operators in the sector are looking towards a long and winding road.

## AET's commitment

The energy market, together with the business models which have supported it for many years now, are being transformed at their very roots by energy policies, liberalisation processes and technological evolution. Pressure on margins remains high and AET, just like all other production companies, must develop new products and services which will enable it to become more competitive and less dependent on wholesale price trends. The strategy adopted in the past few years is a step in this direction and aims to enhance the productive heritage and internal expertise of the Company.

In terms of production investments, the focus is on developing and maintaining the efficiency of the Canton's hydroelectric production facilities, whose flexibility is increasingly gaining in value, in light

of the growth of non-programmable renewable production. Examples of the direction that is being taken include the project for the new Ritom power plant, plans to renovate facilities in Leventina, and the agreements signed with Ofima and Ofible to keep production control and extensive professional expertise in Ticino.

The decision to divest investments made abroad before the outbreak of the crisis, a gradual process which depends on the opportunities offered by the market, is part of the same concept, i.e. to concentrate future activity on enhancing the value of renewable and domestic resources.

As far as the market is concerned, there is a commitment towards strengthening connections and collaboration with customers. This process involves developing innovative products and ancillary services in addition to the sale of energy. It is a worthwhile effort which, in the course of the past year, has resulted in the signature of an important agreement for the long-term supply with ten of the eleven distribution companies which operate in Ticino - to whom we are grateful - and in an increase in market share in Switzerland as a whole.

The wide-ranging professional expertise within the Company, makes AET a point of reference for the production, trade and transportation of energy in Ticino. The rising volume of services performed on behalf of third parties, starting with the maintenance duties for Swissgrid, the national power transportation company, shows just how much this role is acknowledged and appreciated. The Company wishes to confirm and reinforce this position in the future so that the Canton can continue to benefit at first hand from the added value represented by the energy resources on its territory.

This strategy is pursued with the rigour and caution required in the current difficult economic context. We are conscious of the need to move AET forwards to meet the challenges of a constantly evolving market where no setbacks are allowed.



A handwritten signature in blue ink, which appears to read "Leonardi". The signature is fluid and cursive.

Giovanni Leonardi  
Chairman



Automation technicians closely collaborate with electronic engineers, computer technicians, mechanics and polymechanics. At the end of the training the students may obtain a vocational education and training diploma, which guarantees access to higher education institutes.



Polymechanics design industrial installation, realize mechanical components for machines and implement manufacturing processes.

# Management report

## Heading towards recovery

As expected, AET closed the 2017 financial year with a net deficit of CHF 21.5 million. This result is due to the ongoing difficult market situation and to a year of particularly low rainfall, which had a negative impact on cantonal hydroelectric production.

Electricity prices on the European wholesale markets experienced an overall rise during the year, with temporary peaks that had not been achieved since 2013. This confirmed the trend reversal observed since autumn 2016. Nevertheless the levels reached are not yet sufficient to cover the production costs of the Company's plants over a whole year. Considering market forecasts and the proportion of future production already allocated to past years' prices, it can be assumed that AET will not succeed in leaving the red figures behind until the end of the decade.

Thanks to its relatively solid financial structure, the careful management of the available resources, and a corporate strategy which aims to consolidate the value of cantonal hydroelectric production in the future whilst developing the range of innovative services for its own customers, the Company will be able to tackle these years of transition with relative equanimity.

## Production

### Electricity

The low levels of snowfall registered in the winter of 2016/2017 and the long period of dry weather during the autumn had a negative impact on cantonal hydroelectric production, which was significantly lower than average, as had already been the case in 2016.

AET's hydroelectric production stood at 773 GWh, down 6% on the previous year and 17% on the multi-year average. The production from participations, which stood at 539 GWh, was slightly up on production in 2016 (+2%) due to the early emptying of the Sambuco basin, where maintenance works had been planned for winter 2017/2018.

Germany's Lünen plant supplied AET with 557 GWh compared to an expectation of 750 GWh; this was due to a technical problem which made the plant unavailable during the last few months of the year. As in previous financial years, market prices were not sufficient to cover the production costs of the power plant.

On the other hand, production from nuclear participations rose by 14% to reach 322 GWh in 2017, after a year marked by a large number of plant unavailabilities for maintenance in Switzerland and France in 2016.

### Thermal energy

TERIS Teleriscaldamento del Bellinzonese SA, a company that is 60% owned by AET, completed work to expand its thermal energy distribution network in the city of Bellinzona (pool area near Palasio school in Giubiasco). A number of new users were connected during the year, including the San Giovanni hospital and offices of the Sezione della Circolazione in Camorino.

Calore SA, owned by AET together with the Società Elettrica Sopracenerina SA (SES), started renovation work on the Morettina thermal plant in Locarno, as well as launching a preliminary study for the construction of a new plant in the urban area of Locarno.

Metanord SA, 33% owned by AET, concentrated its efforts on the planned work to expand its gas-distribution network in the Bellinzona region. Customer growth remains satisfactory in the domestic, tertiary and SME segments, while difficulties persist in the large clients segment due to the strong competition from heating oil. Following the failure to obtain authorisation for distribution from certain municipalities, the Board of Directors of Metanord SA decided to abandon its plans to extend the grid towards the Locarno area. The company's structure is still being reorganised and will be significantly rescaled.

In the Municipality of Capriasca, the project to build a woodchip fired district heating network in the area around Tesserete is progressing according to plan. The project was developed by Capriasca Calore SA, a company owned in equal proportions by AET, the Azienda Elettrica di Massagno (AEM) SA, and the Municipality of Capriasca.

### Energy trade

#### Sales

Traditional supply models are being modified by the opening of the market, the development of decentralised production, and digitalisation. AET must constantly adapt its own product range and services to remain competitive in a market which is undergoing permanent change.

In 2017 it developed its relations with distribution companies throughout Switzerland, leading to the signing of a large number of new agreements for the supply of energy and associated services. Supply volumes grew by 25% in comparison with 2016 in full supply regime throughout Switzerland, whilst total traded energy volumes rose by 5%. This trend towards consolidation was also confirmed in Ticino and Moesano, where a large proportion of distributors decided to renew or extend their supply contracts with AET. In addition, ten of the eleven distribution companies which operate in our Canton signed an agreement for the long-term supply of a share of Ticino hydroelectric energy at a price directly linked to the cost of production. This solution represents a reliable cost covering outlet for part of AET's hydroelectric production in Ticino, as well as offering an opportunity to stabilise tariffs for the end user.

Collaboration with Enerti for the sale of eco-friendly products (renewable, certified Ticino energy), was also confirmed. In general, the expansion of the range of services for distributors and their better integration with energy sales resulted in an increase in the volume of sales of guarantees of origin.

### **Trading**

In the course of 2017, prices on the European wholesale energy markets experienced a positive trend. In the first half of the year, future prices stabilised at the levels reached at the end of 2016, before undergoing a further rise in the last six months of the year due to the progression of the cost of coal and fears of new problems with French nuclear power. This represents a trend reversal which, should it be confirmed, will have a positive impact on AET's future accounts.

Weather conditions, especially the particularly cold month of January and dry autumn, had a positive effect on spot prices, which reached levels that on certain markets had not been seen since 2013.

### **Grid**

It is essential to modernise and maintain the efficiency of AET's regional transportation and distribution grid in order to guarantee a reliable electricity supply and competitive services. The new 50 kV Acquarossa-Olivone power line, including the expansion of the Acquarossa substation, was the main project to be finished in 2017.

In addition to carrying out maintenance work on AET's own grid infrastructure, the range of services performed on behalf of third parties was also expanded. This area of activity enables the deployment of various specialised expertises unique to AET in Canton Ticino. In this regard, cable work on the lines belonging to Swiss Federal Railways – SBB and Swissgrid inside the new Vezia-Crespera tunnel was finalised in 2017 under the supervision of AET engineers. The complete renovation of the controls of the Swissgrid substation in Manno was also completed, as was the assembly of the new 220 kV Swissgrid substation in Avegno.

Finally, attention should be drawn to the fact that AET has been entrusted with the supervision and maintenance activities of all the Swissgrid substations in Ticino and Mesolcina for a further 4 years. This is an important achievement which confirms that AET is Swissgrid's preferred partner for all maintenance activities south of the Alps.

### **Strategic projects**

#### **The new Ritom power plant**

In the spring, Ritom SA, 75% of which belongs to Swiss Federal Railways – SBB and 25% to the Canton of Ticino (in close cooperation with AET), submitted a building permit application for the construction of the new Ritom power plant, including the environmental impact report (RIA 2). A few preliminary appeals brought against this building permit are currently being resolved and are in no danger of blocking the further progress of the project.

The company has meanwhile started preparations for awarding contracts for the main construction work. Work on the construction site is expected to start in the autumn of 2018.

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

The Società Ticinese per l'Arte e la Natura (STAN) has lodged an appeal against the issuing of the building permit for the construction of the San Gotthard wind farm. The appeal hearing before the Council of State will commence in June.

In the meantime, the company Parco eolico del San Gottardo SA, 70% owned by AET, has renegotiated and obtained a reduction in the value of the production indemnity granted to the Patriziato and the Municipality of Airolo, owners of the funds needed for the realisation and operation of the farm. This gesture of loyalty towards the project will help to improve its economic viability.

### **Campus Formativo Bodio**

The Campus Formativo Bodio (CFB) was officially inaugurated in February. This new intercompany training centre is promoted by AET together with the main industries active in the region of the three valleys, including Imerys Graphite & Carbon Switzerland Ltd, Tenconi SA and Tensol Rail SA. Created with the support of the Department of Education, Culture and Sport (DECS), the CFB will be able to train up to 32 apprentice operators in automation and polymechanics from the promoting companies and third-party firms. The new campus, which replaces AET's previous trainee centre, is located in the building complex attached to the historic Vecchia Biaschina plant. The project was founded in order to join forces with other stakeholders to contribute to the revival of the industrial sector in the Municipality of Bodio.

### **Foreign investments**

AET holds a number of 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 of them over the past few years. The date and method of sale will depend on the opportunities that arise in a market which remains unfavourable.

### **CEG Group**

CEG today acts as a vehicle for the participation in Biogen Chivasso Srl. The disposal of the Occimiano building and the liquidation of the participation in Bio Elettricità Occimiano Srl (BEO) are still in progress. A potential liquidation or merger with other group companies will be evaluated on completion of these activities

### **Conclusion**

The 2017 financial year was characterised by a trend reversal in wholesale electricity prices, which started to climb again after eight years of continuous decline. The levels reached in the course of the year are not sufficient to ensure coverage of the production costs of AET's plants, but future price curves suggest the possibility of returning to black figures in the medium term.

Over the past few years, AET has adopted a series of measures to overcome the long period of economic difficulty, preparing the Company for future challenges. These challenges are the result of technological evolution, the introduction of new, ambitious energy policy plans all over Europe, and the subsequent far-reaching changes to market models.



A large proportion of the foreign investments carried out in the early 2000s, in response to the obligation in force at the time to guarantee supply in the Canton, have been completely written off over the past few financial years, and no longer have any impact on the Company's accounts. This is not the case for the supply contract with EDF and participation in the Lünen power plant, however.

Investments nowadays focus on the maintenance and development of renewable production in Ticino, particularly with regard to hydroelectricity. The construction of the new Ritom power plant, the St. Gotthard wind farm and the agreements signed in 2017 with the Officine Idroelettriche di Maggia e Blenio (Ofima and Ofible) to transfer the control centre of their plants to AET, together with some of their staff with the necessary skills, are tangible proof of this new strategic direction.

The strategy for the future of AET is based on the central position to be occupied by hydroelectric power, a commitment to the development of wind power and photovoltaic energy, and the safeguarding of the added value represented by the electricity supply chain and related jobs in Ticino.

By strengthening the hydroelectric sector in Ticino, and the position of AET at its heart, the Canton will be able to enhance the value of this precious resource on the electricity market of the future. When the first nuclear and coal power plants start to be dismantled throughout Europe, there will be an ever greater need on the market for the flexibility guaranteed by hydroelectric production.

For a number of years, AET has also been developing innovative products and services in order to meet the demands of a growing number of customers all over Switzerland. This is a vital step in order to remain competitive in an increasingly open market undergoing constant transformation.



Polymechanics collaborate with industrial designers, mechanics and automation technicians. As well as their colleagues, they can access to the vocational education and training diploma exams, which allows them to proceed with a higher education degree.

## 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 2017	-21,516
- 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>-24,716</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 2017;
- the financial statements for the year 2017;
- the proposal for allocation of result;

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



During the second half of the training, polymechanics work on the field, dealing with machine processes of the CFB partner companies.

# Consolidated financial statements

# Consolidated balance sheet

## Assets

In CHF 1,000	Notes	31.12.2017	31.12.2016 <sup>1</sup>
Operating plants and equipment		242,306	238,096
Land and buildings		52,246	52,784
Tangible fixed assets under construction		34,482	32,536
Tangible fixed assets on lease		2,451	169
Other tangible fixed assets		1,231	1,007
<b>Tangible fixed assets</b>	2	<b>332,716</b>	<b>324,592</b>
Participations in associates	3	80,537	69,502
Long-term securities	4	47,993	48,954
Advances and loans to participations	5	37,020	42,795
Other financial assets		6,846	1,682
<b>Financial assets</b>		<b>172,396</b>	<b>162,933</b>
Usage rights		8,023	7,942
Energy procurement rights		8,998	9,898
Intangible assets under construction		3,161	3,468
Other intangible assets		1,254	1,158
<b>Intangible assets</b>	6	<b>21,436</b>	<b>22,466</b>
<b>Total Non-current assets</b>		<b>526,548</b>	<b>509,991</b>
Receivables from goods and services	7	14,438	28,631
Other short-term assets	8	65,769	73,434
Prepayments and accrued income	9	99,062	107,896
Cash and cash equivalents	10	107,523	96,183
<b>Total Current assets</b>		<b>286,792</b>	<b>306,144</b>
<b>Total Assets</b>		<b>813,340</b>	<b>816,135</b>

<sup>1</sup> 2016 figures restated

## Liabilities and equity

		31.12.2017	31.12.2016 <sup>1</sup>
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
Conversion differences		-5,379	-8,702
Retained earnings		298,958	334,774
Result for the year		-12,697	-30,964
<b>Equity attributable to AET</b>		<b>320,882</b>	<b>335,108</b>
Minority interests		6,927	6,649
<b>Total Group equity</b>		<b>327,809</b>	<b>341,757</b>
Long-term provisions	11	9,807	12,990
Other long-term liabilities		3,416	2,921
Long-term financial liabilities	12	294,204	292,508
<b>Long-term liabilities</b>		<b>307,427</b>	<b>308,419</b>
Payables from goods and services	13	17,499	22,243
Short-term financial liabilities	14	51,425	1,958
Other short-term liabilities	15	25,560	27,032
Accrued liabilities and deferred income	16	77,126	92,587
Short-term provisions	11	6,494	22,139
<b>Current liabilities</b>		<b>178,104</b>	<b>165,959</b>
<b>Total Liabilities</b>		<b>485,531</b>	<b>474,378</b>
<b>Total Liabilities and equity</b>		<b>813,340</b>	<b>816,135</b>

<sup>1</sup> 2016 figures restated

## Consolidated income statement

		2017	2016 <sup>1</sup>
In CHF 1,000	Notes		
<b>Operating income</b>			
Energy income	17	806,828	752,449
Grid income		47,436	50,042
Other operating income	18	17,324	21,229
<b>Total Operating income</b>		<b>871,588</b>	<b>823,720</b>
<b>Operating expenses</b>			
Energy purchases	19	-783,454	-731,660
Grid expenses		-27,360	-33,437
Personnel expenses	20	-28,124	-28,007
Service and material expenses		-7,441	-10,449
Depreciation on tangible fixed assets		-16,126	-15,203
Amortisation on intangible assets		-1,898	-2,575
Other depreciation and amortisation		-1,014	-1,014
Other operating expenses	21	-24,952	-27,950
<b>Total Operating expenses</b>		<b>-890,369</b>	<b>-850,295</b>
<b>Operating result</b>		<b>-18,781</b>	<b>-26,575</b>
Financial result	22	-7,301	-6,323
Result from associates	3	7,711	2,527
<b>Ordinary result</b>		<b>-18,371</b>	<b>-30,371</b>
Non-operating result		-	-
Extraordinary result	23	6,175	-1,366
<b>Result before income taxes</b>		<b>-12,196</b>	<b>-31,737</b>
Income taxes		-179	969
<b>Group result for the year</b>		<b>-12,375</b>	<b>-30,768</b>
Minority interests		-322	-196
<b>Result for the year attributable to AET</b>		<b>-12,697</b>	<b>-30,964</b>

<sup>1</sup> 2016 figures restated



## Consolidated cash flow statement

	2017	2016
In CHF 1,000		
Result for the year	-12,697	-30,964
Minority interests to income statement	322	196
Depreciation on tangible fixed assets	16,126	15,203
Amortisation on intangible assets	1,898	2,575
Other depreciation and amortisation	1,014	1,014
Change in provisions	-19,046	3,650
Change in impairments	-2,284	772
Profit / loss from disposal of non-current assets	-610	-8,182
Result from associates	-4,734	666
Other non cash expenses and income	-6,181	417
Change in receivables, inventories and prepayments and accrued income	33,812	39,014
Change in liabilities and accrued liabilities and deferred income	-22,513	-1,849
<b>Cash flow from operating activities</b>	<b>-14,893</b>	<b>22,512</b>
Outflows for investment in tangible fixed assets	-24,243	-20,007
Inflows from disposal of tangible fixed assets	1,402	7,440
Outflows for investment in intangible assets	-280	-868
Inflows from disposal of intangible assets	608	-
Outflows for investment in financial assets	-61	-609
Inflows from disposal of financial assets	740	2,189
Acquisition of consolidated organisations, less cash	-	-780
Disposal of consolidated organisations, less cash	-	6,342
<b>Cash flow from investing activities</b>	<b>-21,834</b>	<b>-6,293</b>
Issuance / repayment of short-term financial liabilities	-2,006	-38,693
Issuance / repayment of long-term financial liabilities	52,662	32,533
Payments related to minority shareholders	-44	-
Interests on capital, due to the State	-3,200	-3,200
Distribution of dividends to the State	-	-
<b>Cash flow from financing activities</b>	<b>47,412</b>	<b>-9,360</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>96,183</b>	<b>89,501</b>
<b>Cash flow</b>	<b>10,685</b>	<b>6,859</b>
Conversion differences on cash and cash equivalents	655	-177
<b>Cash and cash equivalents at the end of the year</b>	<b>107,523</b>	<b>96,183</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 01.01.2016<sup>1</sup></b>	<b>40,000</b>	<b>-7,998</b>	<b>360,416</b>	<b>-44,037</b>	<b>348,381</b>	<b>57,824</b>	<b>406,205</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 <sup>1</sup>	-	-	-	-30,964	-30,964	196	-30,768
<b>Equity at 31.12.2016<sup>1</sup></b>	<b>40,000</b>	<b>-8,702</b>	<b>334,774</b>	<b>-30,964</b>	<b>335,108</b>	<b>6,649</b>	<b>341,757</b>
Allocation of result	-	-	-30,964	30,964	-	-	-
Interests on capital, due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of dividends	-	-	-	-	-	-	-
Conversion differences	-	3,323	-1,645	-	1,678	-	1,678
Change in consolidation scope	-	-	-9	-	-9	-44	-53
Offset consolidation difference	-	-	2	-	2	-	2
Result for the year 2017	-	-	-	-12,697	-12,697	322	-12,375
<b>Equity at 31.12.2017</b>	<b>40,000</b>	<b>-5,379</b>	<b>298,958</b>	<b>-12,697</b>	<b>320,882</b>	<b>6,927</b>	<b>327,809</b>

<sup>1</sup> 2016 figures restated

# Notes to the consolidated financial statements

## Restatement of the 2016 consolidated financial statements

In 2017 the accounting treatment of a long term energy purchase agreement has been revised. According to the current market conditions, the agreement is expected to generate financial losses during its lifetime and has therefore been booked for as onerous contract.

The present value of the future expected losses, previously considered in the income statement of the year in which they incur, has been provisioned for within provisions for onerous contracts.

The restatement of the consolidated financial statements according to this revision determines a decrease of the 2016 result for the year of CHF 0.3 million and a decrease of equity as of 31.12.2016 of CHF 13.7 million.

## 1. Accounting principles

The 2017 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 15.05.2018.

### 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 31.12.2017	Shareholding at 31.12.2016
		in 1,000	%	%
AET Idronord Srl	EUR	*	*	100.00
AET Italia Holding Srl	EUR	**	**	100.00
AET Italia Srl	EUR	871	100.00	100.00
Bio Elettricità Occimiano Srl (BEO) in liquidazione	EUR	50	100.00	100.00
Biogen Chivasso Srl	EUR	20	100.00	100.00
Calore SA	CHF	2,000	65.00	63.57
CEG SpA	EUR	120	100.00	100.00
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	65.00
Senco Sagl	CHF	220	65.00	65.00
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

\* Merger with AET Italia Srl effective from 02.08.2017

\*\* Merger with AET Italia Srl effective from 13.11.2017

All consolidated companies have closed their financial year on the 31.12.2017.

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 2017 the following changes in consolidation scope of the AET Group have incurred:

- on the 02.08.2017 AET Italia Srl has incorporated AET Idronord Srl, which has thus been cancelled.
- On the 13.11.2017 AET Italia Srl has incorporated its parent company AET Italia Holding Srl, which has thus been cancelled.
- On the 12.06.2017 AET acquired 1.10% of the shareholders' capital of Calore SA, on the same date Società Elettrica Sopracenerina SA (SES) executed the same transaction. Starting from this date Calore SA is thus held at 50% by AET and at 50% by Società Elettrica Sopracenerina SA (SES). The total participation of AET sums to 65% (direct and indirect shareholdings).

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.

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
Non-current assets	8
Current assets except cash	6,802
Cash and cash equivalents	189
<b>Total assets</b>	<b>6,999</b>
Equity	– 14,829
Long-term liabilities	13,951
Current liabilities	7,877
<b>Total liabilities and equity</b>	<b>6,999</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 shareholders' equity and net profit according to the Group accounting principles, with neutral treatment of the conversion differences arising from foreign exchange translation adjustment).

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 31.12.2017	Shareholding at 31.12.2016
		in 1,000	%	%
Biomassa Blenio SA	CHF	870	22.41	21.92
Capriasca Calore SA	CHF	210	33.33	33.33
Metanord SA <sup>2</sup>	CHF	18,000	33.33	33.10
Nord Energia SpA	EUR	10,200	40.00	40.00
Quadra Srl	EUR	20	50.00	50.00
Società Elettrica Sopracenerina SA (SES)	CHF	16,500	30.00	30.00

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

<sup>2</sup> The percentage shareholding into Metanord SA has changed as a minority shareholder did not participate to the balance sheet restructuring in 2017

### 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 Group equity, without impact on the result of the year.

Exchange rates applied (EUR / CHF)	2017	2016
Exchange rate on the closing date 31.12	1.1702	1.0720
Average exchange rate	1.1116	1.0901

## 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. Tangible fixed assets under construction are reported at construction cost, with no interest capitalisation; tangible fixed assets under construction are not depreciated. The following minimum and maximum depreciation periods for each tangible fixed asset category are applied:

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 useful life, capacity or performance of the involved plant are significantly improved. Tangible fixed assets acquired through financial leases are capitalised and the corresponding debt reported as financial liability.

### 1.2.2. Financial assets

Financial assets are reported at their cost value, adjusted for any impairment. For production participations, organised according to the principle of energy withdrawal at generation costs, the investment value exceeding the expected equity value at the end of the useful life of the power plant is depreciated on a straight-line basis according to the useful life of the power plant. Long-term advances in foreign currency are converted at the year-end exchange rates.

### 1.2.3. Intangible assets

Intangible assets are capitalised at their acquisition cost adjusted by amortisation and any necessary impairment. They are amortised on a straight-line basis according to the technical and economical life of the plant (40-80 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. Energy related and similar certificates

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

### 1.2.6. Inventories

Inventories include small tools and spare parts. Tools and spare parts are valued at their weighted average purchase price, the book value is impaired for slow-moving items or obsolescence.

### 1.2.7. Cash and cash equivalents

Cash and cash equivalents are reported at their face value and include cash in hand, post and bank accounts. Balances in foreign currencies are converted at year-end exchange rates.

### 1.2.8. 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.

### 1.2.9. 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.

### 1.2.10 Liabilities

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

### 1.2.11. 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.

### 1.2.12. 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 assets and other short-term liabilities respectively. Changes in market value incurred during the reporting financial year are recorded in the income statement within other energy income.

Energy forward sale and purchase transactions, as well as the economic result of energy related transactions, with financial instruments, entered for the purpose of hedging of AET's generation portfolio are recognised in the income statement at delivery.

### 1.2.13. Revenues

Grid income and other operating income are recognised within the income statement when realised. All revenues are recorded net of price reductions, sale taxes and value added taxes.

### 1.2.14. 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 (AET has previously been affiliated to a defined benefit 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.

### 1.2.15. 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.

### 1.2.16. 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. 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 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 01.01.2016</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>
Change in consolidation scope	-	-	-	-	-	-
Reclassification	8,975	373	-21,357	-	264	-11,745
Additions	407	192	23,314	-	330	24,243
Disposals	-16,909	-220	-11	-	-440	-17,580
Conversion differences	64	3	-	1,972	29	2,068
<b>Cost value at 31.12.2017</b>	<b>630,907</b>	<b>63,863</b>	<b>34,482</b>	<b>23,507</b>	<b>7,759</b>	<b>760,518</b>
<b>Accumulated depreciation at 01.01.2016</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>
Change in consolidation scope	-	-	-	-	-	-
Reclassification	10,922	-	-	-	-	10,922
Depreciation	-14,823	-921	-	-17	-365	-16,126
Disposals	15,639	39	-	-	431	16,109
Impairments	-	-	-	2,284	-	2,284
Conversion differences	-65	-4	-	-1,957	-25	-2,051
<b>Accumulated depreciation at 31.12.2017</b>	<b>-388,601</b>	<b>-11,617</b>	<b>-</b>	<b>-21,056</b>	<b>-6,528</b>	<b>-427,802</b>
<b>Net carrying amount at 01.01.2016</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>
<b>Net carrying amount at 31.12.2017</b>	<b>242,306</b>	<b>52,246</b>	<b>34,482</b>	<b>2,451</b>	<b>1,231</b>	<b>332,716</b>

### 3. Participations in associates

	31.12.2017	31.12.2016
In CHF 1,000		
Opening balance	69,502	15,725
Acquisitions / capital increases	6,000	–
Disposals	–	–
Change in consolidation scope	–7	54,602
Conversion differences	308	–159
Result from associates	7,711	2,527
Received dividends	–2,977	–3,193
<b>Closing balance</b>	<b>80,537</b>	<b>69,502</b>

Increases relate to the conversion into shareholders' capital of loans granted to Metanord SA.

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	59,164	15,300	421,505	2,380	498,349
Current assets	2,662	26,718	56,553	434	86,367
<b>Total assets</b>	<b>61,826</b>	<b>42,018</b>	<b>478,058</b>	<b>2,814</b>	<b>584,716</b>
Equity	16,497	32,383	205,961	864	255,705
Long-term liabilities	42,672	2,716	121,501	1,120	168,009
Current liabilities	2,657	6,919	150,596	830	161,002
<b>Total liabilities and equity</b>	<b>61,826</b>	<b>42,018</b>	<b>478,058</b>	<b>2,814</b>	<b>584,716</b>
Revenues	5,764	19,492	137,398	228	162,882
EBITDA	352	16,890	38,082	–10	55,314
Net result	–1,503	9,977	14,187	–136	22,525
<b>AET's shareholdings, in %</b>	<b>33.33%</b>	<b>40%</b>	<b>30%</b>	<b>various</b>	
<b>AET's share of the equity</b>	<b>5,498</b>	<b>12,953</b>	<b>61,788</b>	<b>297</b>	<b>80,537</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.

During 2017 Metanord SA has restructured its balance sheet cancelling its share capital and reconstructing it through a partial loan conversion.

## 4. Long-term securities

	31.12.2017	31.12.2016
In CHF 1,000		
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-15,678	-15,678
Trianel Kohlekraftwerk Lünen GmbH & Co. KG	14,920	15,772
Swissgrid AG	12,589	12,589
Kraftwerke Mattmark AG	11,645	11,802
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	289	241
<b>Total</b>	<b>47,993</b>	<b>48,954</b>

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. The company has been set on liquidation on the 31.01.2018.

The participation into Trianel Kohlekraftwerk Lünen GmbH & Co. KG is amortised on a straight-line basis according to the duration of the power purchase agreement in force.

The investment into Kraftwerke Mattmark AG is amortised on a straight-line basis to the equity value expected at expiration of the concession.

## 5. Advances and loans to participations

	31.12.2017	31.12.2016
In CHF 1,000		
Swissgrid AG	15,552	15,552
Terravent AG	12,750	12,750
Metanord SA	8,200	14,200
Other	518	293
<b>Total</b>	<b>37,020</b>	<b>42,795</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).

The advance to Terravent AG is entirely subordinated.

## 6. Intangible assets

	Usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2016</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>
Change in consolidation scope	-	-	-	-	-
Reclassification	11,429	-	-579	895	11,745
Additions	8	-	272	-	280
Disposals	-	-	-	-1,138	-1,138
Conversion differences	-	-	-	335	335
<b>Cost value at 31.12.2017</b>	<b>26,612</b>	<b>144,555</b>	<b>3,161</b>	<b>12,400</b>	<b>186,728</b>
<b>Accumulated amortisation at 01.01.2016</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>
Change in consolidation scope	-	-	-	-	-
Reclassification	-10,922	-	-	-	-10,922
Amortisation	-434	-900	-	-564	-1,898
Additions	-	-	-	-	-
Disposals	-	-	-	879	879
Impairments	-	-	-	-	-
Conversion differences	-	-	-	-311	-311
<b>Accumulated amortisation at 31.12.2017</b>	<b>-18,589</b>	<b>-135,557</b>	<b>-</b>	<b>-11,146</b>	<b>-165,292</b>
<b>Net carrying amount at 01.01.2016</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>
<b>Net carrying amount at 31.12.2017</b>	<b>8,023</b>	<b>8,998</b>	<b>3,161</b>	<b>1,254</b>	<b>21,436</b>

Usage rights include rights for utilisation of third party plants, in particular related to exclusive usage of third party power grid plants, as well as concession fees paid in respect of hydro power concessions.

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

	31.12.2017	31.12.2016
In CHF 1,000		
Associates	5,506	5,006
Other related parties	344	635
Third parties	12,565	26,345
./. allowance for doubtful receivables	-3,977	-3,355
<b>Total</b>	<b>14,438</b>	<b>28,631</b>

The balance includes amounts in foreign currency for EUR 0.6 million (EUR 12.5 million at 31.12.2016).

## 8. Other short-term assets

	31.12.2017	31.12.2016
In CHF 1,000		
Other short-term receivables from associates	3,037	-
Other short-term receivables from other related parties	-	-
Other short-term receivables from third parties	27,978	36,525
Positive replacement values of transactions valued at market value	21,838	27,376
Energy related and similar certificates	3,415	3,919
Inventories of stock and consumables	9,154	4,564
Deferred income taxes	347	1,050
<b>Total</b>	<b>65,769</b>	<b>73,434</b>

## 9. Prepayments and accrued income

	31.12.2017	31.12.2016
In CHF 1,000		
Associates	6,109	5,293
Other related parties	7,744	8,817
Third parties	83,836	90,671
Work in progress	1,373	3,115
<b>Total</b>	<b>99,062</b>	<b>107,896</b>

The balance includes amounts in foreign currency for EUR 52.2 million (EUR 64.1 million at 31.12.2016).

Accrued income includes in particular the value of energy sold during the last reporting month and not yet invoiced.

## 10. Cash and cash equivalents

	31.12.2017	31.12.2016
In CHF 1,000		
Balances in CHF	88,420	76,351
Balances in foreign currencies	19,103	19,832
<b>Total</b>	<b>107,523</b>	<b>96,183</b>

## 11. Provisions

	Energy onerous contracts	Onerous contracts	Tax	Personnel related expenses	Other	Total
In CHF 1,000						
<b>Carrying amount at 01.01.2016</b>	<b>13,384</b>	<b>12,500</b>	<b>11,502</b>	<b>13,926</b>	<b>8,781</b>	<b>60,093</b>
<i>thereof long-term</i>	12,337	12,500	8,626	10,325	5,749	49,537
<i>thereof short-term</i>	1,047	–	2,876	3,601	3,032	10,556
Change in consolidation scope	–	–12,500	–11,093	–2,190	–2,772	–28,555
Increase	1,375	–	105	3,943	3,864	9,287
Utilisation	–1,047	–	–	–198	–	–1,245
Release	–	–	–	–841	–3,610	–4,451
<b>Carrying amount at 31.12.2016</b>	<b>13,712</b>	<b>–</b>	<b>514</b>	<b>14,640</b>	<b>6,263</b>	<b>35,129</b>
<i>thereof long-term</i>	12,667	–	271	52	–	12,990
<i>thereof short-term</i>	1,045	–	243	14,588	6,263	22,139
Change in consolidation scope	–	–	–	–	–	–
Increase	–	–	186	944	1,301	2,431
Utilisation	–1,045	–	–168	–13,165	–1,899	–16,277
Release	–2,314	–	–51	–2	–2,615	–4,982
<b>Carrying amount at 31.12.2017</b>	<b>10,353</b>	<b>–</b>	<b>481</b>	<b>2,417</b>	<b>3,050</b>	<b>16,301</b>
<i>thereof long-term</i>	9,396	–	220	54	137	9,807
<i>thereof short-term</i>	957	–	261	2,363	2,913	6,494

Provisions for energy onerous contracts include the negative present value of an energy purchase agreement with the Azienda Cantonale dei Rifiuti. The provision is determined according to the current price energy expectations for the contract duration and the current EUR/CHF exchange rate.

The provision for personnel related expenses as of 31.12.2017 represents the value of overtime worked and non-taken holidays.

## 12. Long-term financial liabilities

	31.12.2017			31.12.2016		
	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	30,662	5,814	36,476	78,950	5,171	84,121
Liabilities due between 5 and 10 years	93,000	6,228	99,228	83,075	7,072	90,147
Liabilities due after 10 years	158,500	–	158,500	118,240	–	118,240
<b>Total</b>	<b>282,162</b>	<b>12,042</b>	<b>294,204</b>	<b>280,265</b>	<b>12,243</b>	<b>292,508</b>

## 13. Payables from goods and services

	31.12.2017	31.12.2016
In CHF 1,000		
Associates	1,275	1,276
Other related parties	3,558	5,394
Third parties	12,666	15,573
<b>Total</b>	<b>17,499</b>	<b>22,243</b>

The balance includes amounts in foreign currency for EUR 6.2 million (EUR 8.9 million at 31.12.2016).

## 14. Short-term financial liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Liabilities towards financial institutions in CHF	50,100	100
Liabilities towards financial institutions in foreign currency	1,325	1,858
<b>Total</b>	<b>51,425</b>	<b>1,958</b>

## 15. Other short-term liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Other short-term liabilities towards associates	86	–
Other short-term liabilities towards other related parties	13	27
Other short-term liabilities towards third parties	8,744	8,426
Negative replacement values of transactions valued at market value	16,717	18,579
<b>Total</b>	<b>25,560</b>	<b>27,032</b>

## 16. Accrued liabilities and deferred income

	31.12.2017	31.12.2016
In CHF 1,000		
Associates	7	5
Other related parties	55	855
Third parties	77,064	91,727
<b>Total</b>	<b>77,126</b>	<b>92,587</b>

The balance includes amounts in foreign currency for EUR 49.6 million (EUR 61.8 million at 31.12.2016).

Accrued liabilities include in particular the value of energy purchased during the last reporting month, which has not been yet invoiced for.

## 17. Energy income

	2017	2016
In CHF 1,000		
Energy sales in Switzerland	260,461	262,370
Energy sales in Italy	103,950	217,239
Energy sales in Germany	320,220	166,658
Energy sales in France	102,235	68,481
Other energy income	19,962	37,701
<b>Total</b>	<b>806,828</b>	<b>752,449</b>

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

## 18. Other operating income

	2017	2016
In CHF 1,000		
Income from services	9,231	12,644
Own work capitalised	3,753	3,918
Other	4,340	4,667
<b>Total</b>	<b>17,324</b>	<b>21,229</b>

## 19. Energy purchases

	2017	2016
In CHF 1,000		
Purchases from participations	-85,601	-84,192
Long-term contractual purchases	-31,637	-50,370
Purchases on the market	-666,216	-597,098
<b>Total</b>	<b>-783,454</b>	<b>-731,660</b>

The expense 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.



## 20. Personnel expenses

	2017	2016
In CHF 1,000		
Salaries and other compensation	-22,274	-22,577
Social contributions	-5,541	-5,097
Other expenses	-424	-566
Recoveries from insurance companies	115	233
<b>Total</b>	<b>-28,124</b>	<b>-28,007</b>

### Employees of the Group

	31.12.2017	31.12.2016
Full time equivalent		
Permanent employees	218.2	229.5
Auxiliary employees	10.7	12.1
Apprentices	24.0	22.0
<b>Total</b>	<b>252.9</b>	<b>263.6</b>

## 21. Other operating expenses

	2017	2016
In CHF 1,000		
Water fees	-14,860	-14,860
Local taxes and other contributions	-3,723	-3,764
Other	-6,369	-9,326
<b>Total</b>	<b>-24,952</b>	<b>-27,950</b>

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

## 22. Financial result

	2017	2016
In CHF 1,000		
Interest income	1,089	1,674
Income from participations	845	849
Exchange rate differences	-524	-267
Interest payments and commissions	-8,557	-8,477
Other financial expenses	-154	-102
<b>Total</b>	<b>-7,301</b>	<b>-6,323</b>

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

## 23. Extraordinary result

	2017	2016
In CHF 1,000		
Release of provisions	4,661	814
Reversal of impairments on non-current assets	2,170	–
Profit from disposal of non-current assets	610	8,182
Other extraordinary income	550	48
Impairments of non-current assets	–438	–5,193
Increase of provisions	–1,035	–5,201
Other extraordinary expenses	–343	–16
<b>Total</b>	<b>6,175</b>	<b>–1,366</b>

The release of provision relates to the update of the energy onerous contracts provision to the prevailing market conditions and release of provision related to regulatory risks.

## 24. 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:

	2017	2016
In CHF 1,000		
Historical cost	2,167	2,167
Goodwill	83	166
Equity (retained earnings)	83	166
Amortisation goodwill of the year	–83	–83
Result for the year	–83	–83

## 25. Contingent liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Guarantees in the interest of:		
Associates	–	–
Third parties	15,096	14,580
<b>Total</b>	<b>15,096</b>	<b>14,580</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.

## 26. 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		
2018	496,509	36,957
from 2 to 5 year	350,852	154,358
over 5 year	–	207,388

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 a cross-border interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 8.9 million (value of the indexed contact based on 2017 prices and year-end exchange rate).

At 31.12.2017 AET Group has derivative financial instruments subscribed for the interest rate hedging for a contractual volume of CHF 10 million (31.12.2016: CHF 10 million).

### Forward currency operations

31.12.2017	Maturity year 2018		Maturity year 2019	
	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)
Operation				
Buy EUR	–	–	–	–
Sell EUR	25,000	1.15	–	–
Buy NOK	14,200	0.12	–	–
Sell NOK	2,200	0.12	–	–
Buy USD	575	0.90	–	–
Sell USD	575	0.94	–	–

31.12.2016	Maturity year 2017		Maturity year 2018	
	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)
Operation				
Buy EUR	2,000	0.98	–	–
Sell EUR	56,500	1.08	–	–
Buy NOK	6,200	0.12	14,200	0.12
Sell NOK	–	–	–	–
Buy USD	370	0.92	575	0.90
Sell USD	–	–	–	–

Forward foreign currency contracts have been made with the purpose of hedging expected future foreign currency cash flows.

At 31.12.2017 Group AET has no off-balance sheet lease commitments (31.12.2016: unchanged).

## 27. Pension benefit obligations

31.12.2017	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
In CHF 1,000					
CPE Fondazione di Previdenza Energia	116.5%	162	–	–2,420	–2,420
Fondo Pensionamento Anticipato dell'AET	109.3%	–	–	–508	–508
<b>Total</b>		<b>162</b>	<b>–</b>	<b>–2,928</b>	<b>–2,928</b>

31.12.2016	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
In CHF 1,000					
CPE Cooperativa di Previdenza Energia	104.3%	–	–	–1,941	–1,941
Fondo Pensionamento Anticipato dell'AET	103.2%	–	–	–546	–546
<b>Total</b>		<b>–</b>	<b>–</b>	<b>–2,487</b>	<b>–2,487</b>

From 01.04.2017 AET is affiliated to CPE Fondazione di Previdenza Energia, a defined contribution pension fund.

## 28. Transactions with related parties

### Transactions with associates

	2017	2016
In CHF 1,000		
Energy income	25,422	32,952
Service and other income	18,242	18,698
Financial income	–	11
Energy purchases	62	1,627
Service and other expenses	10,851	13,097

### Transactions with other related parties

	2017	2016
In CHF 1,000		
Energy income	1,450	2,964
Service and other income	1,084	1,178
Financial income	539	550
Energy purchases	85,127	83,412
Service and other expenses	1,943	2,344

## 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 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. Counterparty risk related to the Swiss commercial / distribution activity is managed through the constant monitoring of the receivable positions, the subscription of receivables insurances, 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.

### 30. Subsequent events

2017: no significant event.

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.



Automation technician apprentices have the chance to confront themselves with daily works of the chosen profession within the partner companies of the CFB.

# Audit report by KPMG SA on the consolidated financial statements



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Report of the Statutory Auditor to the Gran Consiglio of Repubblica e Cantone Ticino

## Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the accompanying consolidated financial statements (from page 27 to page 52) of Azienda elettrica ticinese, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended on December 31, 2017.

### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER, the requirements of Swiss law and Act of Azienda elettrica ticinese. 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 on December 31, 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law and Act of Azienda elettrica ticinese.

### *Other Matter*

The consolidated financial statements of Azienda elettrica ticinese for the year ended on December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on May 12, 2017.





*Azienda elettrica ticinese, Monte Carasso  
Report of the Statutory Auditor  
on the Consolidated Financial Statements  
to the Gran Consiglio of Repubblica e Cantone Ticino*

### **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.

KPMG SA

A handwritten signature in black ink on a light blue dotted background. The signature is 'Orlando Lanfranchi'. A small red circular stamp is visible in the top right corner of the signature area.

Orlando Lanfranchi  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink on a light blue dotted background. The signature is 'Beatriz Vazquez'. A small red circular stamp is visible in the top right corner of the signature area.

Beatriz Vazquez  
*Licensed Audit Expert*

Lugano, May 15, 2018



A polymechanics at work in the Tensol R il plant.





An automation technician at work at the Azienda Cantonale dei Rifiuti.





Teachers tutor the students during the four years training.

# Financial statements

# Balance sheet

## Assets

In CHF 1,000	Notes	31.12.2017	31.12.2016 <sup>1</sup>
Operating plants and equipment		201,820	203,908
Land and buildings		49,690	50,367
Tangible fixed assets under construction		33,907	31,286
Other tangible fixed assets		1,190	872
<b>Tangible fixed assets</b>	2	<b>286,607</b>	<b>286,433</b>
Participations	3	44,940	39,668
Long-term securities	4	47,729	48,738
Advances and loans to participations	5	53,589	59,760
Other financial assets		5,416	759
<b>Financial assets</b>		<b>151,674</b>	<b>148,925</b>
Usage rights		7,523	7,893
Energy procurement rights		8,998	9,898
Intangible assets under construction		1,077	1,488
Other intangible assets		1,243	879
<b>Intangible assets</b>	6	<b>18,841</b>	<b>20,158</b>
<b>Total Non-current assets</b>		<b>457,122</b>	<b>455,516</b>
Receivables from goods and services	7	23,376	45,584
Other short-term assets	8	42,535	55,419
Prepayments and accrued income	9	98,469	104,233
Cash and cash equivalents	10	95,711	75,431
<b>Total Current assets</b>		<b>260,091</b>	<b>280,667</b>
<b>Total Assets</b>		<b>717,213</b>	<b>736,183</b>

<sup>1</sup> 2016 figures restated



## Liabilities and equity

In CHF 1,000	Notes	31.12.2017	31.12.2016 <sup>1</sup>
Endowment capital		40,000	40,000
General reserves		67,000	67,000
Statutory reserves		51,000	51,000
Profit brought forward		137,047	171,982
Result for the year		-21,516	-31,735
<b>Total Equity</b>		<b>273,531</b>	<b>298,247</b>
Long-term provisions	11	9,396	17,667
Other long-term liabilities		-	-
Long-term financial liabilities	12	266,000	266,000
<b>Long-term liabilities</b>		<b>275,396</b>	<b>283,667</b>
Payables from goods and services	13	15,095	24,656
Short-term financial liabilities	14	50,000	-
Other short-term liabilities	15	25,188	26,071
Accrued liabilities and deferred income	16	73,262	85,236
Short-term provisions	11	4,741	18,306
<b>Current liabilities</b>		<b>168,286</b>	<b>154,269</b>
<b>Total Liabilities</b>		<b>443,682</b>	<b>437,936</b>
<b>Total Liabilities and equity</b>		<b>717,213</b>	<b>736,183</b>

<sup>1</sup> 2016 figures restated

# Income statement

		2017	2016 <sup>1</sup>
In CHF 1,000	Notes		
<b>Operating income</b>			
Energy income	17	802,024	697,544
Grid income		44,947	47,487
Other operating income	18	19,448	22,736
<b>Total Operating income</b>		<b>866,419</b>	<b>767,767</b>
<b>Operating expenses</b>			
Energy purchases	19	-795,666	-694,231
Grid expenses		-18,608	-22,200
Personnel expenses	20	-26,872	-26,406
Service and material expenses		-7,062	-9,234
Depreciation on tangible fixed assets		-14,174	-13,831
Amortisation on intangible assets		-1,801	-2,365
Other depreciation and amortisation		-1,260	-1,010
Other operating expenses	21	-20,383	-21,479
<b>Total Operating expenses</b>		<b>-885,826</b>	<b>-790,756</b>
<b>Operating result</b>		<b>-19,407</b>	<b>-22,989</b>
Financial result	22	-3,237	-3,895
<b>Ordinary result</b>		<b>-22,644</b>	<b>-26,884</b>
Non-operating result		-	-
Extraordinary result	23	1,128	-4,851
<b>Result for the year</b>		<b>-21,516</b>	<b>-31,735</b>

<sup>1</sup> 2016 figures restated

## Cash flow statement

	2017	2016
In CHF 1,000		
Result for the year	-21,516	-31,735
Depreciation on tangible fixed assets	14,174	13,831
Amortisation on intangible assets	1,801	2,365
Other depreciation and amortisation	1,260	1,010
Change in provisions	-16,836	-6,949
Change in impairments	500	18,637
Profit / loss from disposal of non-current assets	-8	-7,682
Other non cash expenses and income	-5,985	847
Change in receivables, inventories and prepayments and accrued income	40,856	10,405
Change in liabilities and accrued liabilities and deferred income	-22,418	5,423
<b>Cash flow from operating activities</b>	<b>-8,172</b>	<b>6,152</b>
Outflows for investment in tangible fixed assets	-15,540	-15,511
Inflows from disposal of tangible fixed assets	595	7,437
Outflows for investment in intangible assets	-168	-468
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-3,281	-9,303
Inflows from disposal of financial assets	46	20,732
<b>Cash flow from investing activities</b>	<b>-18,348</b>	<b>2,887</b>
Issuance / repayment of short-term financial liabilities	-	-21,878
Issuance / repayment of long-term financial liabilities	50,000	33,076
Interests on capital, due to the State	-3,200	-3,200
Distribution of dividends to the State	-	-
<b>Cash flow from financing activities</b>	<b>46,800</b>	<b>7,998</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>75,431</b>	<b>58,394</b>
<b>Cash flow</b>	<b>20,280</b>	<b>17,037</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>95,711</b>	<b>75,431</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 01.01.2016<sup>1</sup></b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>221,275</b>	<b>-46,093</b>	<b>333,182</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 <sup>1</sup>	-	-	-	-	-31,735	-31,735
<b>Equity at 31.12.2016<sup>1</sup></b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>171,982</b>	<b>-31,735</b>	<b>298,247</b>
Allocation of result	-	-	-	-31,735	31,735	-
Interests on capital, due to the State	-	-	-	-3,200	-	-3,200
Distribution of dividends	-	-	-	-	-	-
Result for the year 2017	-	-	-	-	-21,516	-21,516
<b>Equity at 31.12.2017</b>	<b>40,000</b>	<b>67,000</b>	<b>51,000</b>	<b>137,047</b>	<b>-21,516</b>	<b>273,531</b>

<sup>1</sup> 2016 figures restated

# Notes to the financial statements

## Restatement of the 2016 financial statements

In 2017 the accounting treatment of a long term energy purchase agreement has been revised. According to the current market conditions, the agreement is expected to generate financial losses during its lifetime and has therefore been booked for as onerous contract.

The present value of the future expected losses, previously considered in the income statement of the year in which they incur, has been provisioned for within provisions for onerous contracts.

The restatement of the financial statements according to this revision determines a decrease of the 2016 result for the year of CHF 0.3 million and a decrease of equity as of 31.12.2016 of CHF 13.7 million.

## 1. Accounting principles

The financial statements 2017 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 15.05.2018.

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. Tangible fixed assets under construction are reported at construction cost, with no interest capitalisation; tangible fixed assets under construction are not depreciated. The following minimum and maximum depreciation periods for each tangible fixed asset category are applied:

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 useful life, capacity or performance of the involved plant are significantly improved.

### 1.2. Financial assets

Financial assets are reported at their cost value, adjusted for any impairment. For production participations, organised according to the principle of energy withdrawal at generation costs, the investment value exceeding the expected equity value at the end of the useful life of the power plant is depreciated on a straight-line basis according to the useful life of the power plant. Long-term advances in foreign currency are converted at the year-end exchange rates.

### 1.3. Intangible assets

Intangible assets are capitalised at their acquisition cost adjusted by amortisation and any necessary impairment. They are amortised on a straight-line basis according to the technical and economical life of the plant (40-80 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. Energy related and similar certificates

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

### 1.6. Inventories

Inventories include small tools and spare parts. Tools and spare parts are valued at their weighted average purchase price, the book value is impaired for slow-moving items or obsolescence.

### 1.7. Cash and cash equivalents

Cash and cash equivalents are reported at their face value and include cash in hand, post and bank accounts. Balances in foreign currencies are converted at year-end exchange rates.

### 1.8. 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.

### 1.9. 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.

### 1.10. Liabilities

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

### 1.11. 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.

### 1.12. 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 assets and other short-term liabilities respectively. Changes in market value incurred during the reporting financial year are recorded in the income statement within other energy income.

Energy forward sale and purchase transactions, as well as the economic result of energy related transactions, with financial instruments, entered for the purpose of hedging of AET's generation portfolio are recognised in the income statement at delivery.

### 1.13. Revenues

Grid income and other operating income are recognised within the income statement when realised. All revenues are recorded net of price reductions, sale taxes and value added taxes.

### 1.14. Pension funds

The personnel of AET is affiliated to a multi-employer independent pension institution of the energy sector. From 01.04.2017 AET's personnel is affiliated to a defined contribution pension scheme (AET has previously been affiliated to a defined benefit 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.

### 1.15. Income taxes

AET is not subject to any income tax.

### 1.16. 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. 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 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 01.01.2016</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>
Reclassification	11,473	373	-12,426	264	-316
Additions	1,615	-	15,058	399	17,072
Disposals	-15,059	-182	-11	-373	-15,625
<b>Cost value at 31.12.2017</b>	<b>486,719</b>	<b>59,620</b>	<b>33,907</b>	<b>7,454</b>	<b>587,700</b>
<b>Accumulated depreciation at 01.01.2016</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>
Reclassification	-	-	-	-	-
Depreciation	-12,961	-868	-	-345	-14,174
Additions	-1,532	-	-	-	-1,532
Disposals	14,376	-	-	373	14,749
<b>Accumulated depreciation at 31.12.2017</b>	<b>-284,899</b>	<b>-9,930</b>	<b>-</b>	<b>-6,264</b>	<b>-301,093</b>
<b>Net carrying amount at 01.01.2016</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>
<b>Net carrying amount at 31.12.2017</b>	<b>201,820</b>	<b>49,690</b>	<b>33,907</b>	<b>1,190</b>	<b>286,607</b>



### 3. Participations

	31.12.2017	31.12.2016
In CHF 1,000		
Società Elettrica Sopracenerina SA (SES)	21,052	21,052
Metanord SA	11,505	5,505
./ impairment	-6,005	-5,505
SPE Società per Partecipazioni Energetiche SA	8,000	8,000
./ impairment	-8,000	-8,000
Lucendro SA	7,301	7,551
TERIS Teleriscaldamento del Bellinzonese SA	6,000	6,000
Parco eolico del San Gottardo SA	2,868	2,868
Senco Holding SA	1,149	1,149
Calore SA	1,000	978
Capriasca Calore SA	70	70
<b>Total</b>	<b>44,940</b>	<b>39,668</b>

During 2017 Metanord SA has restructured its balance sheet cancelling its share capital and reconstructing it through a partial loan conversion. The part of debt, which has been converted, has been recorded within the position Participations.

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.

The participation into Lucendro SA is amortised on a straight-line basis to the equity value expected at expiration of the concession.

### 4. Long-term securities

	31.12.2017	31.12.2016
In CHF 1,000		
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-15,678	-15,678
Trianel Kohlekraftwerk Lünen GmbH & Co. KG	14,920	15,772
Swissgrid AG	12,589	12,589
Kraftwerke Mattmark AG	11,645	11,802
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	25	25
<b>Total</b>	<b>47,729</b>	<b>48,738</b>

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. The company has been set on liquidation on the 31.01.2018.

The participation into Trianel Kohlekraftwerk Lünen GmbH & Co. KG is amortised on a straight-line basis according to the duration of the power purchase agreement in force.

The investment into Kraftwerke Mattmark AG is amortised on a straight-line basis to the equity value expected at expiration of the concession.

## 5. Advances and loans to participations

	31.12.2017	31.12.2016
In CHF 1,000		
SPE Società per Partecipazioni Energetiche SA	25,164	20,032
./ impairment	-9,257	-3,900
Swissgrid AG	15,552	15,552
Terravent AG	12,750	12,750
Metanord SA	8,200	14,200
Parco eolico del San Gottardo SA	1,030	930
Other	150	196
<b>Total</b>	<b>53,589</b>	<b>59,760</b>

The advance to SPE Società per Partecipazioni Energetiche SA (SPE) has been increased in 2017 in order to provide for the financing needs of the Italian participations. The advance is subordinated for an amount of CHF 15 million 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 (ElCom).

The advance to Terravent AG is entirely subordinated.

## 6. Intangible assets

	Usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
<b>Cost value at 01.01.2016</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>
Reclassification	–	–	–579	895	316
Additions	–	–	168	–	168
Disposals	–	–	–	–240	–240
<b>Cost value at 31.12.2017</b>	<b>15,124</b>	<b>144,555</b>	<b>1,077</b>	<b>9,307</b>	<b>170,063</b>
<b>Accumulated amortisation at 01.01.2016</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>
Reclassification	–	–	–	–	–
Amortisation	–370	–900	–	–531	–1,801
Additions	–	–	–	–	–
Disposals	–	–	–	240	240
Impairments	–	–	–	–	–
<b>Accumulated amortisation at 31.12.2017</b>	<b>–7,601</b>	<b>–135,557</b>	<b>–</b>	<b>–8,064</b>	<b>–151,222</b>
<b>Net carrying amount at 01.01.2016</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>
<b>Net carrying amount at 31.12.2017</b>	<b>7,523</b>	<b>8,998</b>	<b>1,077</b>	<b>1,243</b>	<b>18,841</b>

Usage rights include rights for utilisation of third party plants, in particular related to exclusive usage of third party power grid plants, as well as concession fees paid in respect of hydro power concessions.

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

	31.12.2017	31.12.2016
In CHF 1,000		
Subsidiaries	10,826	32,166
Associates	5,482	5,006
Other related parties	306	635
Third parties	6,762	7,777
<b>Total</b>	<b>23,376</b>	<b>45,584</b>

The balance includes amounts in foreign currency for EUR 6.7 million (EUR 27.8 million at 31.12.2016).

## 8. Other short-term assets

	31.12.2017	31.12.2016
In CHF 1,000		
Other short-term receivables from subsidiaries	4,000	4,000
Other short-term receivables from associates	3,000	–
Other short-term receivables from other related parties	–	–
Other short-term receivables from third parties	8,321	18,230
Positive replacement values of transactions valued at market value	21,838	27,376
Energy related and similar certificates	3,415	3,919
Inventories of stock and consumables	1,961	1,894
<b>Total</b>	<b>42,535</b>	<b>55,419</b>

## 9. Prepayments and accrued income

	31.12.2017	31.12.2016
In CHF 1,000		
Subsidiaries	3,699	8,007
Associates	4,736	5,043
Other related parties	7,709	8,812
Third parties	80,825	79,192
Work in progress	1,500	3,179
<b>Total</b>	<b>98,469</b>	<b>104,233</b>

The balance includes amounts in foreign currency for EUR 51.7 million (EUR 56.3 million at 31.12.2016).

Accrued income includes in particular the value of energy sold during the last reporting month and not yet invoiced.

## 10. Cash and cash equivalents

	31.12.2017	31.12.2016
In CHF 1,000		
Balances in CHF	81,876	66,868
Balances in foreign currencies	13,835	8,563
<b>Total</b>	<b>95,711</b>	<b>75,431</b>

## 11. Provisions

	Energy onerous contracts	Onerous contracts of participations	Personnel related expenses	Other	Total
In CHF 1,000					
<b>Carrying amount at 01.01.2016</b>	<b>13,384</b>	<b>14,655</b>	<b>11,657</b>	<b>3,226</b>	<b>42,922</b>
<i>thereof long-term</i>	12,337	12,500	8,193	2,350	35,380
<i>thereof short-term</i>	1,047	2,155	3,464	876	7,542
Reclassification	–	–	–	–	–
Increase	1,375	–	3,900	927	6,202
Utilisation	–1,047	–	–198	–	–1,245
Release	–	–8,154	–798	–2,954	–11,906
<b>Carrying amount at 31.12.2016</b>	<b>13,712</b>	<b>6,501</b>	<b>14,561</b>	<b>1,199</b>	<b>35,973</b>
<i>thereof long-term</i>	12,667	5,000	–	–	17,667
<i>thereof short-term</i>	1,045	1,501	14,561	1,199	18,306
Reclassification	–	–5,000	–	–	–5,000
Increase	–	69	921	450	1,440
Utilisation	–1,045	–1,427	–13,118	–	–15,590
Release	–2,314	–	–2	–370	–2,686
<b>Carrying amount at 31.12.2017</b>	<b>10,353</b>	<b>143</b>	<b>2,362</b>	<b>1,279</b>	<b>14,137</b>
<i>thereof long-term</i>	9,396	–	–	–	9,396
<i>thereof short-term</i>	957	143	2,362	1,279	4,741

Provisions for energy onerous contracts include the negative present value of an energy purchase agreement with the Azienda Cantonale dei Rifiuti. The provision is determined according to the current price energy expectations for the contract duration and the current EUR/CHF exchange rate.

The provision for onerous contracts of participations covers expected disbursements due to the commitments of AET in respect of the activity of its participations. During 2017, following a change in the financing structure of a subsidiary, the provision has been reclassified as impairment of the loan granted to SPE Società per Partecipazioni Energetiche SA.

The provision for personnel related expenses as of 31.12.2017 represents the value of overtime worked and non-taken holidays.

## 12. Long-term financial liabilities

	31.12.2017			31.12.2016		
	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	23,000	–	23,000	73,000	–	73,000
Liabilities due between 5 and 10 years	93,000	–	93,000	83,000	–	83,000
Liabilities due after 10 years	150,000	–	150,000	110,000	–	110,000
<b>Total</b>	<b>266,000</b>	<b>–</b>	<b>266,000</b>	<b>266,000</b>	<b>–</b>	<b>266,000</b>

### 13. Payables from goods and services

	31.12.2017	31.12.2016
In CHF 1,000		
Subsidiaries	3,716	11,882
Associates	106	63
Other related parties	3,558	5,394
Third parties	7,715	7,317
<b>Total</b>	<b>15,095</b>	<b>24,656</b>

The balance includes amounts in foreign currency for EUR 5.3 million (EUR 12.2 million at 31.12.2016).

### 14. Short-term financial liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Liabilities towards financial institutions in CHF	50,000	–
Liabilities towards financial institutions in foreign currency	–	–
<b>Total</b>	<b>50,000</b>	<b>–</b>

### 15. Other short-term liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Other short-term liabilities towards subsidiaries	–	–
Other short-term liabilities towards associates	86	–
Other short-term liabilities towards other related parties	13	27
Other short-term liabilities towards third parties	8,372	7,465
Negative replacement values of transactions valued at market value	16,717	18,579
<b>Total</b>	<b>25,188</b>	<b>26,071</b>

### 16. Accrued liabilities and deferred income

	31.12.2017	31.12.2016
In CHF 1,000		
Subsidiaries	756	2,634
Associates	–	5
Other related parties	55	855
Third parties	72,451	81,742
<b>Total</b>	<b>73,262</b>	<b>85,236</b>

The balance includes amounts in foreign currency for EUR 49.8 million (EUR 58.3 million at 31.12.2016).

Accrued liabilities include in particular the value of energy purchased during the last reporting month, which has not been yet invoiced for.

## 17. Energy income

	2017	2016
In CHF 1,000		
Energy sales in Switzerland	257,305	262,680
Energy sales in Italy	107,072	157,335
Energy sales in Germany	320,231	173,572
Energy sales in France	102,235	68,481
Other energy income	15,181	35,476
<b>Total</b>	<b>802,024</b>	<b>697,544</b>

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

## 18. Other operating income

	2017	2016
In CHF 1,000		
Income from services	13,058	15,127
Own work capitalised	3,168	3,530
Other	3,222	4,079
<b>Total</b>	<b>19,448</b>	<b>22,736</b>

## 19. Energy purchases

	2017	2016
In CHF 1,000		
Purchases from participations	-91,514	-89,632
Long-term contractual purchases	-31,637	-50,370
Purchases on the market	-672,515	-554,229
<b>Total</b>	<b>-795,666</b>	<b>-694,231</b>

The expense 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.

## 20. Personnel expenses

	2017	2016
In CHF 1,000		
Salaries and other compensation	-21,271	-21,285
Social contributions	-5,305	-4,796
Other expenses	-411	-558
Recoveries from insurance companies	115	233
<b>Total</b>	<b>-26,872</b>	<b>-26,406</b>

### Employees of the company

	31.12.2017	31.12.2016
Full time equivalent		
Permanent employees	204.1	204.1
Auxiliary employees	10.7	12.1
Apprentices	24.0	22.0
<b>Total</b>	<b>238.8</b>	<b>238.2</b>

## 21. Other operating expenses

	2017	2016
In CHF 1,000		
Water fees	-12,494	-12,494
Local taxes and other contributions	-3,375	-3,452
Other	-4,514	-5,533
<b>Total</b>	<b>-20,383</b>	<b>-21,479</b>

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

## 22. Financial result

	2017	2016
In CHF 1,000		
Interest income	1,088	1,617
Income from participations	2,118	3,075
Exchange rate differences	1,375	-847
Interest payments and commissions	-7,664	-7,642
Other financial expenses	-154	-98
<b>Total</b>	<b>-3,237</b>	<b>-3,895</b>

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



## 23. Extraordinary result

	2017	2016
In CHF 1,000		
Release of provisions	2,314	11,279
Profit from disposal of non-current assets	8	7,682
Other extraordinary income	1	–
Impairments of non-current assets	–500	–18,637
Increase of provisions	–513	–5,175
Other extraordinary expenses	–182	–
<b>Total</b>	<b>1,128</b>	<b>–4,851</b>

The release of provision relates to the update of the energy onerous contracts provision to the prevailing market conditions.

## 24. Contingent liabilities

	31.12.2017	31.12.2016
In CHF 1,000		
Guarantees in the interest of:		
Subsidiaries	46,419	65,504
Associates	–	–
Third parties	15,096	14,580
<b>Total</b>	<b>61,515</b>	<b>80,084</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.

## 25. 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 operations

	Market transactions	Long-term contracts
Cumulative volume in CHF 1,000		
2018	496,509	36,957
from 2 to 5 years	350,852	154,358
over 5 years	–	207,388

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 a cross-border interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 4.4 million (value of the indexed contract based on 2017 prices and year-end exchange rate).

### Forward currency operations

31.12.2017	Maturity year 2018		Maturity year 2019	
	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)
Operation				
Buy EUR	–	–	–	–
Sell EUR	25,000	1.15	–	–
Buy NOK	14,200	0.12	–	–
Sell NOK	2,200	0.12	–	–
Buy USD	575	0.90	–	–
Sell USD	575	0.94	–	–

31.12.2016	Maturity year 2017		Maturity year 2018	
	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)	Amount in currency (in 1,000)	Average exchange rate (currency/CHF)
Operation				
Buy EUR	2,000	0.98	–	–
Sell EUR	56,500	1.08	–	–
Buy NOK	6,200	0.12	14,200	0.12
Sell NOK	–	–	–	–
Buy USD	370	0.92	575	0.90
Sell USD	–	–	–	–

Forward foreign currency contracts have been made with the purpose of hedging expected future foreign currency cash flows.

At 31.12.2017 AET has no off-balance sheet lease commitments (31.12.2016: unchanged).

## 26. 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>31.12.2017</b>					
In CHF 1,000					
CPE Fondazione di Previdenza Energia	116.5%	162	–	–2,420	–2,420
Fondo Pensionamento Anticipato dell'AET	109.3%	–	–	–508	–508
<b>Total</b>		<b>162</b>	<b>–</b>	<b>–2,928</b>	<b>–2,928</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>31.12.2016</b>					
In CHF 1,000					
CPE Cooperativa di Previdenza Energia	104.3%	–	–	–1,941	–1,941
Fondo Pensionamento Anticipato dell'AET	103.2%	–	–	–546	–546
<b>Total</b>		<b>–</b>	<b>–</b>	<b>–2,487</b>	<b>–2,487</b>

From 01.04.2017 AET is affiliated to CPE Fondazione di Previdenza Energia, a defined contribution pension fund.

## 27. Transactions with related parties

### Transactions with subsidiaries

	2017	2016
In CHF 1,000		
Energy income	9,167	48,846
Service and other income	3,970	2,602
Financial income	676	1,147
Energy purchases	20,567	41,191
Service and other expenses	58	70

### Transactions with associates

	2017	2016
In CHF 1,000		
Energy income	25,407	30,220
Service and other income	18,218	18,466
Financial income	644	1,148
Energy purchases	19	382
Service and other expenses	2,371	1,946

## Transactions with other related parties

	2017	2016
In CHF 1,000		
Energy income	1,450	2,964
Service and other income	878	1,071
Financial income	519	504
Energy purchases	85,127	83,412
Service and other expenses	1,943	2,344

## 28. 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 subscription of receivables insurances, 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.

## 29. Subsequent events

2017: no significant event.

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

# Audit report by KPMG SA on the financial statements



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Report of the Statutory Auditor to the Gran Consiglio of Repubblica e Cantone Ticino

## Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements (from page 61 to page 83) of Azienda elettrica ticinese, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended on December 31, 2017.

### *Board of Directors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended on December 31, 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law and Act of the Azienda elettrica ticinese.

### *Other Matter*

The financial statements of Azienda elettrica ticinese for the year ended on December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on May 12, 2017.



*Azienda elettrica ticinese, Monte Carasso  
Report of the Statutory Auditor  
on the Financial Statements  
to the Gran Consiglio of Repubblica e Cantone Ticino*

### **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.

KPMG SA

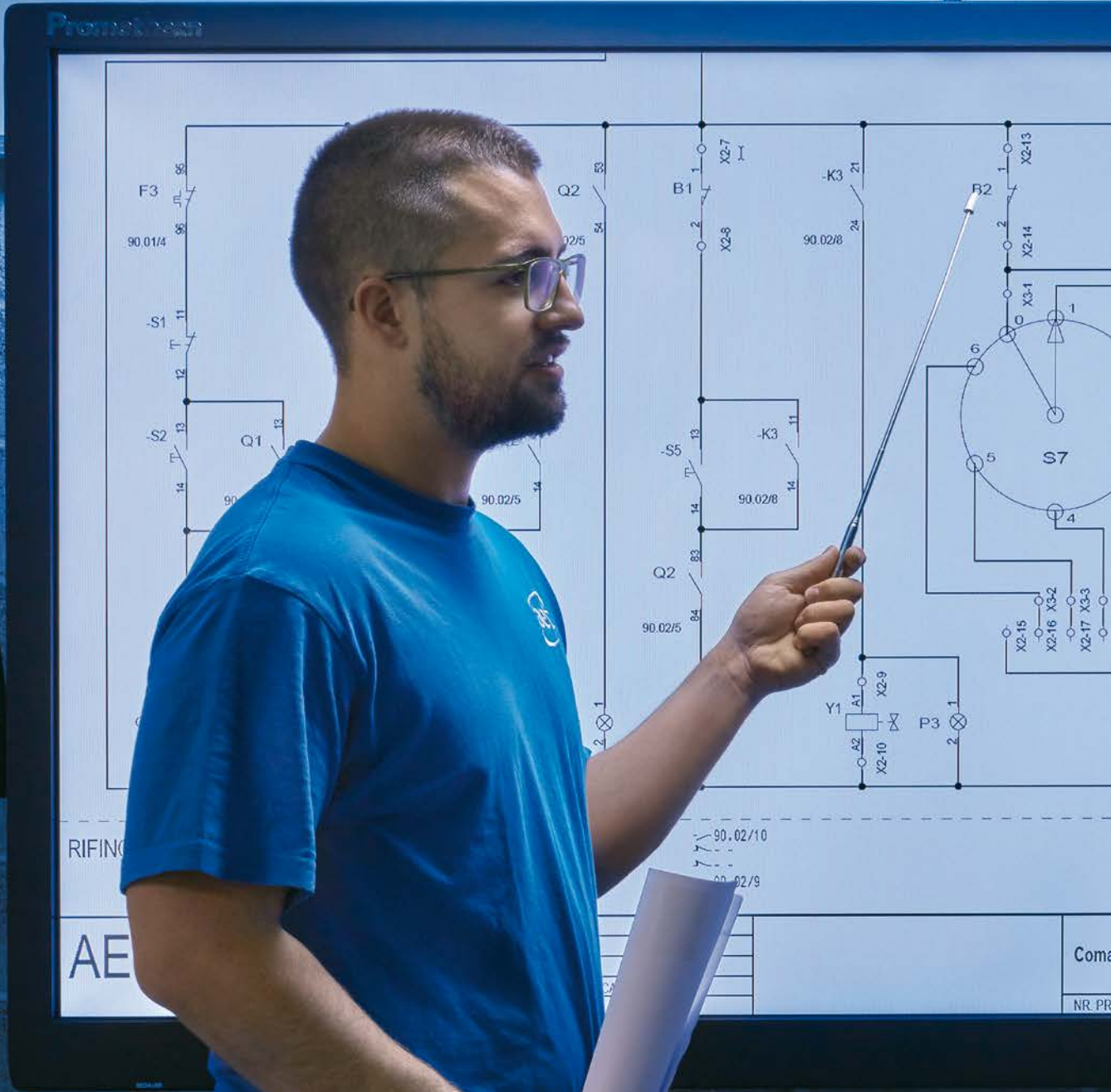
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**Orlando Lanfranchi**  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink on a light blue dotted background. The signature is cursive and appears to read 'Beatriz Vazquez'. There is a small red circular stamp in the top right corner of the signature area.

**Beatriz Vazquez**  
*Licensed Audit Expert*

Lugano, May 15, 2018



Training consists of both technical and theoretical parts.







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## AET Group companies

	Value	Nominal equity at 31.12.2017 In 1,000	Participation at 31.12.2017 %	Participation at 31.12.2016 %
<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	65.00	63.57
<b>Biomassa Blenio SA, CH-Blenio</b> <i>Biomass thermal energy</i>	CHF	870	22.41	21.92
<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-Zürich</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 power generation</i>	CHF	3,000	100.00	100.00
<b>Metanord SA, CH-Bellinzona</b> <i>Gas distribution</i>	CHF	18,000	33.33	33.10
<b>Metanord Ingegneria SA, CH-Bellinzona</b> <i>Engineering services in favour of Metanord SA</i>	CHF	100	33.33	33.10
<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	65.00
<b>CEL Bedretto SA, CH-Bedretto</b> <i>Hydroelectric power generation</i>	CHF	200	13.00	13.00
<b>CEL Buseno SA, CH-Buseno</b> <i>Development of a hydroelectric power plant</i>	CHF	100	13.00	13.00
<b>CEL Campo Vallemaggia SA, CH-Campo Vallemaggia</b> <i>Hydroelectric power generation</i>	CHF	400	14.30	13.00
<b>CEL Cauco SA, CH-Cauco</b> <i>Development of a hydroelectric power plant</i>	CHF	100	13.00	13.00
<b>CEL Cerentino SA, CH-Cerentino</b> <i>Hydroelectric power generation</i>	CHF	200	13.00	13.00
<b>CEL Dalpe SA, CH-Dalpe</b> <i>Hydroelectric power generation</i>	CHF	200	11.70	11.70
<b>CEL Lavizzara SA, CH-Lavizzara</b> <i>Development of a hydroelectric power plant</i>	CHF	200	13.00	13.00
<b>Senco Sagl, CH-Locarno</b> <i>Services in favour of hydroelectric power plants promoted by Senco Holding SA</i>	CHF	220	65.00	65.00

	Value	Nominal equity at 31.12.2017 In 1,000	Participation at 31.12.2017 %	Participation at 31.12.2016 %
<b>Società Elettrica Sopracenerina SA (SES)</b> , CH-Locarno <i>Power distribution company</i>	CHF	16,500	30.00	30.00
<b>Energie Rinnovabili Losone (ERL) SA</b> , CH-Losone <i>Biomass thermal energy</i>	CHF	2,700	10.00	10.00
<b>Enerti SA</b> , CH-Monteceneri <i>Service company</i>	CHF	200	9.92	9.92
<b>SES Controlli Sagl</b> , CH-Locarno <i>Service company</i>	CHF	20	12.00	12.00
<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	4.09
<b>Società Locarnese di Partecipazioni e Immobiliare SA (SAP SA)</b> , CH-Locarno <i>Real estate company</i>	CHF	2,064	29.99	29.84
<b>SPE Società per Partecipazioni Energetiche SA (SPE)</b> , CH-Bellinzona <i>Holding company</i>	CHF	8,000	100.00	100.00
<b>AET Italia Holding Srl</b> , I-Milan <i>Holding company</i>	EUR	– <sup>1</sup>	– <sup>1</sup>	100.00
<b>AET Idronord Srl</b> , I-Milan <i>Hydroelectric power generation</i>	EUR	– <sup>1</sup>	– <sup>1</sup>	100.00
<b>AET Italia Srl</b> , I-Milan <i>Trading of cross-border interconnection capacity</i>	EUR	871	100.00	100.00
<b>CEG SpA</b> , I-Milan <i>Holding and services</i>	EUR	120	100.00	100.00
<b>Bio Elettricità Occimiano Srl (BEO)</b> , I-Milan <i>Biofuel power generation</i>	EUR	50	100.00	100.00
<b>Biogen Chivasso Srl</b> , I-Milan <i>Biofuel power generation</i>	EUR	20	100.00	100.00
<b>Nord Energia SpA</b> , I-Milan <i>Management of cross-border interconnection power line (Merchant Line)</i>	EUR	10,200	40.00	40.00
<b>CMC MeSta SA</b> , CH-Bellinzona <i>Detention of Mendrisio – Stabio 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-Laufenburg <i>Swiss transmission system operator</i>	CHF	318,133	1.68	1.68
<b>TERIS Teleriscaldamento del Bellinzonese SA (TERIS)</b> , CH-Bellinzona <i>Thermal energy from waste</i>	CHF	10,000	60.00	60.00
<b>Terravent AG</b> , CH-Luzern <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

<sup>1</sup> Merged with AET Italia Srl

## Statistical informations

### Production and purchases of AET Group

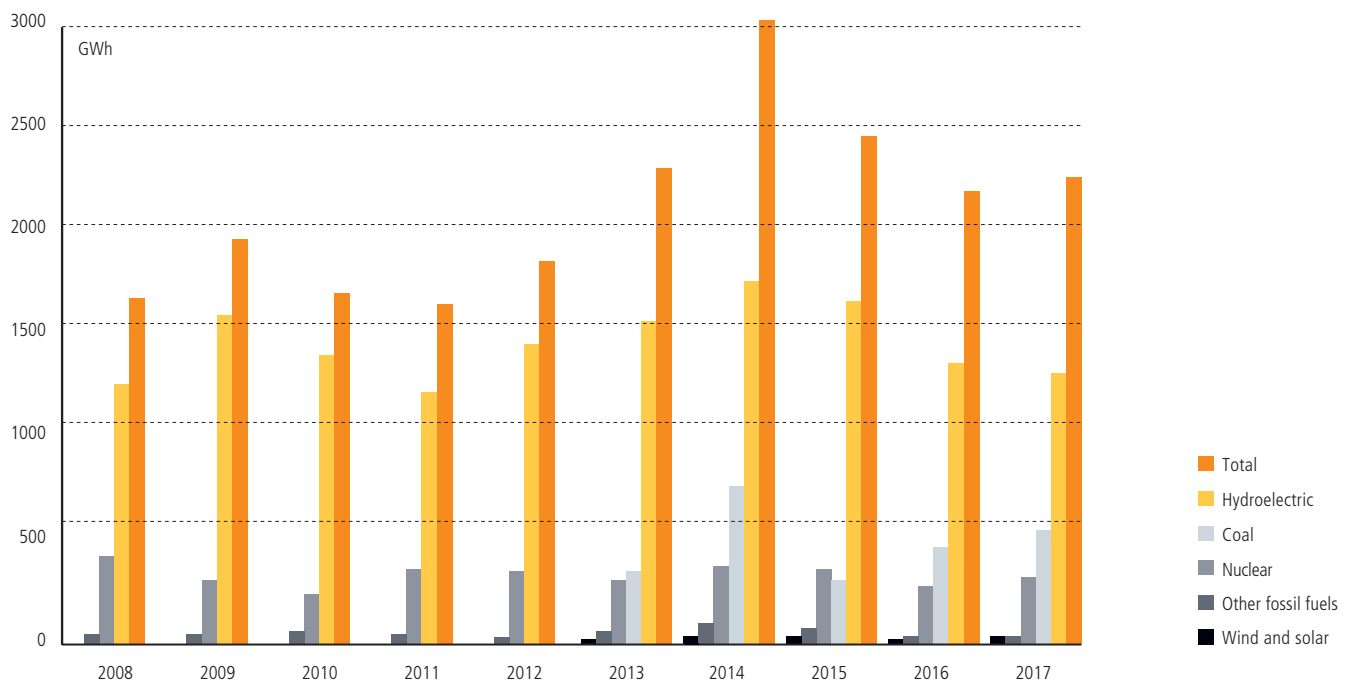
	Winter	Summer	2017	2016
In GWh				
<b>Production AET Group</b>				
AET Biaschina	116	208	324	352
AET Piottino	108	142	250	268
Lucendro	65	26	91	93
AET Stalvedro	19	31	50	52
AET Ofima exchange	7	36	43	43
AET Ponte Brolla	4	7	11	11
AET Tremorgio	3	1	4	7
Biogen Chivasso (CEG Group)	7	31	38	43
Photovoltaic	1	2	3	3
<b>Total production AET Group</b>	<b>330</b>	<b>484</b>	<b>814</b>	<b>872</b>
<b>Production participations (share attributable to AET Group)</b>				
Maggia	128	148	276	243
Blenio	63	67	130	157
Verzasca	17	46	63	66
KW Mattmark	29	29	58	46
Senco Group	1	3	4	5
SES Giumaglio	2	4	6	6
SES Ticinetto	0	2	2	3
Terravent AG	22	11	33	31
AKEB	145	169	314	273
KK Leibstadt	2	6	8	9
Trianel TKL	237	320	557	471
<b>Total production participations</b>	<b>646</b>	<b>805</b>	<b>1,451</b>	<b>1,310</b>
Long-term contracts <sup>1</sup>	331	334	665	926
Purchases on the market	8,813	8,023	16,836	12,771
<b>Total</b>	<b>10,120</b>	<b>9,646</b>	<b>19,766</b>	<b>15,879</b>

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

## Supply of AET Group

	Winter	Summer	2017	2016
In GWh				
Sales to distribution companies	1,259	895	2,154	1,926
Sales to end customers	243	200	443	1,144
Sales on the market	8,601	8,516	17,117	12,769
Own consumption and losses	17	35	52	40
<b>Total</b>	<b>10,120</b>	<b>9,646</b>	<b>19,766</b>	<b>15,879</b>

## Production AET Group and participations





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Photos:  
Foto Ateller Mattei

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