



Annual Report
2015



Azienda Elettrica Ticinese

Annual Report **2015**

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

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

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

- the report of the Board of Directors for the year 2015;
- the financial statements for the year 2015;
- the proposal for allocation of result;
- the auditors' report;

and for discussion (article 5, paragraph 3 LAET):

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

The english version of the AET 2015 Annual Report is merely a translation:
the official version is the italian text.



Purchase of the Lucendro plant

The AET 2015 Annual Report contains a photo feature by the photographer Sven Stoppani who, over the winter, followed two company employees on an inspection tour of the infrastructure of the Lucendro plant, which is located in the vicinity of Airolo and the St. Gotthard Pass.

In 1942, at the height of World War II, the Cantons of Ticino and Uri granted Aare-Tessin AG (Atel) a concession to exploit the waters of the Gotthard catchment reservoir.

The Lucendro accumulation plant was constructed between 1942 and 1948 and the Airolo power station was put into partial operation by 1945.

AET purchased the Alpiq facility in June 2015, nine years ahead of the end of its expected return to public control, thereby securing the benefit of the flexibility afforded by water reserves contained in Lake Lucendro and Lake Sella.

On the cover: the reservoir and the Sella dam

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Although the Sella dam (pictured) was built in a traditional manner, the dam that encloses Lake Lucendro was created using the "lightened gravity" technique: a economical method for fast, safe construction, which made it possible to economize on the use of cement and reinforcing bars, both of which are extremely precious materials in wartime.

Over the last seventy years, safety inspectors at the dams have constantly monitored the state of health of the 153,000 m³ of concrete in the Lucendro dam and the 74,000 m³ of concrete in the Sella dam.





The infrastructure of the St. Gotthard Pass is inspected on a regular basis throughout the year. In winter, when access by road is blocked by snow, inspection staff reach the Pass using a special cable car. The mountain must be treated with awareness and respect: harsh winter conditions and sudden changes in weather may force employees to spend the night at high altitude.

2015 in summary

Key figures

	2015	2014	2013	2012	2011
In CHF million					
Operating income	1,033	1,212	1,087	1,316	1,450
Operating result	38	50	51	40	34
Result for the year	-44	13	12	21	17
Cash flow before change in net current assets	59	74	84	61	50
Cash flow from operating activities	103	58	71	35	18
Equity	416	454	453	428	417
Non-current assets	729	771	776	562	562
Balance sheet total	1,069	1,149	1,165	869	855
Distribution of dividends to the State	-	5	10	14	11
Interest on capital due to the State	3	3	3	3	3
Water fees to the State	14	12	11	11	11
Total payment to the State	17	20	24	28	25
Employees of the Group (full time equivalent)	451.9	434.4	435.5	247.7	239.5
In GWh					
Production AET Group	1,023	1,020	983	926	704
Production participations	1,430	2,004	1,327	918	937



Management of AET

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

Company officers

Board of Directors

Leonardi Giovanni, *Chairman*
Netzer Marco, *Vice Chairman*
Beffa Floriano
Cereghetti Claudio
Leidi Fausto (in office until 10.07.2015)
Lombardi Sandro
Ogna Ronald
Passoni Alberto (in office from 22.09.2015)

Grand Council's audit office

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

AET Group's audit office

Ernst & Young Ltd, Lugano

Management

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



Once the requisite altitude has been reached, there is a 1,600 metre-long tunnel, which ends 300 metres below the Sella dam and which workers must cross on foot, carrying skis on their shoulders. Constructed in the 1940s, this is one of the many tunnels that characterize the Gotthard massif.

Report of
the Board of Directors



The inspection begins with a visual check of the Sella dam, carried out on skis with seal skins. This verification is of great importance because it enables any changes to the structure and the surrounding environment to be recorded.

Lake Sella
Dam height 32.0 m
Usable enclosed area 9,000,000 m³
Max. altitude 2,256.0 m asl

Introduction by the Chairman

Ticino hydroelectric generation in an unstable market

Seven years of steadily falling prices are symptomatic of a transformation that goes beyond fluctuation of the economic cycle. The policies supporting a transition to a “green and sustainable” world and the process of opening up the energy market are combined with a long period of economic stagnation affecting the whole of Europe.

We are in the midst of a change that is transforming the energy sector. The forecasting models we have been using up to now are no longer able to provide us with a clear vision of the future. While we are increasingly aware of the mechanisms that cause price erosion, identifying the right responses is another matter altogether.

The price of electricity

The fall in electricity prices in Europe is due to excess supply resulting from the strong growth of wind and photovoltaic power production, the installed capacity of which exceeded 130 GW in Europe in mid-2015. This development was made possible by massive state incentive programmes, which poured more than EUR 40 billion of subsidies onto the market in 2015. A feed-in remuneration based system has a direct impact on price formation and, paradoxically, becomes more expensive for consumers in the long run (owing to higher energy taxes) as the price of electricity decreases.

Added to this are the low prices of CO₂ emission certificates and the collapse in commodity prices (primarily oil, gas and coal), both of which favour the survival of older power plants, which no longer incur financing costs (debt repayment and interests).

This trend has severely affected almost all of Switzerland’s production companies – not least our own Azienda Elettrica Ticinese – which in 2015 were also forced to deal with the effects of abandoning the Swiss franc/euro minimum exchange rate.

The consequences

Such low prices erode the viability of all non-subsidized production plants, which are the result of long-term investments and need time to be depreciated. Our own extrapolations from the Federal Office of Energy’s statistics show that 85% of Swiss hydroelectric plants no longer cover their production costs. The consequences are clear for all to see and are starting to take on alarming proportions. The main Swiss production companies have been sustaining heavy losses for years and are now carrying out a “reorganisation” of their production portfolios.

Legal uncertainty

The legal framework governing this sector has been undergoing reform for years and currently remains uncertain. This situation is not ideal for identifying the right responses to market trends, and discourages fresh investment. There are three main problems here.

At both European and national levels, there is an urgent need for clarification of the duration and extent of the incentives for “new renewables”. Energy production is based on long-term investments (from 40 to 80 years). These cannot be accomplished until it is known for sure just how much longer the market will need to cope with the distortions caused by subsidies. Ultimately, this situation risks blocking the measures that are essential to the security of the whole European electricity supply. The Swiss parliament has recognized this problem and, in 2015, started to debate an incentive mechanism for hydroelectric production; this should partially compensate for the imbalances in the European system. However, it is only a temporary measure: a “patch” that will not fix the cause of the problem.

In Switzerland, the time and manner of the liberalisation of the electricity market, be it definitive or otherwise, need to be conclusively defined, as do the time, cost and procedures required in order to shut down the nuclear power plants. Since 2009, the electricity market has been open for major consumers only and the impact of this development has almost exclusively affected production companies. Electricity distributors, on the other hand, are still operating within a partial monopoly, i.e. the “protected” one of small customers.

Finally, from a cantonal perspective, it is now essential to define the outlines of possible collaboration between the sector’s players; this is so as to surmount the current phase of the market, whilst also preserving the value of water resources and related industries. The example of BKW, which is the only significant domestic producer to have closed 2015 in profit, shows how the direct access to the end consumers market can be crucial for the enhancement of profitability of production activities. The round table on cooperation in the cantonal electricity sector, promoted at the end of 2015 by the Department of finance and economy, resulted in a letter of intent, signed by all the distributors and AET, revealing a much sought-after consensual solution.

Preserving cantonal hydroelectric production

For the first time since the beginning of the downturn in the electricity market, AET ended the year with a loss, following a trend that has already been experienced by many major national production companies.

The 2015 financial statements are affected by the negative result of the participation in the Lünen power station and, in particular, by the impairment of a long-term energy supply contract signed in 2007 with EDF (Électricité de France), even before the partial opening of the Swiss market. The decision to increase its value impairment goes hand in hand with the start of negotiations seeking to obtain an amendment of certain contractual conditions that have resulted in ongoing legal proceedings.

The indicators available to us do not suggest any market recovery before 2020 and thus neither a result improvement.

AET is dealing with this difficult situation by endeavouring to safeguard the cantonal water resources, the associated economic and professional skills and finally, the jobs linked to all these areas. It will do so by seeking the cooperation of other players of the sector, concentrating the available resources on hydroelectric production (its core business) and by gradually divesting non core activities, if and when the opportunity arises.



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

Giovanni Leonardi
Chairman



A tunnel that runs the length of the Sella dam permits inspection of its condition from within. Measuring instruments have been installed that monitor temperatures and are capable of detecting infiltrations and minute movements of the entire structure.

Management report

A sector in difficulty

AET closed the financial year 2015 with a net loss of CHF 46 million. The operating profit stood at CHF 15 million, a decline in relation to the CHF 23 million achieved the previous year, due to the fall in prices on the wholesale electricity markets and a slight reduction in hydroelectric production. This net loss was also aggravated by major impairments brought about by the continuing deterioration in market conditions.

The name AET is thus added, albeit at a later date, to those of major domestic producers on the list of companies sustaining substantial losses. Wholesale electricity prices further declined in 2015, reaching the levels seen in 2000, the year in which the German market was launched. In these circumstances most production sources that do not receive state subsidies, including Swiss hydroelectric, no longer cover their production costs and therefore generate operating losses.

The production facilities that suffer most from this environment are the most recent ones, such as the Lünen power station in Germany. These still bear higher depreciation costs, which severely exacerbate the negative effects of price developments.

The absence of any improvement signs is forcing almost all the companies in the industry to book impairments against the carrying amounts of their investments in production. In this case, AET suffered a major impairment on a long-term energy purchase agreement signed with EDF in 2007, the parameters of which ceased to reflect the market situation some time ago.

At the end of 2015, AET recorded a loss for the first time since the early 1990s, and forecasts indicate that negative results are bound to recur for some more years. In this situation, AET will be unable to distribute dividends to the State (excluding the part related to the interests on the endowment capital).

Production

Electricity

2014, a particularly positive year from a hydrological standpoint (+ 20% compared to the long-term average), was followed by another satisfactory year in 2015, despite a drought in the last quarter which prevented an even better result.

AET Group's hydroelectric production was 931 GWh, down 4% on the previous year. Production from participations was only 640 GWh, a decrease of 13% compared to 2014. To this production must be added 57 GWh generated by the Lucendro power station, whose acquisition by AET was formalized at the start of June 2015.

Once again, the income-generating capacity of all the hydroelectric plants was severely affected by extremely low price levels.

The Lünen power station resumed production in November, following a lengthy technical halt for maintenance work (carried out under the construction guarantee provided by the supplier). The costs arising from the interruption and performance of the works themselves were covered by both warranties and insurance. In technical terms, the German plant is normally operating, but is incurring production costs above market prices.

The putting into service of a 1,396 kWp photovoltaic plant that took place on the site of the LGI International in S. Antonino (in August 2014), as well as of seven additional plants during 2015, have made it possible to double AET's solar production, which now stands at 2.5 GWh per year. The plants constructed by AET in this regard from 2010 to date have enabled a tenfold increase in installed capacity. On a cantonal basis, it can be reported that the target for 2020 set for photovoltaics by the Cantonal Energy Plan (PEC) has already been achieved.

Thermal energy

TERIS Teleriscaldamento del Bellinzonese SA, a 60% participation of AET, has continued network development work in the Bellinzona region. In September, the Grand Council of Ticino approved a financing of CHF 2 million to be used for connecting several cantonally owned buildings to the district heating network. These include the Palazzo delle Orseline, the Centro Diagnostico di Camorino, the Giubiasco and Bellinzona 1 secondary schools and the Centro Sistemi Informativi in Bellinzona. This project involves the supply of 9.7 thermal GWh per year over the next 40 years by TERIS and will enable the Canton to save approximately 1 million litres of gasoil per year.

In the course of 2015, Metanord (34.77% owned) obtained a gas distribution permit for the city of Bellinzona. This has made it possible to plan the network extension to the north of Giubiasco. Network extension work also continued in the direction of Locarno and Bellinzona, while new customers have also been connected.

Calore SA, a company owned by AET and Società Elettrica Sopracenerina SA (SES), has begun the design phase of a project to renovate the Morettina heating plant in Locarno (which involves planning its conversion to wood chip fuel) and completing a study for the construction of a new plant in the Solduno neighbourhood. Also in the heat sector, the establishment of Capriasca Calore SA, a company owned in equal parts by AET, Azienda Elettrica di Massagno (AEM) SA and the Municipality of Capriasca, should be noted. The new company intends to implement a thermal power plant fuelled with wood chips, together with an adjoining district heating network in the area of Tesserete.

Commercial

Sales

The effects of the fall in prices and the partial opening of the market are making themselves felt in sales activities in particular, which have suffered an increasing level of competition. The model used for sales and related services has been fully reviewed, this being a way of adapting to market conditions and responding to new requests from customers.

Thanks to these measures, AET has been able to ensure the loyalty of its customers in Ticino who were supplied by AET throughout 2015 and, thanks to attractive market prices, have renewed several contracts for future years (until 2018 and 2019 respectively). This adjustment in sales strategy has borne fruit even beyond the Canton's borders, where AET has increased its market share by winning new customers and supplying greater volumes of electricity.

The collaboration entered into with the cantonal distributors, gathered in Enerti, with the goal to increase the sales of certified, renewable and local energy (tiacqua, tinatura and tisoletto) continued throughout 2015.

Abroad, AET Italia SpA has increased sales to customers in the SME segment (+ 21% by number of customers), and has reduced its commitments toward the large customer segment, thereby resulting in a reduction in total volumes supplied.

Trading

As regards trading, against the forward price trend, the spot market in Switzerland has seen an increase in prices in EUR/MWh (+ 8.6% on an annual basis, up to EUR 40/MWh). This is the first increase in the spot market since 2011, and was caused by the lengthy out-of-service period of both reactors at the Beznau power plant (during the entire second half of the year) and by the low level of hydroelectric reservoirs towards year end. The National Bank's decision to abandon the minimum EUR/CHF exchange rate has worked against the effects of the above increase in the spot market.

In the forward market, future prices continued to plummet towards levels not seen since the opening of the German market (in the early 2000s). The reasons for this are weak demand, surplus production and record low price levels for CO₂ certificates and all commodities.

Grid

In the first few months of 2015, AET began work on a new medium-voltage link between Acquarossa and Olivone, the aim being to create redundancy with the current line, operated by Società Elettrica Sopracenerina SA (SES). This is an underground cable link that will permanently solve difficulties regarding the continuity of the electricity supply in Blenio Valley. SES is actively involved in this project and will carry out the construction of a section of the trunk needed for laying the cabling required for the lines of both companies. The project will be completed in late 2016.

With regard to the maintenance of third-party networks, AET remains Swissgrid's partner for the south of the Alps within a mutually satisfying collaboration.

Strategic projects

Società Elettrica Sopracenerina SA (SES): reduction of shareholding

In the last quarter, formal procedures governing the sale of the majority shareholding in SES were completed, which means that Municipalities control 70% of the shares as of the 01.01.2016. The extraordinary general meeting held in January 2016 marked the beginning of a new era, when the Board of Directors came under the control of the representatives of the Municipalities of the SES catchment area.

Thus, AET has now completed the “Home” transaction which started in spring 2013 with the purchase of a stake in Società Elettrica Sopracenerina SA (SES) from Alpiq Ltd. This plan has allowed the Municipalities of the SES catchment area to carry out all the formal steps required to acquire their respective shareholdings (based on the consumption within their territories). AET is now the majority shareholder in SES, with a 30% stake.

The new Law on the Azienda Elettrica Ticinese (LAET)

The official announcement of the new Law on the AET, promoted by the DFE in order to adjust the Company’s governance structure on the basis of the latest Public Corporate Governance criteria, was the subject of an adjournment at a parliamentary session in March 2015. The new Law should enter into force during 2016, once the Special Energy Committee dealing with the matter has finished examining the notice, with a common position being agreed upon by a large majority.

The new Ritom power plant

In March 2015, the Grand Council of Ticino approved the renewal notice of the concession for the exploitation of the water resources of Ritom. Exploitation of this water is now carried out by the new Ritom SA, owned by SBB (75%) and the Canton of Ticino (25%). As is already the case for the Canton’s shares in Verzasca SA and in the Officine Idroelettriche della Maggia SA and in the Officine Idroelettriche di Blenio SA, the Canton transfers the energy and related production costs to AET. Following the entry into effect of the Grand Council’s decision, Ritom SA announced a tender for the final design of the plant, which was won by a consortium of Ticino consulting engineers. The design phase is currently underway. This includes the preparation of the construction licence application, and of an environmental impact report, for RIA 2.

The Lucendro power plant

The purchase of the Lucendro hydroelectric plant, which took place nine years before the term of the return into public control, was finalized at the begin of June 2015. AET acquired from Alpiq Ltd all the shares of Alpiq Hydro Ticino SA, all the personnel involved in its management and certain items of real estate in Leventina. The integration of the personnel and production management into AET was completed at the end of 2015. With a storage capacity of 34 million m³ of water and an installed power of 60 MW, the Lucendro plant enables AET to manage with more flexibility the Leventina chain production.

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

In November, the Administrative Cantonal Tribunal (TRAM) dismissed an appeal introduced in late 2014 by Società Ticinese per l’Arte e la Natura (STAN) against the amendment of a variant of the Area Plan of Airolo and the detailed plan for St. Gotthard. The decision became final without further appeals, thus enabling the design phase to commence in 2016.

The new headquarters building

In the early months of the year, construction work on the new headquarter building in Monte Carasso were finished. This is the first administrative building in Ticino with a positive energy balance, certified to “Minergie-A-Eco” and “Minergie-P-Eco” standards. The Management, the management services, finance and energy trading staffs moved to the new building in March.

In parallel, as part of a reorganisation of work processes, some employees in the production division were transferred from Bodio to another company building in Monte Carasso. These transfers have enabled us to concentrate most of the 230 staff members of AET at the Monte Carasso site, thereby rationalizing the use of space and improving the Company's internal synergies.

Foreign investments

AET holds a number of investments in foreign production companies. These were acquired in the early 2000s due to an obligation to ensure the supply of the Canton. The sharp decline in energy prices and the resulting loss in value of these investments have prompted AET to reduce these participations and plan their gradual disposal. The timing and method of disposal will depend on the opportunities arising on a particularly unfavourable market.

AET CoGen Srl

Negotiations for the sale of the company's activities, which were initiated in 2014, led to the signing of an agreement in the first half of the year. The disposal was completed during the month of June.

AET Idronord Srl

The "Le Valli" mini-hydroelectric plant and some projects that had not yet been realized were sold during 2015. The company, emptied of its contents, is now in liquidation.

CEG Group

The activities of CEG Group SpA, a company 80% owned by AET, are in continuous contraction and efforts to reduce its exposure were pursued throughout 2015.

The company Bio Energia Guarcino Srl (BEG) was sold in April, as was the generator at the power station belonging to Bio Elettricità Occimiano Srl (BEO), which has now been put in liquidation.

The Chivasso power station of Biogen Srl (50% owned by CEG) remained in operation thanks to state incentives for renewable energy and a certain stabilisation in the fuel oil price. The financial incentive scheme has, however, been modified since 2016, which has worsened the power station's financial position. The company is looking into alternative fuels, which would enable better financial results.

Renewable Energy Investments SPC (REI)

The Greek wind farms Mitikas and Makedonias regularly produce energy, which is off-taken and paid for by the operator of the national power grid. The continuing unfavourable market conditions have resulted in an additional impairment on the investment.

Conclusion and forecast

The operating result reveals a company that remains healthy, despite an adverse market. The local hydroelectric production quota – set to grow in the future due to the return under public control of the hydroelectric plants – and a market capitalisation above the national industry average, are the pillars that enable AET to look beyond the current difficulties with confidence.

The liberalisation process, the explosion of subsidies to renewables and post-Fukushima energy policies all have dramatically modified the picture of the European energy market within just a few years and against all expectations. Traditional production facilities, in which AET, just like other major companies all over Europe, concentrated its investments made prior to 2010, have borne the brunt of this process. Today, these production facilities are no longer capable of generating income and their value must be revised downwards.

The biggest problems arise from investments made in the past in order to expand the energy portfolio. These include the long-term supply contract with EDF, the participation in the Lünen coal-fired power station and other minor assets outside Switzerland.

Both the EDF and Lünen investments have affected the result for the year 2015 as follows:

		Total
In CHF million		
On the operating result		32.4
– increased cost of electricity compared to market value	26.1	
– depreciation and amortisation on investments	6.3	
On extraordinary expenses and net result		52.9
– impairment of the EDF contract	52.9	

The electricity off-taken from EDF and Lünen had a CHF 32.4 million cost above the market value (including depreciation on investments). In the absence of any significant increase in market prices or of a tangible result in the legal action started against EDF, these positions will continue to burden operating results in the years to come.

In terms of extraordinary expenses, the extent of the impairment on the EDF contract (CHF 52.9 million) will remain an isolated case: this investment has been almost completely impaired, based on the minimum levels of market prices recorded at the start of 2016.

Without the negative impact of EDF and Lünen (which represents over CHF 85 million in total), in its “traditional” activity, AET would have achieved a positive result for the year, despite challenging market conditions, thanks to sales contracts signed in the past (at prices higher than those practised today). The positive effect of these contracts expired in the 2015 financial year: the current market price (at minimum levels) will affect the future results with its full magnitude.

AET has now decided to refocus its activities on the development of hydropower and other renewable resources in Ticino.

Report on activities forecast for the next two years

Safeguarding cantonal hydroelectric production

The unfavourable market, the uncertain legal framework and potentially negative results will continue to characterize AET's operations for a few more years. In this context it is essential to fully involve the Department of finance and economy of the Canton of Ticino (the government department charged with overseeing AET), along with the entire Council of State, so that the most relevant bodies of our shareholder are kept constantly informed of the Company's course of business. On the other hand, the "new Law on Azienda Elettrica Ticinese", which is expected to come into force in 2016, expressly provides that the strategic objectives have to be jointly set by AET and the Council of State and that the latter is in charge of the direct supervision of the Company.

The market situation requires a policy of damage limitation, which must be achieved through cost-saving measures and the concentration of all available resources on the main activity, which in AET's case is the generation of hydroelectricity.

In the immediate future, AET faces a number of sacrifices and some difficult choices. These need to be dealt with for the sole purpose of preserving the assets represented by the canton's water resources and the related activities. Added value that affects the entire cantonal chain, from production to distribution, can be found here, translating into jobs and highly professional skills.

An initial set of optimisation and cost-saving measures is linked to completing the rationalisation of AET's sites and logistical arrangements; this started in 2015 with the move of the bulk of the company's personnel to Monte Carasso. This reorganisation will have a direct influence on numerous work processes and could lead to the disposal of (or a new destination for) some of the Company's real estate assets.

A further important measure concerns sponsorship policy, which will be significantly reduced through renouncing to the renewal of major contracts; this decision concerns cultural and sport events in equal measure, as well as the Ticino hockey companies active in the Swiss National League.

Several parameters related to personal relations will be reviewed as part of the new collective labour agreement. The primary target in this context is to preserve jobs and to leverage professional skills available inside the Company, despite the objective difficulties posed by the market.

Finally, technical and organisational measures are being studied with a view to optimizing the production costs of each individual power plant, whether wholly owned or in participation.

With respect to the balance sheet, the sale of various participations are being studied: ranging from foreign participations being in greater difficulty to those that, while in profit, are not part of the “core business” represented by the indigenous hydroelectricity generation. The realisation of those potential disposals will depend on the development of the market and of any windows of opportunity that may arise.

AET’s ability to respond to the difficulties of the market will also depend on the political measures that will be adopted, both at federal and at cantonal level. In this sense, AET is participating in a working group on the cantonal electricity sector, promoted by the Department of finance and economy, in order to identify new types of cooperation with the distribution companies; its aim is to maintain the added value of local renewable energy production in Ticino.

On a federal level, AET is confident in the changes to the Strategy 2050 currently under debate in Parliament and within the Conference of Alpine Cantons, which promotes the adoption of incentive schemes to the hydrogeneration and changes to the water fees system without negative impact on the Alpine regions.

As regards investment, the activities planned by AET will be restricted to optimizing renewable, local power generation, in line with the objectives stated in the Cantonal Energy Plan.

Over the next two years, no commitment exceeding the ordinary course of business is expected, therefore no such request to the Grand Council has been scheduled either (LAET article 5, paragraph 4).

Ritom

Implementation of the new Ritom power station in conjunction with Swiss Federal Railways (SBB) is progressing according to plan. This project involves replacing the existing power station with a new one, equipped with two 60 MW generators and a pump that will enhance the capacity of both the Ritom lake and the Airolo reservoir. Its management has been entrusted to Ritom SA.

The design phase and the necessary permit applications are currently underway, while construction work should commence in 2018 and finish four years later.

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

In 2016, after conclusion of the administrative process and judicial proceedings relating to the amendment of the area plan, the design phase for the St. Gotthard wind farm was launched. This envisages the installation of five wind turbines on the Gotthard Pass. The application for the building permit is due to be submitted in 2016, while construction work is expected to commence in the summer of 2017 and should last for two years.

Nuova Biaschina power station - renewal of generators

In 2016, work will get underway for the renewal of the three turbines at the Nuova Biaschina power station in Personico. The plan provides for the replacement and putting into service of one turbine every year between 2017 and 2019. This renewal work will increase the plant’s maximum power from the current level of 45 MW to 49 MW, which represents an increase of 4% in terms of production and performance.

The replacement of the turbines at Nuova Biaschina is the first in a series of projects aimed to ensure the maximum efficiency of the Leventina production chain.

Grid

In June 2015, Swissgrid AG together with AET, the Canton and SBB presented its project for reorganizing the networks in the "Upper Ticino West Section", which includes Vallemaggia, the Locarno region, Val Bedretto and Alta Leventina. The project includes the dismantling of 60.6 km of power lines and will significantly improve protected landscapes.

AET will be involved in Leventina in respect of its 50 kV power lines; some sections of track will be rebuilt and combined with SBB lines, as was the case between Airolo and Ritom in the 1990s.



Taking the same route as the water, workers set off from the dam to the Sella power station. The dam is located at 2,200 metres above sea level and, at this time of year, large parts of it are covered in snow.





Snow, wind, ice and cold make inspections challenging, not least physically, and access to the different parts of its infrastructure literally has to be earned. Entry gates may be under a blanket of several metres of snow, in which case they can only be reached using shovels.

Proposal for allocation of result

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

In CHF 1,000	
Result for the year 2015	-45,635
- to the State: 8% interest on the endowment capital	-3,200
- dividend to the State	-
- allocation to the general reserves	-
Allocation to the profit brought forward	-48,835

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 2015;
- the financial statements for the year 2015;
- the proposal for allocation of result;

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



The second leg of the inspection tour consists of a visit to the Sella power station, whose turbine and other components are monitored using a precise protocol. Technical expertise, knowledge of the plant and a high level of versatility all enable employees to manage risks, using the equipment installed on site.

Consolidated financial statements

Consolidated balance sheet

Assets

In CHF 1,000	Notes	31.12.2015	31.12.2014
Operating plants and equipment		480,514	457,029
Land and buildings		63,369	50,067
Tangible fixed assets under construction		41,277	50,769
Tangible fixed assets on lease		188	1,429
Other tangible fixed assets		3,773	3,460
Tangible fixed assets	2	589,121	562,754
Participations in associates	3	15,725	16,478
Long-term securities	4	50,192	52,864
Advances and loans to participations	5	45,894	52,748
Other financial assets		1,873	2,086
Financial assets		113,684	124,176
Plant and equipment usage rights		8,404	6,760
Energy procurement rights		10,798	69,092
Intangible assets under construction		2,633	2,946
Other intangible assets		4,054	5,622
Intangible assets	6	25,889	84,420
Total Non-current assets		728,694	771,350
Receivables from goods and services	7	81,534	87,279
Other short-term receivables	8	33,727	35,181
Inventories	9	23,360	36,685
Prepayments and accrued income	10	111,937	154,050
Cash and cash equivalents	11	89,501	64,440
Total Current assets		340,059	377,635
Total Assets		1,068,753	1,148,985

Liabilities and equity

		31.12.2015	31.12.2014
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
Conversion differences		-7,998	-3,754
Retained earnings		369,290	369,950
Result for the year		-43,579	13,414
Equity attributable to AET		357,713	419,610
Minority interests		57,824	34,528
Total Group equity		415,537	454,138
Long-term provisions	12	37,200	34,550
Other long-term liabilities		5,325	4,213
Long-term financial liabilities	13	347,353	357,937
Long-term liabilities		389,878	396,700
Payables from goods and services	14	40,407	38,065
Short-term financial liabilities	15	85,946	115,136
Other short-term liabilities	16	28,663	9,146
Accrued liabilities and deferred income	17	98,813	125,107
Short-term provisions	12	9,509	10,693
Current liabilities		263,338	298,147
Total Liabilities		653,216	694,847
Total Liabilities and equity		1,068,753	1,148,985

Consolidated income statement

		2015	2014
In CHF 1,000	Notes		
Operating income			
Energy sales	18	800,412	974,648
Grid income		201,741	210,960
Other operating income	19	30,549	26,605
Total Operating income		1,032,702	1,212,213
Operating expenses			
Energy purchases	20	-729,805	-895,729
Grid expenses		-123,116	-130,917
Personnel expenses	21	-52,598	-50,561
Service and material expenses		-13,419	-11,809
Depreciation on tangible fixed assets		-29,877	-27,809
Amortisation on intangible assets		-8,198	-9,344
Other depreciation and amortisation		-1,014	-161
Other operating expenses	22	-36,855	-35,974
Total Operating expenses		-994,882	-1,162,304
Operating result		37,820	49,909
Financial result	23	-19,056	-14,635
Result from associates	3	2,712	3,429
Ordinary result		21,476	38,703
Non-operating result		5	6
Extraordinary result	24	-55,228	-16,817
Result before income taxes		-33,747	21,892
Income taxes		-4,117	-4,533
Group result for the year		-37,864	17,359
Minority interests		-5,715	-3,945
Result for the year attributable to AET		-43,579	13,414

Consolidated cash flow statement

	2015	2014
In CHF 1,000		
Result for the year	-43,579	13,414
Minority interests to income statement	5,715	3,945
Depreciation on tangible fixed assets	29,877	27,809
Amortisation on intangible assets	8,198	9,344
Other depreciation and amortisation	1,014	161
Change in long-term provisions	2,675	-1,221
Change in impairments	54,467	20,628
Profit / loss from disposal of non-current assets	-521	-297
Result from associates	-151	995
Other non cash expenses and income	1,585	-1,145
Cash flow before change in net current assets	59,280	73,633
Change in receivables, inventories and prepayments and accrued income	52,896	-11,470
Change in liabilities and accrued liabilities and deferred income	-7,913	-6,051
Change in short-term provisions	-1,194	2,391
Cash flow from operating activities	103,069	58,503
Outflows for investment in tangible fixed assets	-60,885	-55,740
Inflows from disposal of tangible fixed assets	10,218	27,731
Outflows for investment in intangible assets	-2,951	-1,954
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-6,384	-29,171
Inflows from disposal of financial assets	12,344	4,637
Acquisition of consolidated organisations, less cash	-7,236	-415
Disposal of consolidated organisations, less cash	14,026	-
Cash flow from investing activities	-40,868	-54,912
Issuance / repayment of short-term financial liabilities	-42,384	-4,210
Issuance / repayment of long-term financial liabilities	14,344	-5,686
Distribution of dividends to minority shareholders of subsidiaries	-625	-868
Interests on capital due to the State	-3,200	-3,200
Distribution of dividends to the State	-5,000	-10,000
Cash flow from financing activities	-36,865	-23,964
Cash and cash equivalents at the beginning of the year	64,440	84,915
Cash flow	25,336	-20,373
Conversion differences on cash and cash equivalents	-275	-102
Cash and cash equivalents at the end of the year	89,501	64,440

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							
Equity at 01.01.2014	40,000	-2,623	372,616	12,106	422,099	31,142	453,241
Allocation of profit	-	-	12,106	-12,106	0	-	0
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of dividends	-	-	-10,000	-	-10,000	-868	-10,868
Conversion differences	-	-1,131	181	-	-950	-3	-953
Change in consolidation scope	-	-	-1,338	-	-1,338	312	-1,026
Offset consolidation difference	-	-	-415	-	-415	-	-415
Result for the year 2014	-	-	-	13,414	13,414	3,945	17,359
Equity at 31.12.2014	40,000	-3,754	369,950	13,414	419,610	34,528	454,138
Allocation of profit	-	-	13,414	-13,414	0	-	0
Interests on capital due to the State	-	-	-3,200	-	-3,200	-	-3,200
Distribution of dividends	-	-	-5,000	-	-5,000	-625	-5,625
Conversion differences	-	-4,244	-42	-	-4,286	5	-4,281
Change in consolidation scope	-	-	-6,192	-	-6,192	18,201	12,009
Offset consolidation difference	-	-	360	-	360	-	360
Result for the year 2015	-	-	-	-43,579	-43,579	5,715	-37,864
Equity at 31.12.2015	40,000	-7,998	369,290	-43,579	357,713	57,824	415,537

Notes to the consolidated financial statements

1. Accounting principles

The consolidated financial statements 2015 of the Azienda Elettrica Ticinese Group (AET Group) were prepared in accordance to the Swiss GAAP FER as a whole and approved by the Board of Directors on the 26.04.2016.

1.1. Consolidation principles

1.1.1. Companies consolidated according to the full consolidation method

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

Subsidiaries ¹	Currency	Share capital	Shareholding at 31.12.2015	Shareholding at 31.12.2014
		in 1,000	%	%
AET CoGen Srl	EUR	100	–	100.00
AET Idronord Srl	EUR	100	100.00	90.00
AET Italia Holding Srl	EUR	4,836	100.00	100.00
AET Italia SpA	EUR	4,000	100.00	100.00
Bio Elettricità Occimiano Srl (BEO)	EUR	50	80.00	80.00
Calore SA	CHF	2,000	74.93	83.57
CEG SpA	EUR	120	80.00	80.00
Lucendro SA	CHF	3,000	100.00	–
Parco eolico del San Gottardo SA	CHF	1,000	70.00	70.00
Senco Holding SA	CHF	150	76.62	85.45
Senco Sagl	CHF	220	76.62	85.45
Società Elettrica Sopracenerina SA (SES)	CHF	16,500	53.23	70.89
Società Locarnese di Partecipazioni e Immobiliare SA	CHF	2,064	52.94	70.50
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

¹ Direct and indirect subsidiaries

All consolidated companies have closed their financial year on the 31.12.2015.

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

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

During 2014 the following changes in consolidation scope of the AET Group have incurred:

- On the 16.09.2014 Società Elettrica Sopracenerina SA (SES) absorbed through reverse merger its controlling entity SES Holding Ltd. In application of the exchange ratio AET, previously controlling 99.5% of SES Holding Ltd, obtained a 70.89% participation in SES. The shareholdings in all the SES subsidiaries changed accordingly.

The key balance sheet positions at the time of disposal or acquisition / subscription of those companies present as follows (for the year 2015):

	AET CoGen Srl EUR 1,000	Lucendro SA CHF 1,000
Non-current assets	2,393	7,596
Current assets except cash	4,494	1,977
Cash and cash equivalents	–	2,835
Total assets	6,887	12,408
Equity	886	10,431
Long-term liabilities	5,375	–
Current liabilities	626	1,977
Total liabilities and equity	6,887	12,408

1.1.3. Companies included according to the equity method

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

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

Associates ¹	Currency	Share capital	Shareholding at 31.12.2015	Shareholding at 31.12.2014
		in 1,000	%	%
Bio Energia Guarcino Srl (BEG)	EUR	1,100	0.80	40.00
Biogen Chivasso Srl	EUR	20	40.00	40.00
Biomassa Blenio SA	CHF	870	24.73	27.58
Capriasca Calore SA	CHF	210	33.33	–
Energie Rinnovabili Losone (ERL) SA	CHF	2,700	17.74	26.63
Enerti SA	CHF	200	17.59	23.43
Metanord SA	CHF	18,594	34.77	36.03
Nord Energia SpA	EUR	10,200	40.00	40.00
Quadra Srl	EUR	20	50.00	50.00
SES Controlli Sagl	CHF	20	21.29	28.36

¹ Direct and indirect associates

1.1.4. Other participations

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

1.1.5. Conversion of financial statements held in foreign currency

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

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

Exchange rates applied (EUR / CHF)	2015	2014
Exchange rate on the closing date 31.12	1.0874	1.2024
Average exchange rate	1.0681	1.2146

1.2. Accounting principles

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

1.2.1. Tangible fixed assets

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

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

Civil works	40 – 75 years
Electromechanical installations	20 – 50 years
Electromechanical equipments	10 – 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	4 – 25 years
Vehicles	3 – 10 years
IT equipments	3 – 5 years

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

1.2.2. Financial assets

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

1.2.3. Intangible assets

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

1.2.4. Receivables

Receivables are reported at their face value, taking into account potential losses. Foreign currency receivables are converted at the year-end exchange rates.

1.2.5. Inventories

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

1.2.6. Cash and cash equivalents

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

1.2.7. Impairment

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

1.2.8. Provisions

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

1.2.9. Liabilities

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

1.2.10. Off-balance-sheet transactions

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

1.2.11. Revenues

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

1.2.12. Pension funds

Pension benefits for employees hired by Swiss entities are covered by autonomous pension funds. The financial implications of the pension schemes in place, regardless of their structure and legal form, are included in the consolidated financial statements. Surplus payments or deficits are determined on the basis of the latest available financial statements of the pension funds involved. Any liabilities (economic obligations) or any assets (economic benefits) in addition to the payment of the regular premiums are recorded in the financial statements. Economic obligations are recognised when pension liabilities are undercovered, generating a 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.

1.2.13. Income taxes

Income tax expense includes all current and deferred taxes. Deferred taxes arise from valuation differences between the tax financial statements and the financial statements used for consolidated reporting purposes.

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

1.2.14. Related party transactions

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

2. Tangible fixed assets

	Operating plants and equipment	Land and buildings	Tangible fixed assets under construction	Tangible fixed assets on lease	Other tangible fixed assets	Total
In CHF 1,000						
Cost value at 01.01.2014	1,048,918	60,281	42,509	19,708	19,209	1,190,625
Change in consolidation scope	–	–	–	–	–	0
Reclassification	43,647	332	–44,191	–	–	–212
Additions	1,012	1,398	52,477	226	627	55,740
Disposals	–65,343	–314	–26	–982	–796	–67,461
Conversion differences	–320	–11	–	–372	–10	–713
Cost value at 31.12.2014	1,027,914	61,686	50,769	18,580	19,030	1,177,979
Change in consolidation scope	112,128	1,593	1,246	–16,599	–85	98,283
Reclassification	54,101	12,362	–66,898	–	318	–117
Additions	1,870	1,566	56,322	–	1,127	60,885
Disposals	–21,845	–335	–162	–	–680	–23,022
Conversion differences	–1,572	–56	–	–1,776	–49	–3,453
Cost value at 31.12.2015	1,172,596	76,816	41,277	205	19,661	1,310,555
Accumulated depreciation at 01.01.2014	–583,184	–10,643	0	–17,192	–15,321	–626,340
Change in consolidation scope	–	–	–	–	–	0
Reclassification	–	–	–	–	–	0
Depreciation	–25,413	–861	–	–470	–1,065	–27,809
Disposals	38,138	180	–	756	796	39,870
Impairments	–529	–299	–	–399	14	–1,213
Conversion differences	103	4	–	154	6	267
Accumulated depreciation at 31.12.2014	–570,885	–11,619	0	–17,151	–15,570	–615,225
Change in consolidation scope	–106,889	–559	–	15,511	85	–91,852
Reclassification	–	–	–	–	–	0
Depreciation	–26,985	–1,618	–	–226	–1,048	–29,877
Disposals	11,833	303	–	2	679	12,817
Impairments	315	24	–	1,117	–65	1,391
Conversion differences	529	22	–	730	31	1,312
Accumulated depreciation at 31.12.2015	–692,082	–13,447	0	–17	–15,888	–721,434
Net carrying amount at 01.01.2014	465,734	49,638	42,509	2,516	3,888	564,285
Net carrying amount at 31.12.2014	457,029	50,067	50,769	1,429	3,460	562,754
Net carrying amount at 31.12.2015	480,514	63,369	41,277	188	3,773	589,121

3. Participations in associates

31.12.2015	Equity	Holding	AET's share of the equity	AET's share of the result
In CHF 1,000		%		
Biogen Chivasso Srl	0	50.00	0	0
Biomassa Blenio SA	807	33.00	266	-11
Capriasca Calore SA	210	33.33	70	0
Energie Rinnovabili Losone (ERL) SA	1,935	33.33	644	-59
Enerti SA	416	33.05	138	70
Metanord SA	9,853	38.12	3,756	-1,163
Nord Energia SpA	26,878	40.00	10,752	3,853
Quadra Srl	0	50.00	0	0
SES Controlli Sagl	248	40.00	99	22
Total			15,725	2,712

31.12.2014	Equity	Holding	AET's share of the equity	AET's share of the result
In CHF 1,000		%		
Bio Energia Guarcino Srl (BEG)	0	50.00	0	0
Biogen Chivasso Srl	0	50.00	0	0
Biomassa Blenio SA	840	33.00	277	0
Energie Rinnovabili Losone (ERL) SA	2,111	33.33	703	0
Enerti SA	205	33.05	68	0
Metanord SA	12,904	38.12	4,919	-431
Nord Energia SpA	26,086	40.00	10,434	3,860
Quadra Srl	0	50.00	0	0
SES Controlli Sagl	192	40.00	77	0
Total			16,478	3,429

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

4. Long-term securities

	31.12.2015	31.12.2014
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co. KG	37,325	38,178
./ impairment	-20,700	-20,700
Renewable Energy Investments SPC	15,678	15,678
./ impairment	-15,678	-13,200
Swissgrid AG	12,589	11,754
Kraftwerke Mattmark AG	11,959	12,116
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	469	488
Total	50,192	52,864

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

The shares of Renewable Energy Investments SPC (REI) are booked at their historical cost. The impairment amount was determined on the basis of the critical economic and financial conditions towards which the investment is exposed; the increase of the impairment has been recorded as financial expenses.

In 2015 in the context of the setting of the national power transportation grid, held by Swissgrid AG, the AET Group has sold to Swissgrid AG further parts of its grid which have been included in the scope of the national power transportation grid. As for all transportation grid nationalisation transactions, the disposal consideration consisted in Swissgrid AG shares and loans towards it, thus increasing the participation into Swissgrid AG.

5. Advances and loans to participations

	31.12.2015	31.12.2014
In CHF 1,000		
Swissgrid AG	15,552	23,909
Metanord SA	14,200	13,200
Terravent AG	12,750	12,750
Other	3,392	2,889
Total	45,894	52,748

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). During 2015 Swissgrid AG reimbursed part of the loan.

6. Intangible assets

	Plant and equipment usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
Cost value at 01.01.2014	9,805	151,583	2,492	19,423	183,303
Change in consolidation scope	–	–	–	–	0
Reclassification	–	–	–338	550	212
Additions	2,398	–	792	610	3,800
Disposals	–	–	–	–700	–700
Conversion differences	–	–	–	–72	–72
Cost value at 31.12.2014	12,203	151,583	2,946	19,811	186,543
Change in consolidation scope	655	–	–	–132	523
Reclassification	–	–	–821	938	117
Additions	3,064	–	547	393	4,004
Disposals	–656	–7,028	–39	–1,227	–8,950
Conversion differences	–	–	–	–355	–355
Cost value at 31.12.2015	15,266	144,555	2,633	19,428	181,882
Accumulated amortisation at 01.01.2014	–3,249	–59,828	0	–12,184	–75,261
Change in consolidation scope	–	–	–	–	0
Reclassification	–	–	–	–	0
Amortisation	–348	–6,529	–	–2,467	–9,344
Additions	–1,846	–	–	–	–1,846
Disposals	–	–	–	476	476
Impairments	–	–16,134	–	–56	–16,190
Conversion differences	–	–	–	42	42
Accumulated amortisation at 31.12.2014	–5,443	–82,491	0	–14,189	–102,123
Change in consolidation scope	–579	–	–	132	–447
Reclassification	–	–	–	–	0
Amortisation	–366	–5,394	–	–2,438	–8,198
Additions	–1,053	–	–	–	–1,053
Disposals	579	7,028	–	1,191	8,798
Impairments	–	–52,900	–	–341	–53,241
Conversion differences	–	–	–	271	271
Accumulated amortisation at 31.12.2015	–6,862	–133,757	0	–15,374	–155,993
Net carrying amount at 01.01.2014	6,556	91,755	2,492	7,239	108,042
Net carrying amount at 31.12.2014	6,760	69,092	2,946	5,622	84,420
Net carrying amount at 31.12.2015	8,404	10,798	2,633	4,054	25,889

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027). Its value impairment has been increased following a further deterioration of its reference market conditions.

7. Receivables from goods and services

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	4,176	6,895
Other related parties	89	514
Third parties	77,269	79,870
Total	81,534	87,279

The balance includes amounts in foreign currency for EUR 40.6 million (EUR 36.8 million at 31.12.2014).

8. Other short-term receivables

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	–	–
Other related parties	272	130
Third parties	33,237	34,809
Deferred income tax assets	218	242
Total	33,727	35,181

9. Inventories

	31.12.2015	31.12.2014
In CHF 1,000		
Stock and consumables	7,303	8,012
Energy related certificates	16,057	28,673
Total	23,360	36,685

The energy related certificates include renewable energy guarantee of origin certificates as well as CO₂ emission rights. Energy related certificates are valued at the lower of cost or market value.

10. Prepayments and accrued income

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	4,007	3,545
Other related parties	6,290	6,228
Third parties	99,669	142,130
Work in progress	1,971	2,147
Total	111,937	154,050

The balance includes amounts in foreign currency for EUR 72.0 million (EUR 102.4 million at 31.12.2014).

11. Cash and cash equivalents

	31.12.2015	31.12.2014
In CHF 1,000		
Balances in CHF	61,490	44,384
Balances in foreign currency (conversion at year-end exchange rate)	28,011	20,056
Total	89,501	64,440

12. Provisions

	Onerous contracts	Indemnifications and plant decommissioning	Tax	Personnel related expenses	Other	Total
In CHF 1,000						
Carrying amount at 01.01.2014	10,440	14,908	8,577	6,525	3,629	44,079
<i>thereof long-term</i>	10,440	14,908	6,434	3,156	838	35,776
<i>thereof short-term</i>	0	0	2,143	3,369	2,791	8,303
Change in consolidation scope	–	–	–	–	–	0
Increase	–	619	1,442	1,362	3,456	6,879
Utilisation	–	–	–3	–1,633	–96	–1,732
Release	–2,450	–	–	–254	–1,279	–3,983
Carrying amount at 31.12.2014	7,990	15,527	10,016	6,000	5,710	45,243
<i>thereof long-term</i>	7,990	15,527	7,625	1,807	1,601	34,550
<i>thereof short-term</i>	0	0	2,391	4,193	4,109	10,693
Change in consolidation scope	–	–	–	–	–	0
Increase	4,510	90	1,486	9,772	2,643	18,501
Utilisation	–	–	–	–1,595	–1,130	–2,725
Release	–	–13,267	–	–251	–792	–14,310
Carrying amount at 31.12.2015	12,500	2,350	11,502	13,926	6,431	46,709
<i>thereof long-term</i>	12,500	2,350	8,626	10,325	3,399	37,200
<i>thereof short-term</i>	0	0	2,876	3,601	3,032	9,509

The provision for onerous contracts covers expected disbursements related to commitments of the AET Group.

The provision for indemnifications and plant decommissioning covers the expected cost of indemnification related to the operation of Group's plants as well as the expected future costs of decommissioning AET plants at the end of their utilisation. The present value at the balance sheet date of the expected expenses is computed by applying a 4% discount rate. The 2015 provision increase is due to the discounting; the provision release has been booked following the ceasing of the associated risk.

13. Long-term financial liabilities

	31.12.2015			31.12.2014		
	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	84,400	172	84,572	104,000	208	104,208
Liabilities due between 5 and 10 years	156,475	–	156,475	143,625	6,646	150,271
Liabilities due after 10 years	106,306	–	106,306	103,458	–	103,458
Total	347,181	172	347,353	351,083	6,854	357,937

14. Payables from goods and services

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	1,694	1,215
Other related parties	1,927	2,003
Third parties	36,786	34,847
Total	40,407	38,065

The balance includes amounts in foreign currency for EUR 15.4 million (EUR 8.1 million at 31.12.2014).

15. Short-term financial liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Liabilities towards financial institutions in CHF	52,037	79,613
Liabilities towards financial institutions in foreign currency	33,909	35,523
Total	85,946	115,136

16. Other short-term liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	–	–
Other related parties	6	3
Third parties	28,657	9,143
Total	28,663	9,146

17. Accrued liabilities and deferred income

	31.12.2015	31.12.2014
In CHF 1,000		
Associates	1,463	5,170
Other related parties	2,229	–
Third parties	95,121	119,937
Total	98,813	125,107

The balance includes amounts in foreign currency for EUR 54.8 million (EUR 65.7 million at 31.12.2014).

18. Energy sales

	2015	2014
In CHF 1,000		
Energy sales in Switzerland	255,257	304,539
Energy sales in Italy	229,191	367,528
Energy sales in Germany	182,029	198,614
Energy sales in France	80,036	56,865
Other income energy sales	53,899	47,102
Total	800,412	974,648

19. Other operating income

	2015	2014
In CHF 1,000		
Own work capitalised	13,930	10,658
Income from services	12,359	11,128
Other	4,260	4,819
Total	30,549	26,605

20. Energy purchases

	2015	2014
In CHF 1,000		
Purchases from participations	–73,468	–99,522
Long-term contractual purchases	–56,448	–65,123
Purchases on the market	–599,889	–731,084
Total	–729,805	–895,729

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

21. Personnel expenses

	2015	2014
In CHF 1,000		
Salaries and other compensation	-42,150	-41,440
Social contributions	-10,046	-8,571
Other expenses	-903	-1,025
Recoveries from insurance companies	501	475
Total	-52,598	-50,561

Employees of the Group

	31.12.2015	31.12.2014
Full time equivalent		
Permanent employees	413.7	402.2
Auxiliary employees	9.2	11.2
Apprentices	29.0	21.0
Total	451.9	434.4

22. Other operating expenses

	2015	2014
In CHF 1,000		
Water fees to the State	-14,221	-11,733
Local taxes and other contributions	-2,607	-2,015
Other	-20,027	-22,226
Total	-36,855	-35,974

23. Financial result

	2015	2014
In CHF 1,000		
Interest income	2,277	2,215
Income from participations	706	504
Other financial income	1	237
Exchange rate differences	-6,374	-997
Interest payments and commissions	-12,468	-12,947
Other financial expenses	-3,198	-3,647
Total	-19,056	-14,635

Other financial expenses include the impairment increase of the REI securities for CHF 2.5 million (2014: CHF 3.0 million).

24. Extraordinary result

	2015	2014
In CHF 1,000		
Release of provisions	14,225	2,450
Profit from disposal of non-current assets	647	297
Other extraordinary income	641	4,751
Impairments of non-current assets	-53,355	-20,444
Increase of provisions	-13,381	-3,203
Loss from disposal of non-current assets	-126	-
Other extraordinary expenses	-3,879	-668
Total	-55,228	-16,817

25. Goodwill

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

	2015	2014
In CHF 1,000		
Historical cost	2,167	2,167
Goodwill	249	332
Equity (retained earnings)	249	332
Amortisation goodwill of the year	-83	-433
Result for the year	-83	-433

26. Contingent liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Guarantees in the interest of:		
Associates	26,804	48,627
Other related parties	–	–
Third parties	34,515	–
Total	61,319	48,627

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

27. Other non-recognisable commitments

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

Energy purchase contracts and market operations

	Market transactions	Long-term contracts
Cumulative volume in CHF 1,000		
2016	316,552	96,010
from 2 to 5 year	112,308	150,715
over 5 year	–	255,678

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

Finally, the AET Group has entered into an interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 9.9 million (value of the indexed contact based on 2015 prices and year-end exchange rate).

At 31.12.2015 AET Group has derivative financial instruments subscribed for the interest rate hedging for a contractual volume of CHF 54 million (31.12.2014: CHF 54 million).

As of 31.12.2015 the total amount of operating leasing not recognised on the balance sheet amounts to CHF 0.6 million (31.12.2014: CHF 0.8 million); operating leasing expenses for 2015 amount to CHF 0.4 million (2014: CHF 0.5 million).

28. Pension benefit obligations

	Coverage rate	Economic benefit/ economic obligations for the Group	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
31.12.2015					
In CHF 1,000					
CPE Cassa Pensione Energia	100.0%	–	–	–4,146	–4,146
Inflation indemnities to pensioners ¹		–1,070	–7	–	–7
Fondo Pensionamento Anticipato dell'AET	104.2%	–390	–	–613	–613
Total		–1,460	–7	–4,759	–4,766

¹ Provisions for future payments for inflation indemnities to pensioners.

	Coverage rate	Economic benefit/ economic obligations for the Group	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
31.12.2014					
In CHF 1,000					
CPE Cassa Pensione Energia	104.3%	–	–	–2,894	–2,894
Inflation indemnities to pensioners ¹		–1,187	–21	–	–21
Fondo Pensionamento Anticipato dell'AET	106.4%	–578	–	–758	–758
Total		–1,765	–21	–3,652	–3,673

¹ Provisions for future payments for inflation indemnities to pensioners.

29. Transactions with related parties

Transactions with associates

	2015	2014
In CHF 1,000		
Energy sales	18,122	26,971
Service and other income	1,333	874
Financial income	179	493
Energy purchases	42,265	72,522
Service and other expenses	1,610	1,555
Advances paid	14,657	15,003
Receivables from goods and services	6,231	6,895
Prepayments and accrued income	4,079	3,657
Payables from goods and services	1,694	1,215
Accrued liabilities and deferred income	1,463	5,170
Guarantees in favour of creditors	26,804	48,627

Transactions with other related parties

	2015	2014
In CHF 1,000		
Energy sales	143	432
Service and other income	508	1,335
Financial income	560	858
Energy purchases	76,220	101,095
Service and other expenses	838	320
Advances paid	31,237	37,745
Receivables from goods and services	89	514
Prepayments and accrued income	6,742	6,236
Payables from goods and services	1,927	2,003
Accrued liabilities and deferred income	2,229	–
Guarantees in favour of creditors	–	–

30. Risk assessment

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

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

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

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

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

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

31. Subsequent events

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

2014: on the 15.01.2015 the Swiss National Bank has discontinued the minimum exchange rate of CHF 1.20 per euro. This caused an immediate appreciation of the CHF. AET executes a significant part of its transactions in euro. On the 20.03.2015 AET and Alpiq Ltd have signed an agreement for the acquisition by AET of the share capital of Alpiq Hydro Ticino SA.



In winter, complete peace and quiet reigns on the Gotthard Pass: whereas in summer the buildings are enlivened by the presence of thousands of walkers, in winter they take on an almost ghostly appearance. In this context, the safety inspectors move about confidently, carrying out their inspections.

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



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To the Board of Directors

Azienda elettrica ticinese, Monte Carasso

Lugano, 26 April 2016

Report of the independent auditor on the consolidated financial statements

As auditor and in accordance with your instructions, we have audited the accompanying consolidated financial statements of Azienda elettrica ticinese, which comprise balance sheet, income statement, cash flow statement, statement of changes in equity and notes (from page 33 to 58), for the year ended 31 December 2015.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and 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 existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.



Ernst & Young Ltd

Stefano Caccia
Licensed audit expert
(Auditor in charge)



Claudio Cereggetti
Licensed audit expert



The tour continues with an inspection of the Lucendro dam. This is located north of the Gotthard watershed, where a natural lake could once be found. The reservoir has a capacity of about 25 million m³ and collects the waters of the River Reuss inside the territory of Canton Ticino.

Lake Lucendro
Dam height 68,5 m
Usable enclosed area 25,000,000 m³
Max. altitude 2,134.0 m asl





A walkway constructed a few metres below the top runs along the entire length of the dam. To access it you need to take a path that ascends from the bottom of the dam right up to the top.

Financial statements

Balance sheet

Assets

		31.12.2015	31.12.2014
In CHF 1,000	Notes		
Operating plants and equipment		211,395	214,333
Land and buildings		49,036	36,057
Tangible fixed assets under construction		23,265	30,114
Other tangible fixed assets		1,057	968
Tangible fixed assets	2	284,753	281,472
Participations	3	71,998	74,250
Long-term securities	4	49,848	52,501
Advances and loans to participations	5	57,323	64,047
Other financial assets		1,304	1,194
Financial assets		180,473	191,992
Plant and equipment usage rights		8,262	6,652
Energy procurement rights		10,798	69,092
Intangible assets under construction		1,020	1,411
Other intangible assets		1,975	2,373
Intangible assets	6	22,055	79,528
Total Non-current assets		487,281	552,992
Receivables from goods and services	7	60,181	116,621
Other short-term receivables	8	30,322	11,007
Inventories	9	17,944	31,188
Prepayments and accrued income	10	96,745	115,717
Cash and cash equivalents	11	58,394	48,116
Total Current assets		263,586	322,649
Total Assets		750,867	875,641

Liabilities and equity

		31.12.2015	31.12.2014
In CHF 1,000	Notes		
Endowment capital		40,000	40,000
General reserves		67,000	67,000
Statutory reserves		51,000	51,000
Profit brought forward		230,149	237,830
Result for the year		-45,635	519
Total Equity		342,514	396,349
Long-term provisions	12	23,043	28,407
Other long-term liabilities		1,924	2,179
Long-term financial liabilities	13	231,000	221,000
Long-term liabilities		255,967	251,586
Payables from goods and services	14	30,761	59,423
Short-term financial liabilities	15	21,748	51,452
Other short-term liabilities	16	21,903	7,593
Accrued liabilities and deferred income	17	71,479	101,359
Short-term provisions	12	6,495	7,879
Current liabilities		152,386	227,706
Total Liabilities		408,353	479,292
Total Liabilities and equity		750,867	875,641

Income statement

		2015	2014
In CHF 1,000	Notes		
Operating income			
Energy sales	18	777,870	912,272
Grid income		44,434	50,223
Other operating income	19	17,076	14,155
Total Operating income		839,380	976,650
Operating expenses			
Energy purchases	20	-728,282	-856,973
Grid expenses		-18,139	-22,069
Personnel expenses	21	-25,932	-25,923
Service and material expenses		-8,169	-6,769
Depreciation on tangible fixed assets		-13,655	-12,779
Amortisation on intangible assets		-7,171	-8,085
Other depreciation and amortisation		-1,010	-157
Other operating expenses	22	-22,088	-20,710
Total Operating expenses		-824,446	-953,465
Operating result		14,934	23,185
Financial result	23	-14,145	-10,310
Ordinary result		789	12,875
Non-operating result		5	6
Extraordinary result	24	-46,429	-12,362
Result for the year		-45,635	519

Cash flow statement

	2015	2014
In CHF 1,000		
Result for the year	-45,635	519
Depreciation on tangible fixed assets	13,655	12,779
Amortisation on intangible assets	7,171	8,085
Other depreciation and amortisation	1,010	157
Change in long-term provisions	-5,364	-43
Change in impairments	55,197	19,738
Profit / loss from disposal of non-current assets	-64	-286
Other non cash expenses and income	-601	-308
Cash flow before change in net current assets	25,369	40,641
Change in receivables, inventories and prepayments and accrued income	69,340	-19,506
Change in liabilities and accrued liabilities and deferred income	-44,232	10,289
Change in short-term provisions	-1,384	1,913
Cash flow from operating activities	49,093	33,337
Outflows for investment in tangible fixed assets	-24,980	-18,005
Inflows from disposal of tangible fixed assets	7,575	27,493
Outflows for investment in intangible assets	-2,520	-1,091
Inflows from disposal of intangible assets	-	-
Outflows for investment in financial assets	-16,293	-29,472
Inflows from disposal of financial assets	23,230	8,625
Cash flow from investing activities	-12,988	-12,450
Issuance / repayment of short-term financial liabilities	-42,580	-2,315
Issuance / repayment of long-term financial liabilities	24,953	-123
Interests on capital due to the State	-3,200	-3,200
Distribution of dividends to the State	-5,000	-10,000
Cash flow from financing activities	-25,827	-15,638
Cash and cash equivalents at the beginning of the year	48,116	42,867
Cash flow	10,278	5,249
Cash and cash equivalents at the end of the year	58,394	48,116

Statement of changes in equity

	Endowment capital	General reserves	Statutory reserves	Profit brought forward	Result for the year	Total Equity
In CHF 1,000						
Equity at 01.01.2014	40,000	67,000	51,000	247,514	3,516	409,030
Allocation of profit	–	–	–	3,516	–3,516	0
Interests on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of dividends	–	–	–	–10,000	–	–10,000
Result for the year 2014	–	–	–	–	519	519
Equity at 31.12.2014	40,000	67,000	51,000	237,830	519	396,349
Allocation of profit	–	–	–	519	–519	0
Interests on capital due to the State	–	–	–	–3,200	–	–3,200
Distribution of dividends	–	–	–	–5,000	–	–5,000
Result for the year 2015	–	–	–	–	–45,635	–45,635
Equity at 31.12.2015	40,000	67,000	51,000	230,149	–45,635	342,514

Notes to the financial statements

1. Accounting principles

The financial statements 2015 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 26.04.2016.

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

1.1. Tangible fixed assets

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

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

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

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

1.2. Financial assets

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

1.3. Intangible assets

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

1.4. Receivables

Receivables are reported at their face value, taking into account potential losses. Foreign currency receivables are converted at the year-end exchange rates.

1.5. Inventories

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

1.6. Cash and cash equivalents

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

1.7. Impairment

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

1.8. Provisions

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

1.9. Liabilities

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

1.10. Off-balance-sheet transactions

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

1.11. Revenues

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

1.12. Pension funds

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

1.13. Income taxes

AET is not subject to any income tax.

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

2. Tangible fixed assets

	Operating plants and equipment	Land and buildings	Tangible fixed assets under construction	Other tangible fixed assets	Total
In CHF 1,000					
Cost value at 01.01.2014	524,854	43,657	25,366	8,251	602,128
Reclassification	12,475	332	-13,019	-	-212
Additions	-	100	17,793	112	18,005
Disposals	-64,997	-314	-26	-760	-66,097
Cost value at 31.12.2014	472,332	43,775	30,114	7,603	553,824
Reclassification	14,947	12,215	-27,597	318	-117
Additions	5,623	1,304	20,798	145	27,870
Disposals	-9,413	-	-50	-603	-10,066
Cost value at 31.12.2015	483,489	57,294	23,265	7,463	571,511
Accumulated depreciation at 01.01.2014	-283,988	-7,485	0	-6,953	-298,426
Reclassification	-	-	-	-	0
Depreciation	-11,924	-413	-	-442	-12,779
Additions	-	-	-	-	0
Disposals	37,913	180	-	760	38,853
Accumulated depreciation at 31.12.2014	-257,999	-7,718	0	-6,635	-272,352
Reclassification	-	-	-	-	0
Depreciation	-12,741	-540	-	-374	-13,655
Additions	-2,890	-	-	-	-2,890
Disposals	1,536	-	-	603	2,139
Accumulated depreciation at 31.12.2015	-272,094	-8,258	0	-6,406	-286,758
Net carrying amount at 01.01.2014	240,866	36,172	25,366	1,298	303,702
Net carrying amount at 31.12.2014	214,333	36,057	30,114	968	281,472
Net carrying amount at 31.12.2015	211,395	49,036	23,265	1,057	284,753

3. Participations

	31.12.2015	31.12.2014
In CHF 1,000		
Società Elettrica Sopracenerina SA (SES)	37,357	49,750
Lucendro SA	10,071	–
SPE Società per Partecipazioni Energetiche SA	8,000	8,000
TERIS Teleriscaldamento del Bellinzonese SA	6,000	6,000
Metanord SA	5,505	5,505
Parco eolico del San Gottardo SA	2,868	2,868
Senco Holding SA	1,149	1,149
Calore SA	978	978
Capriasca Calore SA	70	–
Total	71,998	74,250

During 2015 AET disposed 17.66% of the shareholders' capital of Società Elettrica Sopracenerina SA (SES) to the Municipalities of its catchment area. On the 02.06.2015 AET acquired 100% of the shareholders' capital of Lucendro SA (formerly Alpiq Hydro Ticino SA). The shares in Metanord SA are pledged in favour of creditors of the company.

4. Long-term securities

	31.12.2015	31.12.2014
In CHF 1,000		
Trianel Kohlekraftwerk Lünen GmbH & Co.KG	37,325	38,178
./ impairment	–20,700	–20,700
Renewable Energy Investments SPC	15,678	15,678
./ impairment	–15,678	–13,200
Swissgrid AG	12,589	11,754
Kraftwerke Mattmark AG	11,959	12,116
AKEB Aktiengesellschaft für Kernenergie-Beteiligungen Luzern	6,300	6,300
Terravent AG	2,250	2,250
Other	125	125
Total	49,848	52,501

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

The shares of Renewable Energy Investments SPC (REI) are booked at their historical cost. The impairment amount was determined on the basis of the critical economic and financial conditions towards which the investment is exposed; the increase of the impairment has been recorded as financial expenses.

In 2015 in the context of the setting of the national power transportation grid, held by Swissgrid AG, AET has sold to Swissgrid AG further parts of its grid which have been included in the scope of the national power transportation grid. As for all transportation grid nationalisation transactions, the disposal consideration consisted in Swissgrid AG shares and loans towards it, thus increasing the participation into Swissgrid AG.

5. Advances and loans to participations

	31.12.2015	31.12.2014
In CHF 1,000		
Swissgrid AG	15,552	23,909
Metanord SA	14,200	13,200
Terravent AG	12,750	12,750
SPE Società per Partecipazioni Energetiche SA	11,403	12,602
./ impairment	–	–200
Other	3,418	1,786
Total	57,323	64,047

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). During 2015 Swissgrid AG reimbursed part of the loan.

The advance to SPE Società per Partecipazioni Energetiche SA (SPE) is subordinated.

6. Intangible assets

	Plant and equipment usage rights	Energy procurement rights	Intangible assets under construction	Other intangible assets	Total
In CHF 1,000					
Cost value at 01.01.2014	9,725	151,583	1,182	7,624	170,114
Reclassification	–	–	–338	550	212
Additions	2,370	–	567	–	2,937
Disposals	–	–	–	–476	–476
Cost value at 31.12.2014	12,095	151,583	1,411	7,698	172,787
Reclassification	–	–	–821	938	117
Additions	3,029	–	469	75	3,573
Disposals	–	–7,028	–39	–59	–7,126
Cost value at 31.12.2015	15,124	144,555	1,020	8,652	169,351
Accumulated amortisation at 01.01.2014	–3,249	–59,828	0	–4,592	–67,669
Reclassification	–	–	–	–	0
Amortisation	–348	–6,528	–	–1,209	–8,085
Additions	–1,846	–	–	–	–1,846
Disposals	–	–	–	476	476
Impairments	–	–16,135	–	–	–16,135
Accumulated amortisation at 31.12.2014	–5,443	–82,491	0	–5,325	–93,259
Reclassification	–	–	–	–	0
Amortisation	–366	–5,394	–	–1,411	–7,171
Additions	–1,053	–	–	–	–1,053
Disposals	–	7,028	–	59	7,087
Impairments	–	–52,900	–	–	–52,900
Accumulated amortisation at 31.12.2015	–6,862	–133,757	0	–6,677	–147,296
Net carrying amount at 01.01.2014	6,476	91,755	1,182	3,032	102,445
Net carrying amount at 31.12.2014	6,652	69,092	1,411	2,373	79,528
Net carrying amount at 31.12.2015	8,262	10,798	1,020	1,975	22,055

The energy procurement rights mainly refer to an energy procurement right from EDF (termination 31.12.2027). Its value impairment has been increased following a further deterioration of its reference market conditions.

7. Receivables from goods and services

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	42,090	103,200
Other related parties	7	183
Third parties	18,084	13,238
Total	60,181	116,621

The balance includes amounts in foreign currency for EUR 46.3 million (EUR 88.9 million at 31.12.2014).

8. Other short-term receivables

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	15,000	–
Other related parties	272	130
Third parties	15,050	10,877
Total	30,322	11,007

Receivables from Group companies are related to Società Elettrica Sopracenerina SA (SES).

9. Inventories

	31.12.2015	31.12.2014
In CHF 1,000		
Stock and consumables	1,887	2,515
Energy related certificates	16,057	28,673
Total	17,944	31,188

The energy related certificates include renewable energy guarantee of origin certificates as well as CO₂ emission rights. Energy related certificates are valued at the lower of cost or market value.

10. Prepayments and accrued income

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	23,341	20,732
Other related parties	6,278	6,223
Third parties	63,889	86,553
Work in progress	3,237	2,209
Total	96,745	115,717

The balance includes amounts in foreign currency for EUR 55.9 million (EUR 68.3 million at 31.12.2014).

11. Cash and cash equivalents

	31.12.2015	31.12.2014
In CHF 1,000		
Balances in CHF	38,331	32,269
Balances in foreign currency (conversion at year-end exchange rate)	20,063	15,847
Total	58,394	48,116

12. Provisions

	Onerous contracts of participations	Indemnifications and plant decommissioning	Personnel related expenses	Other	Total
In CHF 1,000					
Carrying amount at 01.01.2014	13,263	14,908	3,926	2,319	34,416
<i>thereof long-term</i>	12,500	14,908	742	300	28,450
<i>thereof short-term</i>	763	0	3,184	2,019	5,966
Increase	1,582	619	1,168	967	4,336
Utilisation	–	–	–1,296	–90	–1,386
Release	–14	–	–140	–926	–1,080
Carrying amount at 31.12.2014	14,831	15,527	3,658	2,270	36,286
<i>thereof long-term</i>	12,500	15,527	380	0	28,407
<i>thereof short-term</i>	2,331	0	3,278	2,270	7,879
Increase	–	90	8,996	206	9,292
Utilisation	–	–	–863	–983	–1,846
Release	–176	–13,267	–134	–617	–14,194
Carrying amount at 31.12.2015	14,655	2,350	11,657	876	29,538
<i>thereof long-term</i>	12,500	2,350	8,193	0	23,043
<i>thereof short-term</i>	2,155	0	3,464	876	6,495

The provision for onerous contracts of participations covers expected disbursements due to the commitments of AET in respect of the activity of its participations.

The provision for indemnifications and plant decommissioning covers the expected cost of indemnification related to the operation of AET's plants as well as the expected future costs of decommissioning AET plants at the end of their utilisation. The present value at the balance sheet date of the expected expenses is computed by applying a 4% discount rate. The 2015 provision increase is due to the discounting; the provision release has been booked following the ceasing of the associated risk.

13. Long-term financial liabilities

	31.12.2015			31.12.2014		
	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	50,000	–	50,000	65,000	–	65,000
Liabilities due between 5 and 10 years	93,000	–	93,000	73,000	–	73,000
Liabilities due after 10 years	88,000	–	88,000	83,000	–	83,000
Total	231,000	0	231,000	221,000	0	221,000

14. Payables from goods and services

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	15,894	42,533
Other related parties	1,927	2,003
Third parties	12,940	14,887
Total	30,761	59,423

The balance includes amounts in foreign currency for EUR 18.4 million (EUR 36.4 million at 31.12.2014).

15. Short-term financial liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Liabilities towards financial institutions in CHF	–	25,000
Liabilities towards financial institutions in foreign currency	21,748	26,452
Total	21,748	51,452

16. Other short-term liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	10	–
Other related parties	6	2
Third parties	21,887	7,591
Total	21,903	7,593

17. Accrued liabilities and deferred income

	31.12.2015	31.12.2014
In CHF 1,000		
Group companies	5,755	11,408
Other related parties	2,229	–
Third parties	63,495	89,951
Total	71,479	101,359

The balance includes amounts in foreign currency for EUR 50.3 million (EUR 59.0 million at 31.12.2014).

18. Energy sales

	2015	2014
In CHF 1,000		
Energy sales in Switzerland	240,525	290,560
Energy sales in Italy	219,238	321,279
Energy sales in Germany	195,103	218,404
Energy sales in France	80,036	56,865
Other income energy sales	42,968	25,164
Total	777,870	912,272

19. Other operating income

	2015	2014
In CHF 1,000		
Own work capitalised	3,346	2,778
Income from services	10,492	8,215
Other	3,238	3,162
Total	17,076	14,155

20. Energy purchases

	2015	2014
In CHF 1,000		
Purchases from participations	-74,690	-99,868
Long-term contractual purchases	-56,448	-65,123
Purchases on the market	-597,144	-691,982
Total	-728,282	-856,973

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

21. Personnel expenses

	2015	2014
In CHF 1,000		
Salaries and other compensation	-20,842	-21,133
Social contributions	-4,938	-4,646
Other expenses	-465	-430
Recoveries from insurance companies	313	286
Total	-25,932	-25,923

Employees of the company

	31.12.2015	31.12.2014
Full time equivalent		
Permanent employees	191.5	193.1
Auxiliary employees	9.2	9.2
Apprentices	15.0	12.0
Total	215.7	214.3

22. Other operating expenses

	2015	2014
In CHF 1,000		
Water fees to the State	-12,494	-11,358
Local taxes and other contributions	-2,601	-2,015
Other	-6,993	-7,337
Total	-22,088	-20,710

23. Financial result

	2015	2014
In CHF 1,000		
Interest income	2,035	1,768
Income from participations	2,175	452
Exchange rate differences	-8,013	-1,405
Interest payments and commissions	-7,750	-7,478
Other financial expenses	-2,592	-3,647
Total	-14,145	-10,310

Other financial expenses include the impairment increase of the REI securities for CHF 2.5 million (2014: CHF 3.0 million).

24. Extraordinary result

	2015	2014
In CHF 1,000		
Release of provisions	13,267	–
Profit from disposal of non-current assets	190	286
Other extraordinary income	1,140	6,803
Impairments of non-current assets	–52,900	–16,357
Increase of provisions	–8,000	–1,582
Loss from disposal of non-current assets	–126	–
Other extraordinary expenses	–	–1,512
Total	–46,429	–12,362

25. Contingent liabilities

	31.12.2015	31.12.2014
In CHF 1,000		
Guarantees in the interest of:		
Group companies	71,719	117,801
Other related parties	–	–
Third parties	34,515	–
Total	106,234	117,801

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

26. Other non-recognisable commitments

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

Energy purchase contracts and market operations

	Market transactions	Long-term contracts
Cumulative volume in CHF 1,000		
2016	316,552	92,574
from 2 to 5 years	112,308	140,913
over 5 years	–	255,678

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

Finally, AET has entered into an interconnection capacity agreement with expiration 2022 and with an annual volume of CHF 5.1 million (value of the indexed contact based on 2015 prices and year-end exchange rate).

At 31.12.2015 AET has no off-balance sheet lease commitments (31.12.2014: unchanged).

27. Pension benefit obligations

	Coverage rate	Economic benefit/ economic obligations for the company	Change recognised in the result of the period	Expense for contributions of the period	Pension benefit expense in the personnel expenses
31.12.2015					
In CHF 1,000					
CPE Cassa Pensione Energia	100.0%	–	–	–2,070	–2,070
Fondo Pensionamento Anticipato dell'AET	104.2%	–390	–	–613	–613
Total		–390	0	–2,683	–2,683

	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
31.12.2014					
In CHF 1,000					
CPE Cassa Pensione Energia	104.3%	–	–	–1,603	–1,603
Fondo Pensionamento Anticipato dell'AET	106.4%	–578	–	–758	–758
Total		–578	0	–2,361	–2,361

28. Transactions with related parties

Transactions with subsidiaries

	2015	2014
In CHF 1,000		
Energy sales	140,251	158,928
Service and other income	15,429	13,261
Financial income	1,535	68
Energy purchases	68,825	89,133
Service and other expenses	2,195	5,381
Advances paid	12,031	13,102
Receivables from goods and services	41,323	102,495
Prepayments and accrued income	20,612	18,045
Payables from goods and services	15,286	42,533
Accrued liabilities and deferred income	5,755	11,408
Guarantees in favour of creditors	44,915	69,174

Moreover, as of 31.12.2015 AET has a CHF 15 million (31.12.2014: CHF 0 million) short term receivable from its subsidiary Società Elettrica Sopracenerina SA (SES).

Transactions with associates

	2015	2014
In CHF 1,000		
Energy sales	4,672	2,530
Service and other income	431	668
Financial income	–	233
Energy purchases	12,147	–
Service and other expenses	19	16
Advances paid	14,200	13,200
Receivables from goods and services	767	704
Prepayments and accrued income	4,067	2,860
Payables from goods and services	609	–
Accrued liabilities and deferred income	–	–
Guarantees in favour of creditors	26,804	48,627

Transactions with other related parties

	2015	2014
In CHF 1,000		
Energy sales	–	183
Service and other income	113	438
Financial income	508	806
Energy purchases	73,095	99,334
Service and other expenses	837	314
Advances paid	30,910	37,745
Receivables from goods and services	7	183
Prepayments and accrued income	6,729	6,231
Payables from goods and services	1,927	2,003
Accrued liabilities and deferred income	2,229	–
Guarantees in favour of creditors	–	–

29. Risk assessment

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

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

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

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

Counterparty risk: is the risk of loss related to payment default of commercial counterparties. Sales are mainly made to large Swiss and bordering countries power companies. Limits of exposure are fixed for each counterpart, based on their economic and financial situation. Counterparty risk related to the Swiss commercial / distribution activity is managed through the constant monitoring of the receivable positions, the request of bank guarantees or deposits.

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

30. Subsequent events

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

2014: on the 15.01.2015 the Swiss National Bank has discontinued the minimum exchange rate of CHF 1.20 per euro. This caused an immediate appreciation of the CHF. AET executes a significant part of its transactions in euro. On the 20.03.2015 AET and Alpiq Ltd have signed an agreement for the acquisition by AET of the share capital of Alpiq Hydro Ticino SA.

Audit report by Ernst & Young Ltd on the financial statements



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To the Board of Directors

Azienda elettrica ticinese, Monte Carasso

Lugano, 26 April 2016

Report of the independent auditor on the financial statements

As auditor and in accordance with your instructions, we have audited the accompanying financial statements of Azienda elettrica ticinese, which comprise balance sheet, income statement, cash flow statement, statement of changes in equity and notes (from page 65 to 87), for the year ended 31 December 2015.

Board of Directors' responsibility

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

Auditor's responsibility

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

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



Opinion

In our opinion, the financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER.

Ernst & Young Ltd

A handwritten signature in blue ink, appearing to be 'Stefano Caccia', written over the printed name and title.

Stefano Caccia
Licensed audit expert
(Auditor in charge)

A handwritten signature in blue ink, appearing to be 'Claudio Cereghetti', written over the printed name and title.

Claudio Cereghetti
Licensed audit expert

Grand Council auditors' report

AUDITOR'S REPORT

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

Monte Carasso, June 20, 2016

Mr President,
Dear Councillors,

In our capacity as Auditors, in accordance to the "Legge istituyente l'Azienda Elettrica Ticinese", we have conducted our audit procedures on the financial statements for the 2015 financial year.

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

We have also reviewed the Auditors' report dated April 26, 2016, issued by Ernst & Young SA, Lugano, which performed its audit in accordance with art. 727b and 729a of the Swiss Code of Obligations.

Based on our audit, we have ascertained that:

- the financial statements (consisting of balance sheet, income statement, notes and cash flow statement), which have been submitted to us and proposed for publication, agree with the entries of the financial accounting records;
- the financial accounting records have been kept properly;

We have taken note of the consolidated financial statements of the AET Group, certified by Ernst & Young SA with its report dated April 26, 2016.

Based on these considerations, we propose that you:

- approve the financial statements for the year 2015, which closed with a loss for the year of CHF 45'634'240;
- accept the proposal for the allocation of the result presented by the Board of Directors.

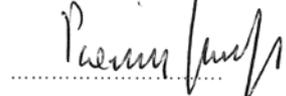
In conclusion, we propose that you discharge the Board of Directors and the Executive Committee for their management during 2015.

The auditors:

Sergio Gianini



Lic. rer. pol. Gianluigi Piazzini



Dr. oec. Giancarlo Prada





At 68.5 metres high and 270 metres long, the Lucendro dam consists of 17 chambers that taper inwards towards its centre. The adoption of this system of construction enabled significant savings to be made in terms of cement and lead times, while nevertheless meeting all the safety requirements.



Today's technology at the service of a product which is almost 80 years old. Modern measuring instruments permit very accurate detection of changes to the dam: temperature changes, minute movements and morphological changes.





A pendulum and a plumb line fixed at the top of the dam allow any lateral shifts in its structure to be detected. This data is correlated with many other parameters and is recorded and interpreted by the engineers in charge of surveillance.

AET Group companies

	Value	Nominal equity at 31.12.2015 in 1,000	Participation at 31.12.2015 %	Participation at 31.12.2014 %
AKEB Aktiengesellschaft für Kernenergie – Beteiligungen Luzern (AKEB), CH-Luzern <i>Nuclear energy participations and offtake rights</i>	CHF	90,000	7.00	7.00
Calore SA, CH-Locarno <i>Thermal energy</i>	CHF	2,000	74.93	83.57
Biomassa Blenio SA, CH-Blenio <i>Biomass thermal energy</i>	CHF	870	24.73	27.58
Capriasca Calore SA, CH-Capriasca <i>Development of a thermal plant</i>	CHF	210	33.33	–
Geo-Energie Suisse AG, CH-Basel <i>Development of geothermal power</i>	CHF	1,900	5.26	5.26
Geopower Basel AG in Liquidation, CH-Basel <i>Development of geothermal power</i>	CHF	–	–	4.76
Kraftwerke Mattmark AG (KW Mattmark), CH-Saas Grund <i>Sub-participation through Axpo Trading AG. Hydroelectric power generation</i>	CHF	90,000	8.41	8.41
Lucendro SA, CH-Airolo <i>Hydroelectric Generation</i>	CHF	3,000	100.00	–
Metanord SA, CH-Bellinzona <i>Gas distribution</i>	CHF	18,594	34.77	36.03
Metanord Ingegneria SA, CH-Bellinzona <i>Engineering services in favour of Metanord SA</i>	CHF	100	34.77	36.03
Parco eolico del San Gottardo SA (PESG), CH-Airolo <i>Wind power, development of a windpark on St. Gotthard</i>	CHF	1,000	70.00	70.00
Renewable Energy Investments SPC (REI), Grand Cayman <i>Investment vehicle in wind power</i>	EUR	50,187	20.09	20.09
Senco Holding SA, CH-Locarno <i>Holding participation into hydroelectric power generation (micro power plants)</i>	CHF	150	76.62	85.45
CEL Bedretto SA, CH-Bedretto <i>Hydroelectric Generation</i>	CHF	200	15.32	17.09
CEL Buseno SA, CH-Buseno <i>Development of a hydroelectric power plant</i>	CHF	100	15.32	17.09
CEL Campo Vallemaggia SA, CH-Campo Vallemaggia <i>Hydroelectric Generation</i>	CHF	200	15.32	17.09
CEL Cauco SA, CH-Cauco <i>Development of a hydroelectric power plant</i>	CHF	100	15.32	17.09
CEL Cerentino SA, CH-Cerentino <i>Hydroelectric Generation</i>	CHF	200	15.32	17.09
CEL Dalpe SA, CH-Dalpe <i>Hydroelectric Generation</i>	CHF	200	13.79	15.38
CEL Lavizzara SA, CH-Lavizzara <i>Development of a hydroelectric power plant</i>	CHF	200	15.32	17.09
Senco Sagl, CH-Locarno <i>Engineering services in favour of hydroelectric power plants promoted by Senco Holding SA</i>	CHF	220	76.62	85.45

	Value	Nominal equity at 31.12.2015 in 1,000	Participation at 31.12.2015 %	Participation at 31.12.2014 %
Società Elettrica Sopracenerina SA (SES) , CH-Locarno <i>Power distribution company</i>	CHF	16,500	53.23	70.89
Energie Rinnovabili Losone (ERL) SA , CH-Losone <i>Biomass thermal energy</i>	CHF	2,700	17.74	23.63
Enerti SA , CH-Monteceneri <i>Service company</i>	CHF	200	17.59	23.43
SES Controlli Sagl , CH-Locarno <i>Service company</i>	CHF	20	21.29	28.36
Società Della Funicolare Locarno - Madonna del Sasso SA (FLMS) , CH-Locarno <i>Ownership and operation of a funicular</i>	CHF	900	7.25	9.66
Società Locarnese di partecipazioni e immobiliare SA (SAP SA) , CH-Locarno <i>Real estate company</i>	CHF	2,064	52.94	70.50
SPE Società per Partecipazioni Energetiche SA (SPE) , CH-Bellinzona <i>Holding company</i>	CHF	8,000	100.00	100.00
AET Italia Holding Srl , I-Milan <i>Holding company</i>	EUR	4,836	100.00	100.00
AET CoGen Srl , I-Milan <i>Gas power generation</i>	EUR	100	–	100.00
AET Idronord Srl , I-Milan <i>Hydroelectric power generation</i>	EUR	100	100.00	90.00
AET Italia SpA , I-Milan <i>Energy sales</i>	EUR	4,000	100.00	100.00
CEG SpA , I-Milan <i>Holding and services</i>	EUR	120	80.00	80.00
Bio Elettricità Occimiano Srl (BEO) , I-Milan <i>Biofuel power generation</i>	EUR	50	80.00	80.00
Bio Energia Guarcino Srl (BEG) , I-Guarcino <i>Biofuel power generation</i>	EUR	1,100	0.80	40.00
Biogen Chivasso Srl , I-Chivasso <i>Biofuel power generation</i>	EUR	20	40.00	40.00
Nord Energia SpA , I-Milan <i>Management of cross-border interconnection power line (Merchant Line)</i>	EUR	10,200	40.00	40.00
CMC MeSta SA , CH-Bellinzona <i>Detention of Mendrisio – Stabio cross-border power line</i>	CHF	14,000	40.00	40.00
Quadra Srl , I-Como <i>Main Contractor for the construction of biofuel power plants</i>	EUR	20	50.00	50.00
Swissgrid AG , CH-Laufenburg <i>Swiss transmission system operator</i>	CHF	316,327	1.70	1.72
TERIS Teleriscaldamento del Bellinzonese SA (TERIS) , CH-Giubiasco <i>Thermal energy from waste</i>	CHF	10,000	60.00	60.00
Terravent AG , CH-Dietikon <i>Wind power generation</i>	CHF	15,000	15.00	15.00
Trianel Kohlekraftwerk Lünen GmbH & Co. KG (TKL) , D-Aachen <i>Coal power generation, Lünen</i>	EUR	147,944	15.84	15.84

Statistical informations

Production and purchases of AET Group

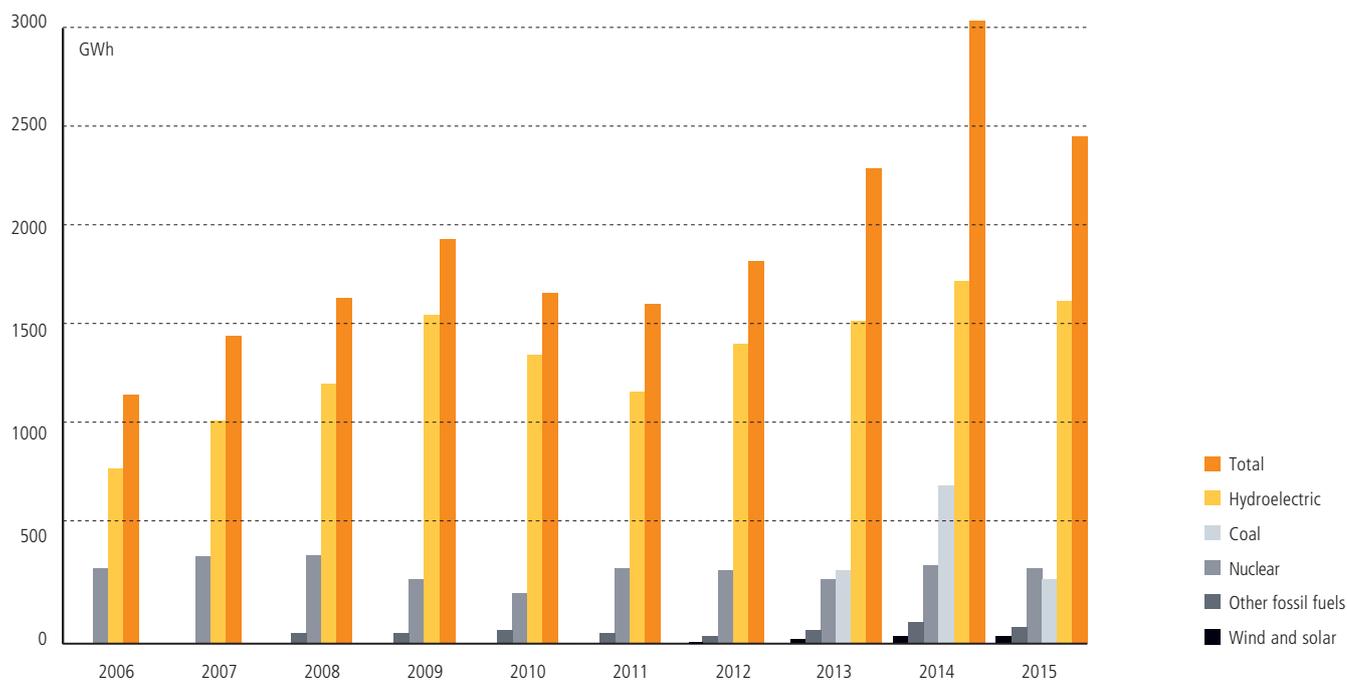
	Winter	Summer	2015	2014
In GWh				
Production AET Group				
AET Biaschina	167	276	443	482
AET Piottino	150	195	345	347
AET Stalvedro	28	39	67	62
AET Ofima exchange	10	43	53	50
AET Ponte Brolla	6	8	14	20
AET Tremorgio	8	1	9	10
AET Idronord	0	0	0	2
AET CoGen	0	0	0	2
Lucendro	31	26	57	–
SES Giumaglio	7	15	22	32
SES Ticinetto	2	8	10	12
Photovoltaic	1	2	3	1
Total production AET Group	410	613	1,023	1,020
Production participations (share attributable to AET Group)				
Maggia	139	149	288	342
Blenio	134	93	227	224
Verzasca	32	41	73	114
KW Mattmark	30	16	46	49
Senco Group	2	4	6	6
Terravent AG	18	14	32	33
AKEB	189	171	360	361
KK Leibstadt	7	6	13	14
CEG Group	34	41	75	102
Trianel TKL	237	73	310	759
Total production participations	822	608	1,430	2,004
Long-term contracts ¹	504	505	1,009	1,008
Purchases on the market	6,934	5,955	12,889	11,465
Total	8,670	7,681	16,351	15,497

¹ Delivery contractualised for more than 5 years

Supply of AET Group

	Winter	Summer	2015	2014
In GWh				
Sales to distribution companies	1,133	967	2,100	2,085
Sales to end customers	748	664	1,412	1,438
Sales on the market	6,776	6,029	12,805	11,917
Own consumption and losses	13	21	34	57
Total	8,670	7,681	16,351	15,497

Production AET Group and participations





A descent along the historical Tremola brings the inspectors to the Airolo plant, where the sheer force of the water accumulated behind the dams is converted into electricity.



Photos:

Sven Stoppani, Lucasdesign (pp. 6-8, 12-100)

Foto Atelier Mattei (p. 4)

Tatiana Scolari, Nikclick (p. 10)

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