

2018 FINANCIAL REPORT

- Report of the statutory auditor on the financial statements for the year 2018
- ISU Annual report 2018



Phone 021 310 23 23
Fax 021 310 23 24
www.bdo.ch

BDO Ltd
Biopôle SC-B - Epalinges
Case postale 7690
CH-1002 Lausanne

To the Congress of the

International Skating Union

Lausanne

Report of the statutory auditor on the financial statements for the year 2018

(for year ended December 31, 2018)

June 5, 2019
9696/15'202'100/2150'0200/115+1-1
JGE/GWE/fdv

REPORT OF THE STATUTORY AUDITOR

To the Congress of the International Skating Union, Lausanne

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of International Skating Union, which comprise the balance sheet as at December 31, 2018, and the income statement, cash flow statement and notes for the year then ended.

Council's Responsibility

The Council is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Association's Constitution and General Regulations. 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 Council is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the 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 December 31, 2018 comply with Swiss law and the Association's Constitution and General Regulations.

Report on Other Legal Requirements

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

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

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

Lausanne, June 5, 2019

BDO Ltd

Jürg Gehring
Licensed Audit Expert
Auditor in Charge

pp Grégoire Weber
Licensed Audit Expert

Enclosures

Financial statements for the year ended December 31, 2018 (balance sheet, income statement, cash flow statement and notes)

INTERNATIONAL SKATING UNION, LAUSANNE**BALANCE SHEET AS OF DECEMBER 31, 2018**

	2018	2017
<u>ASSETS</u>	<u>Swiss Francs</u>	<u>Swiss Francs</u>
<u>Current Assets</u>		
Cash	1 866	2 255
Post / Bank - current accounts	18 295 713	17 868 702
Short Term Deposit	124 211	48 529
Other debtors	33 180	24 226
Current Accounts ISU Members & Officers	1 794 897	1 668 800
Prepaid expenses/rights fees to be cashed/accrued interest	19 576 466	5 547 400
Total Current Assets	39 826 334	25 159 912
<u>Non-Current Assets</u>		
<u>Financial Assets</u>		
Bonds Credit Suisse/Banque Cantonale Vaudoise/UBS	279 428 971	259 737 051
Total Financial Assets	279 428 971	259 737 051
<u>Property and Equipment</u>		
ISU Offices House Schöneck, Davos	1	1
ISU library	1	1
ISU Villa Olivier, Lausanne	5 025 000	5 125 000
Total Property and Equipment	5 025 002	5 125 002
Total Non-Current Assets	284 453 973	264 862 053
TOTAL ASSETS	324 280 307	290 021 965
<u>LIABILITIES & EQUITY</u>		
<u>Short Term Liabilities</u>		
Accounts payables	1 235 315	1 625 834
Accrued expenses	4 844 752	4 392 597
Deferred income	32 566 336	-
Other short term liabilities	2 549 452	375 022
ISU C-Contributions 2013-2017	3 541 861	3 853 207
Total Short Term Liabilities	44 737 716	10 246 660
<u>Long Term Liabilities</u>		
<u>Provisions and reserves</u>		
Legal provision	7 000 000	7 000 000
Reserve for currency exchange loss on bonds	8 000 000	8 000 000
Reserve for currency exchange loss on other financial positions	1 000 000	1 000 000
Total Long Term Liabilities	16 000 000	16 000 000
<u>Equity</u>		
Voluntary retained earnings	263 775 305	258 335 890
Loss for the year	-232 714	5 439 414
Total Equity	263 542 591	263 775 305
TOTAL LIABILITIES & EQUITY	324 280 307	290 021 965

INTERNATIONAL SKATING UNION, LAUSANNE**INCOME STATEMENT JANUARY 1 - DECEMBER 31, 2018**

	2018	2017
	Swiss Francs	Swiss Francs
A. OPERATING INCOMES		
Televisions ISU Events (net)	17 044 403	19 814 844
Advertising ISU Events (net)	6 855 883	7 560 081
Various Incomes	653 797	530 876
Total Incomes/Revenues (except OWG)	24 554 082	27 905 801
Olympic Winter Games (OWG) Revenue cashed	44 232 539	-
Adjustment OWG revenues to Olympic Cycle from deferred income	-33 174 404	9 038 259
OWG Revenue allocation for the year	11 058 135	9 038 259
TOTAL OPERATING INCOMES	35 612 217	36 944 060
B. OPERATING EXPENSES		
1. Contribution for ISU Events & various other events including Prize Money		
Contributions to ISU Championships	11 024 239	10 700 004
Contributions to other ISU and various Events	2 905 692	3 512 815
Total ISU Contributions	13 929 931	14 212 819
Prize Money ISU Championships	1 822 487	1 995 249
Prize Money other ISU & Various Events	2 578 390	2 573 685
Total Prize Money (Championships & other ISU & Various Events)	4 400 877	4 568 934
Total Contributions incl. Prize Money	18 330 808	18 781 753
2. ISU Development Program		
a) Development Program Projects	1 258 576	1 398 314
Administration / Development Commission Office Expenses / Audit	235 380	200 955
Total Development Program Projects	1 493 956	1 599 269
b) Council projects	3 284 872	3 241 509
c) C-Contributions to ISU Members 2018	3 018 915	3 100 000
Release expired C-Contributions 2013/suspended Members	-102 843	-290 202
Total C-Contributions to ISU Members	2 916 072	2 809 798
Total ISU Development Program	7 694 900	7 650 575
Total Contributions to ISU Events & Development Program	26 025 709	26 432 328
3. Other Operating Expenses		
Congress expenses	820 420	25 049
Committee meetings	424 080	377 748
Council and other meetings	236 812	342 862
125th anniversary celebrations	-	484 883
Office Holders Remuneration/secretariale allowances	803 605	859 538
Event Coordinators and external Consultants remuneration	325 739	257 716
Office Holders Travel/Meeting/OWG/Various Expenses	2 463 890	1 051 026
Printed Matters	50 989	37 978
General Doping Control (expenses at events not included)	512 062	493 216
Special Services (Legal)	1 102 584	494 253
Special Services (Insurance)	542 105	502 910
Production videos, Books, CDs / Digitization Video Archives	33 644	290 669
Video Replay System & ISU Judging System maintenance	143 458	160 955
Courses/Seminars/Examinations	710 839	517 900
Media/PR/Statistics/Website	1 283 654	901 731
Other expenses	71 241	58 530
Total ISU Other Operating Expenses	9 525 122	6 856 964

INTERNATIONAL SKATING UNION, LAUSANNE**INCOME STATEMENT JANUARY 1 - DECEMBER 31, 2018**

	2018	2017
	<u>Swiss Francs</u>	<u>Swiss Francs</u>
ISU Office building Lausanne		
Office transformation and improvements	418	13 432
Depreciation	100 000	100 000
Condominium Expenses	120 397	133 589
Allocation to the condominium Renovation Fund	79 445	-
Total ISU Office building Lausanne	<u>300 259</u>	<u>247 021</u>
ISU Secretariat Expenses		
Salaries & Benefits	3 091 427	2 655 424
General Costs (Electricity, cleaning, recruitment, subscriptions, various)	147 499	169 624
Office Material & furniture	17 368	47 969
IT equipment	71 404	89 237
Postage, Fax, Telephone	12 137	16 952
Office Insurance	2 523	2 567
Office Rent Lausanne	2 750	3 250
Total ISU Secretariat Expenses	<u>3 345 108</u>	<u>2 985 022</u>
TOTAL OPERATING EXPENSES	39 196 198	36 521 334
<u>C. OPERATING RESULT</u>	-3 583 982	422 726
<u>D. FINANCIAL INCOMES AND EXPENSES</u>		
Investment interest incomes	5 901 399	6 020 206
Financial expenses (bank expenses and bonds sales/purchases costs)	-1 170 510	-1 058 179
Realized capital gains on bonds	356 546	369 606
Realized capital losses on bonds	-2 426 766	-1 706 030
Realized currency exchange gains	2 355 371	1 753 900
Realized currency exchange losses	-531 627	-542 498
Unrealized losses on Bonds	-4 990 945	-
Unrealized gains on Bonds	3 822 918	-
TOTAL FINANCIAL INCOMES AND EXPENSES	<u>3 316 387</u>	<u>4 837 005</u>
<u>E. OTHER ITEMS</u>		
Extraordinary incomes	62 518	222 041
Extraordinary charges	-11 982	-24 461
Taxes/provision for taxes	-15 655	-17 897
TOTAL OTHER ITEMS	<u>34 880</u>	<u>179 683</u>
<u>F. PROFIT/LOSS FOR THE YEAR</u>	-232 714	5 439 414

INTERNATIONAL SKATING UNION, LAUSANNE**CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>2018</u>	<u>2017</u>
	<u>Swiss Francs</u>	<u>Swiss Francs</u>
Profit for the year :	-232 714	5 439 414
Depreciation on tangible fixed assets	100 000	100 000
Non monetary adjustment on Juste-Olivier previous year investment	-	-
Current assets - decrease / (increase) :		
Short term deposit	-75 682	8 080 680
Other debtors	-9 186	-423
Current account ISU Members & Officers	-126 097	-526 950
Prepaid expenses	-14 029 066	-2 285 205
Short term liabilities - increase / (decrease)		
Accounts payables	-390 519	229 997
Accrued expenses	452 155	656 625
Deferred income	32 566 336	-9 038 259
Other short-term liabilities	2 174 662	76 086
ISU C-Contributions	-311 346	-1 220 411
Cash flow from operating activities	<u>20 118 543</u>	<u>1 511 555</u>
Investments in Financial assets	-19 691 921	2 023 885
Other cash flows from investing activities	-	-
Cash flow from investment activities	<u>-19 691 921</u>	<u>2 023 885</u>
NET CASH FLOW IN CASH AND CASH EQUIVALENT	<u>426 622</u>	<u>3 535 441</u>
Cash and cash equivalents on January 1st	17 870 957	14 335 516
Cash and cash equivalents on December 31st	18 297 579	17 870 957
NET CASH FLOW IN CASH AND CASH EQUIVALENT	<u>426 622</u>	<u>3 535 441</u>

INTERNATIONAL SKATING UNION, Lausanne

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

GENERAL

The International Skating Union (herein called the "ISU"), founded in 1892, is the exclusive international sport federation (IF) recognized by the International Olympic Committee (IOC) administering Figure Skating and Speed Skating Sports throughout the world. The ISU is composed of the individual national associations (herein called "ISU Members") which administer these Sports at the national level and which recognize that all international matters are under the sole jurisdiction and control of the ISU.

GENERAL ACCOUNTING PRINCIPLES

These financial statements were prepared according to the provisions of the Swiss Code of Obligations (CO 957-962). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Please note that all numbers are rounded. Therefore, some totals may show a difference of +/- 1.

ASSETS

The Assets are composed as follows:

	31.12.2018		31.12.2017	
	CHF	%	CHF	%
<u>Current Assets</u>				
Cash / Bank	18'297'579	6	17'870'957	6
Short Term Deposit	124'211	0	48'529	0
Current Accounts ISU Members & Officers	1'828'077	1	1'668'800	1
Other debtors/Prepaid expenses/Rights fees to be cashed/accrued interest	19'576'466	6	5'571'626	2
<u>Long Term Investments</u>				
Bonds	279'428'971	86	259'737'051	90
Properties	5'025'002	2	5'125'002	2
Total Assets	<u>324'280'307</u>	<u>100</u>	<u>290'021'965</u>	<u>100</u>

The balances of the bank current accounts in foreign currencies have been recorded at the closing rate issued by the Swiss tax authorities as of December 31, 2018.

The Current Accounts ISU Members & Officers are mostly related to payments of ISU Championships contributions to ISU Members for Championships to be held in 2019.

The "other debtors/prepaid expenses/rights fees to be cashed/accrued interest" amounting to CHF 19'576'466 (2017 total CHF 1'573'173) are composed of the IOC-3rd payment of the revenue distribution for the OWG 2018 (CHF 15'869'119), interest income on bonds accrued at year-end (CHF 1'444'103), IMG income cashed in 2019 but related to 2018 (CHF 1'797'342) as well as various accrued amounts (CHF 465'902).

The book value of the new ISU office property in Lausanne amounts to CHF 5'025'000 after a fourth year depreciation of CHF 100'000 (2017 CHF 100'000).

The former ISU offices in Davos (currently rented out) as well as the library are presented in the balance sheet at the same value as the previous year, i.e. at CHF 1 each.

INTERNATIONAL SKATING UNION, Lausanne

The **exchange rates** of the foreign currencies against the CHF (based on those of the tax authorities) were:

	31.12.2018	31.12.2017	variation %	Average exchange rates for 2018
USD	0.9857	1.0039	-1.81	0.97804
EUR	1.1269	1.1744	-4.04	1.15486
GBP	1.2555	1.3238	-5.16	1.30553

The average interest rates, and the rates of the bonds showed the following average changes during 2018:

	Average Interest rates		2018	
	2018	2017	variation points	variation %
USD	2.42%	2.55%	USD -0.127	-4.97
EUR	1.40%	1.56%	EUR -0.156	-10.03
GBP	2.50%	2.50%	GBP 0.000	0.00
CHF	0.74%	0.98%	CHF -0.235	-24.09

FINANCIAL ASSETS PORTFOLIO

The market value of the Financial Assets Portfolio (bonds and short-term fiduciary deposits) has increased by CHF 18'676'606 during the year 2018. The breakdown by currency, at market value, is as follows:

	31.12.2018		31.12.2017	
	CHF	%	CHF	%
USD	232'529'491	83	204'283'069	78
GBP	326'486	0	350'590	0
EUR	28'595'682	10	37'985'663	15
CHF	18'101'525	6	18'257'255	7
Market value	279'553'183	100	260'876'577	100
Short Term deposit	124'211		48'529	
Long Term bonds	279'428'971		259'737'050	
Book value	279'553'182		259'785'579	

The bonds and short-term deposits are accounted for and presented in the balance sheet at their market value. This change in the evaluation method compared to previous years is in line with Swiss Law and will consistently be applied in the future.

Taking into account the substantial total amount of the Financial Asset Portfolio, the reserve for currency exchange loss on bonds was left unchanged at CHF 8'000'000, representing about 2.85 % of the bond portfolio. The reserve for currency exchange loss on other financial positions remained unchanged at CHF 1'000'000.

LIABILITIES

The accounts payables are formed by the current payable accounts with ISU Members & Officers, and other creditors which amount to CHF 1'235'315 as of December 31, 2018.

The accrued expenses as of December 31, 2018 amount to CHF 4'844'752. This amount is composed of expenses for which the invoices have not been received at year-end. In line with a long-standing practice, the Olympic Winter Games (OWG) revenue is equally allocated throughout the years of the Olympic cycle.

INTERNATIONAL SKATING UNION, Lausanne

Consequently, the income emanating from the PyeongChang 2018 OWG will be equally allocated over the years 2018, 2019, 2020 and 2021. Other short-term liabilities concern pending VAT payments.

ISU Development Program C-Contributions: the provision as of December 31, 2018 for the contributions payable to ISU Members amounts to CHF 3'541'861. CHF 3'018'915 concerns contributions allocated to ISU Members during the year 2018 which are expected to be paid mostly in 2019. The balance refers to allocated contributions during the years 2013-2017 which have not been claimed by the concerned ISU Members and/or for which the concerned ISU Members have not yet provided the required reports. After 5 years, the ISU Members' right to claim pending contributions will expire.

SPECIAL PROVISIONS / RESERVES

Legal Provision:

The provision for expenses related to legal cases as of December 31, 2018 amounts to CHF 7'000'000. This amount was deemed sufficient and remained unchanged compared to 2017.

For the Reserve for currency exchange loss on bonds and reserve for currency exchange loss on other financial positions, please refer to the above section Financial Assets Portfolio.

INCOME STATEMENT ANALYSIS

The Loss for the year 2018 amounts to CHF 232'714 which, compared to the year 2017 (profit of CHF 5'439'414), represents a decrease in the profit of CHF 5'672'128. This variance to 2017 is the result of

- Lower operating incomes in 2018 compared to 2017 of CHF 1.33 million
- Higher operating expenses in 2018 than in 2017 of CHF 2.68 million
- Lower financial income in 2018 than in 2017 of CHF 1.52 million, mainly due to a net unrealized loss on bonds of CHF. 1.16 million
- Lower "other items" incomes compared to previous years in 2018 than 2017 of CHF 0.15 million.

For details please refer to Appendix A – "Detailed Variances between the 2018 and 2017 Income Statements".

In comparison to the 2018 Budget of CHF -5'930'000, the loss represents a positive variance of CHF 5'697'287. The better than expected 2018 profit compared to the Budget can be summarized by the following basic developments:

- Higher than budgeted incomes of CHF 3.2 million, in particular an increased contribution received from the International Olympic Committee (IOC) related to the 2018 OWG
- ISU contributions to ISU Championships and other ISU Events were lower than budgeted of CHF 2.96 million. It must be noted that the budget for the years 2018 through 2020 accepted by the 2018 ISU Congress included a substantial amount of targeted contributions and/or budget amounts to be used at the discretion of the Council. For the year 2018, the allocation of such targeted contributions and discretionary amounts was limited, mainly due to time restrictions (only half a season left after the Congress) and also due to the fact that an allocation for ISU Events in China and the Republic of Korea, which were both key targets, was not possible since none of the planned ISU Events could be held in these territories for reasons outside the control of the ISU.
- The budget for the Development Program was under-spent by CHF 1.41 million
- Not budgeted "Other items" income amounting to CHF 0.06 million
- On the other hand, the financial income was lower than budgeted by CHF 1.7 million, mainly due to a change in the evaluation method of the financial assets
- The "Other Operating Expenses" were higher than budgeted by CHF 0.24 million.

For details please refer to Appendix B – "Detailed Variances between the 2018 actual figures and 2018 Budget".

INTERNATIONAL SKATING UNION, Lausanne

Development Program

	<u>2018</u>
Payments made and promised for Development Projects:	CHF 1'258'576
Administration / Development Commission Office Expenses / Audit:	CHF <u>235'380</u>
Total Development Projects	CHF 1'493'956

Council Projects including Junior Grand Prix of Figure Skating,
Junior World Cup Speed Skating, Short Track Junior Challenge,
Danubia and Star Class Short Track Series
& Worldwide Figure Skating Seminars
eLearning, Centers of Excellence

Total Council Projects CHF 3'284'872

ISU C-Contributions:

Release of expired Contributions 2013/suspended ISU Members	CHF - 102'843
Contributions attributed in 2018	CHF <u>3'018'915</u>
Total ISU Contributions	CHF 2'916'072

Total amount expended for the Development Program during 2018 CHF 7'694'900

Compared with the 2018 Development Program Budget of CHF 9'105'000 this represents an unused budget amount of CHF 1'410'100. One of the reasons for not having used the whole Development Program budget is due to ISU Members still adapting to the revised procedures in place for ISU Development Projects (ISU Communication 2052) resulting in a slower application process. The other reason is that the development of the e-learning platform as well as the Centers of Excellence (Council Projects) progressed much slower than anticipated and consequently resulted in lower expenditures.

To be noted that since October 2016 an Internal Controller monitors the financial aspect of the Development Program. Also, if necessary, the Council mandates external audits of Development Program Projects.

FINANCIAL INCOMES AND EXPENSES

In accordance with the latest Swiss accounting standards, financial incomes and expenses must be reported separately from the operating incomes and expenses.

The interest income during 2018 declined due to the continued low interest rate market conditions.

The bonds and short-term deposits are accounted for and presented in the balance sheet at their market value. In line with Swiss Law, this represents a change in the evaluation method compared to previous years and will consistently be applied in the future. It also means that unrealized gains and losses on bonds are being taken into account, however without including the future interest income. For the year 2018 this conservative approach results in a book loss on unrealized gains and losses on bonds of CHF 1'168'027.

OTHER ITEMS

The tax authorities have granted the ISU a tax exemption regarding its income and capital taxes on a cantonal, communal and federal level. The only taxes applicable to the ISU relate to its real estate properties in Davos.

At December 31, 2018, the ISU has cashed a total amount of CHF 62'518. This amount concerns incomes relating to previous years that could not have been previously anticipated.

INTERNATIONAL SKATING UNION, Lausanne

OTHER INFORMATION

ISU Secretariat Staffing

During 2018, the ISU Secretariat employed an average of 13 full-time employees, and 9 part-time employees (full-time equivalent of 18.8, vs 16.7 in 2017). The "Salaries & Benefits" amount included in the Income Statement includes a provision for accrued overtime and holidays amounting to CHF 322'417.

ISU Event Coordinators and Consultants

During 2018, the ISU contracted two Figure Skating Event Coordinators, one Short Track Speed Skating Coordinator (also acting as Sports Director Speed Skating) and one Event Coordinator Speed Skating. The ISU also has a consultancy agreement with two Figure Skating specialists who work on specific tasks assigned to them on a case-by-case basis. The Event Coordinators and Consultants are remunerated based on a daily rate.

ISU Indemnity Policy

In line with the ISU Indemnity Policy (ISU Circular Letter No 619) ISU Office Holders receive Office Expenses paid in an annual lumpsum. A limited number of Office Holders, depending on their function and subject to their ISU workload exceeding a reasonable level that can be expected from an elected or appointed volunteer Office Holder, receive Secretarial allowances, or a fixed remuneration. During 2018 this applied to 18 Office Holders.

External Audit

The ISU accrued CHF 39'070 for the fees of BDO SA related to the audit of the financial statements 2018. Other audit services and audit-related fees were charged during 2018 by BDO SA, as well as other non-audit services for a total of CHF 56'555.

Significant events after the balance sheet date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities at year-end 2018 or which should be disclosed here.

Appendix "A"**DETAILED VARIANCES BETWEEN THE 2018 AND 2017 INCOME STATEMENTS**

	<u>2018</u>	<u>2017</u>	<u>Difference</u>	<u>Comments/Explanations</u> <u>of differences between 2018 and 2017</u>
In Swiss Francs				
A. OPERATING INCOMES				
Television ISU Events (net)	17 044 403	19 814 844	-2 770 442	World Team Trophy income in 2017 but not in 2018 (-2'250'000) Several variances resulting in additional/extra income in 2018 vs 2017 (+44'200) Favorable currency exchange rate USD/EUR vs CHF in 2017 vs 2018 (-564'641)
Advertising ISU Events (net)	6 855 883	7 560 081	-704 198	IMG: additional income in 2018 (+1'142'103) World Team Trophy advertsing income IMG in 2017 but not 2018 (-54'810) Short Track advertising income reduced in 2018 due to cancellation & lack of sponsor agreements since no ISU Events held in China & Republic of Korea (-1'145'967) Speed Skating advertising additional income in 2018 (+190) Favorable currency exchange rate USD/EUR vs CHF in 2017 vs 2018 (-645'714)
Olympic Winter Games (OWG)	11 058 135	9 038 259	2 019 876	Final gross IOC income related to the 2018 OWG higher than budgeted
Various Income	653 797	530 876	122 921	Higher income in 2018 mainly due to Insurance reimbursement of legal expenses related to EU Commission case
Total Operating Incomes	35 612 217	36 944 060	-1 331 843	
B. OPERATING EXPENSES				
1. Contributions to ISU Events & various other events including Prize Money				
Contributions ISU Championships	11 024 239	10 700 004	324 235	Reduced contributions towards ISU Four Continents Figure Skating Championships 2017 since OWG Test Event (+865'000) ISU World Single Distances Speed Skating Championships not held in 2018 (-440'000) Various variances (-100'765)

Appendix "A"**DETAILED VARIANCES BETWEEN THE 2018 AND 2017 INCOME STATEMENTS**

	<u>2018</u>	<u>2017</u>	<u>Difference</u>	<u>Comments/Explanations of differences between 2018 and 2017</u>
In Swiss Francs				
Contributions Other ISU Events & various events	2 905 692	3 512 815	-607 123	Only 4 ISU World Cups Short Track in 2018 vs 6 in 2017 (+300'000) Figure Skating Qualifying Competition held in 2017 but not in 2018 (+200'000) Shanghai Trophy held in 2017 but not in 2018 (+100'000) Various variances (+7'123)
Prize Money ISU Events & various events	4 400 877	4 568 934	-168 057	ISU World Single Distances Speed Skating Championships not held in 2018 (+168'000)
Total contributions ISU Events	18 330 808	18 781 753	-450 944	
2. ISU Development Program				
Development projects	1 493 956	1 599 269	-105 313	
Council projects	3 284 872	3 241 509	43 364	
Contributions to ISU Members	2 916 072	2 809 798	106 275	
Total Development Program	7 694 900	7 650 575	44 325	Refer to the Notes to the Financial Statements
Total contributions to ISU Events & Development Program	26 025 709	26 432 328	-406 619	
3. Other Operating Expenses	9 525 122	6 856 964	2 668 159	The main variances emanate from: Additional costs in 2018 due to Congress (-795'000) Legal expenses increased in 2018 (-610'000) but partly recovered from insurance (see Various Income) Increase of PR/media activities & expenses in 2018 (-380'000) 2018 OWG related expenses, in particular cancellation insurance & complimentary tickets invoiced by IOC to ISU (-900'000) Higher Office Holders Travel expenses due to OWG in Asia & other various variances (-220'000) 125th Anniversary cost in 2017 but not in 2018 (+485'000) Various variances (-250'000)

INTERNATIONAL SKATING UNION, Lausanne

Appendix "A"**DETAILED VARIANCES BETWEEN THE 2018 AND 2017 INCOME STATEMENTS**

	<u>2018</u>	<u>2017</u>	<u>Difference</u>	<u>Comments/Explanations</u> <u>of differences between 2018 and 2017</u>
In Swiss Francs				
ISU Office building Lausanne	300 259	247 021	53 239	Higher expenses in 2018 for renovation by building co-owners of surrounding landscape
ISU Secretariat expenses	3 345 108	2 985 022	360 086	Higher expenses in 2018 due to increased ISU Secretariat tasks and staffing
Total Operating Expenses	39 196 198	36 521 334	2 674 865	
C. OPERATING RESULT	-3 583 982	422 726	-4 006 708	
D. FINANCIAL INCOME & EXPENSES				
Investment interest incomes	5 901 399	6 020 206	-118 807	
Financial expenses	-1 170 510	-1 058 179	-112 331	
Realized capital gains on bonds	356 546	369 606	-13 060	
Realized capital losses on bonds	-2 426 766	-1 706 030	-720 736	
Realized currency exchange gain	2 355 371	1 753 900	601 471	
Realized currency exchange loss	-531 627	-542 498	10 871	
Unrealized losses on Bonds	-4 990 945		-4 990 945	
Unrealized gains on Bonds	3 822 918		3 822 918	
Total Fin. Incomes/Expenses	3 316 387	4 837 006	-1 520 618	Refer to the Notes to the Financial Statements
E. OTHER ITEMS				
Taxes	-15 655	-17 897	2 242	
Prev. Year extraordinary incomes	62 518	222 041	-159 524	
Prev. Year extraordinary charges	-11 982	-24 461	12 479	
Total Other Items	34 880	179 683	-144 803	
F. PROFIT/LOSS OF THE YEAR	-232 714	5 439 415	-5 672 129	

INTERNATIONAL SKATING UNION, Lausanne

Appendix "B"

DETAILED VARIANCES BETWEEN THE 2018 ACTUAL FIGURES AND 2018 BUDGET

In Swiss Francs	<u>2018</u>	<u>2018</u> <u>Budget</u>	<u>Difference</u>	<u>Comments/Explanations</u> <u>of differences between actual and Budget</u>
A. OPERATING INCOMES				
Television ISU Events (net)	17 044 403	16 890 000	154 403	Various over & under-budgeted incomes net over-budgeted (-116'384) Favorable currency exchange rates USD/EUR vs CHF actual vs Budget (+270'787)
Advertising ISU Events (net)	6 855 883	6 320 000	535 883	IMG income under-budgeted (+463'790) IMG income favorable currency exchange rate USD vs CHF actual vs Budget (+351'345) Speed Skating Championships/World Cups incomes under-budgeted (+125'190) Short Track Championships/World Cups incomes over-budgeted - sharply reduced incomes since no ISU Events held in China and Rep. of Korea. (-401'942) Various variances/rounding Budget (-2'500)
Olympic Winter Games (OWG)	11 058 135	9 000 000	2 058 135	Final actual IOC income related to the 2018 OWG higher than budgetd
Various Income	653 797	200 000	453 797	Various incomes under-budgeted, in particular: AIOWF annual development contribution higher than budgeted (+50'000) Reimbursement from insurance for EU Commission legal expenses (+263'362) IOC Development contribution not budgeted (+70'409) Various variances (+70'026)
Total Operating Incomes	35 612 217	32 410 000	3 202 217	
B. OPERATING EXPENSES				
1. Contributions to ISU Events & various other events including Prize Money				
Contributions ISU Championships	11 024 239	11 920 000	-895 761	Favorable currency exchange rates actual vs Budget (+210'317) Indirect Championships expenses over-budgeted (+369'735) Targeted contributions over-budgeted (+307'709) Various variances/rounding Budget (+8'000)

Appendix "B"**DETAILED VARIANCES BETWEEN THE 2018 ACTUAL FIGURES AND 2018 BUDGET**

	<u>2018</u>	<u>2018</u> <u>Budget</u>	<u>Difference</u>	<u>Comments/Explanations</u> <u>of differences between actual and Budget</u>
In Swiss Francs				
Contributions Other ISU Events & various events	2 905 692	4 300 000	-1 394 308	Favorable currency exchange rates USD/CHF vs Budget (+6'425) ISU World Cup Speed Skating expenses over-budgeted (+533'354) ISU World Cup Short Track expenses over-budgeted (+297'959) ISU Grand Prix of Figure Skating expenses over-budgeted (+259'434) Shanghai Trophy budgeted but not held (+105'000) Budgeted Council discretion not used (+200'000) Various variances/rounding Budget (-7'864)
Prize Money ISU Events & various events	4 400 877	5 070 000	-669 123	Favorable currency exchange rate USD/CHF vs Budget (+138'373) Prize Money Junior Grand Prix included in Development Program Budget but erroneously double budgeted also under Prize Money (+322'500) Council discretion budgeted but not used (+200'000) Various variances/rounding Budget (+8'250)
Total contributions ISU Events	18 330 808	21 290 000	-2 959 192	
2. ISU Development Program				
Development projects	1 493 956	2 300 000	-806 044	
Council projects	3 284 872	3 830 000	-545 128	
Contributions to ISU Members	2 916 072	2 975 000	-58 928	
Total Development Program	7 694 900	9 105 000	-1 410 100	
Total contributions to ISU Events & Development Program	26 025 708	30 395 000	-4 369 292	

INTERNATIONAL SKATING UNION, Lausanne

Appendix "B"

DETAILED VARIANCES BETWEEN THE 2018 ACTUAL FIGURES AND 2018 BUDGET

	<u>2018</u>	<u>2018</u> <u>Budget</u>	<u>Difference</u>	<u>Comments/Explanations</u> <u>of differences between actual and Budget</u>
In Swiss Francs				
3. Other Operating Expenses	9 525 122	9 286 000	239 122	Congress expenses under-budgeted (-250'420)
				Legal expenses under-budgeted (-502'584) but partly recovered from insurance (See Various Incomes)
				Media/PR over-budgeted (+151'346)
				Doping expenses over-budgeted (+152'938)
				Courses/Seminars expenses over-budgeted (+309'161)
				Office Holders travel/meeting expenses incl. OWG over-budgeted (+198'263)
				Secretarial Allowances/remuneration to Office Holders/Coordinators/Consultants under-budgeted (-262'389)
				Various variances (-35'437)
ISU Office building Lausanne	300 259	240 000	60 259	Higher than budgeted landscape renovation cost
ISU Secretariat expenses	3 345 108	3 410 000	-64 892	Slower than expected staffing increase
Total Operating Expenses	39 196 197	43 331 000	-4 134 803	
C. OPERATING RESULT	-3 583 980	-10 921 000	7 337 020	
D. FINANCIAL INCOME & EXPENSES				
Investment interest incomes	5 901 399	6 116 000	-214 601	
Financial expenses	-1 170 510	-1 100 000	-70 510	
Realized capital gains on bonds	356 546		356 546	
Realized capital losses on bonds	-2 426 766		-2 426 766	
Realized currency exchange gain	2 355 371		2 355 371	
Realized currency exchange loss	-531 627		-531 627	
Unrealized losses on Bonds	-4 990 945		-4 990 945	
Unrealized gains on Bonds	3 822 918		3 822 918	
Total Fin. Incomes/Expenses	3 316 387	5 016 000	-1 699 613	Refer to the Notes to the Financial Statements
E. OTHER ITEMS				
Taxes	-15 655	-25 000	9 345	
Prev. Year extraordinary incomes	62 517		62 517	
Prev. Year extraordinary charges	-11 982		-11 982	
Total Other Items	34 880	-25 000	59 880	
F. PROFIT/<u>LOSS</u> OF THE YEAR	-232 713	-5 930 000	5 697 287	

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ISU Workforce

During 2018 the ISU Secretariat employed an average of 13 full-time employees and 9 part-time employees (between 40% and 90% - full-time equivalent of 18.8 employees). In addition, the ISU contracted freelance personnel in the area of Event Coordination, sports technical monitoring and media coverage as follows:

- 2 persons as Sports Directors Figure Skating (1 full-time, 1 part-time)
- 2 persons as Event Coordinators Figure Skating (part-time)
- 1 person as Event Coordinator Short Track and Sports Director Speed Skating (part-time)
- 1 person as Event Coordinator Speed Skating (part-time)
- 2 Consultants with Figure Skating expertise (part-time)
- 1 freelancer for media services at ISU Figure Skating Events (part-time)
- 1 freelancer for media services at ISU Speed Skating Events (part-time)
- 1 freelancer for media services at ISU Short Track Events (part-time)
- 1 photographer at every ISU Event (part-time)

The ISU furthermore relies on volunteer-based elected and/or appointed Office Holders serving on the ISU Council (13), ISU Technical Committees (31), ISU Disciplinary Commission (5), Legal Advisors (2), Treasurer (1), Medical Commission (8), Development Commission (3), and Athletes Commission (5).

Commercial/economic situation and prospects

As an Olympic Winter Sport Federation, the ISU continues to benefit from world-wide media coverage of ISU Events and the related revenues in the form of TV rights agreements and sponsorship agreements. In the area of TV rights agreements, the revenues and concluded commercial agreements confirmed a stable situation that is expected to continue for the coming 2-3 years. The conclusion of sponsorship agreements, on the other hand, is becoming more difficult with an increasingly competitive market place being the main reason. In this context, the ISU has for the time being been unable to replace the Speed Skating Title Sponsor with a similarly lucrative agreement. Also, the ISU was unable to maintain sponsorship agreements in the key markets for Short Track Speed Skating, namely China and the Republic of Korea. This situation is due to the fact that the ISU Members in those countries were, for different reasons, unable to host ISU Short Track Speed Skating Events during the 2018/19 season.

Thanks to its long-standing conservative investment policy, the ISU has managed to secure substantial reserves in the form of high rated bonds (see the Balance Sheet) that ensure a substantial annual interest income independent from commercial partners' interests.

Thanks to the ISU sport disciplines being an important factor for the success of the Olympic Winter Games, the ISU can also continue to count on significant revenues emanating from the IOC. After the successful 2018 Olympic Winter Games (OWG) in South Korea, these incomes have increased compared to the 2014 OWG and are again close to the level of the 2010 OWG of Vancouver.

Risk Evaluation

Mindful of the strong competition among sports and entertainment in general and the challenge of continuously finding ways to attract a larger and possibly younger global audience, the ISU continues to step up its efforts and budget in this area as well as cooperation with its media and marketing partners and the ISU Members organizing ISU Events. In the critical area of Public Relations and Marketing, particular attention is given to:

- Reviewing ISU Event formats in order to ensure compact and attractive ISU Events while at the same time allowing the broadest possible participation among ISU Members. Specific evaluations are under way in particular for the ISU World Figure Skating Championships and the ISU World Speed Skating Championships formats. Also, the ISU continues to study, and if promising to pursue, the development of new disciplines in order to attract a younger and broader audience.
- Expanding digital engagement and content (social media, ISU website, App development)
- Improving event presentation, event promotion and fan engagement
- Exploring new sponsorship possibilities, including in new markets.

The challenges and risks in the area of Event organization and management continue to increase due to higher demands from the public, media and related commercial partners. The training of a broader base of skilled individuals is increasingly important to maintain high quality ISU Events. Failing to do so might have detrimental consequences, especially related to the incomes to be secured through commercial agreements. Consequently, the ISU is continuously striving to broaden and strengthen its Event management teams.

Mindful of the importance of good governance to avoid the risk of losing its good reputation and credibility, the ISU continues to pursue its reforms in favor of good governance principles, in particular, transparency, sustainability, internal controls and data protection. In this context, the ISU maintains a long-standing, high-profile Anti-Doping program thanks to an experienced Medical Commission supported by highly qualified and experienced Anti-Doping managers at the ISU Secretariat. Taking into account the increasing call for the Anti-Doping monitoring by independent entities, the ISU is exploring possible collaborations with independent bodies but on the condition that the quality and cost efficiency of the services remain at least at the current level.

Research and Development Activities

The ISU continues to run its high-profile Development Program through its Development Commission, dedicated Project Groups for eLearning and Centers of Excellence and an increased number of employees at the Secretariat. The ISU will continue to monitor closely the program's effectiveness and apply adjustments, if and when appropriate, with the focus on the following priorities:

- Implementing an ISU eLearning management system
- Establishing ISU Centers of Excellence
- Creating an ISU international education program for Skating Coaches
- Increasing the quality of ISU Officials
- Increasing the number of participating ISU Members, sharing development project results and evaluating the impact of the program.

Exceptional events

Two complex and costly litigations remain pending at the time of writing of this report, namely

- The Pechstein doping case whereas the Pechstein party appeal is pending at the German Constitutional Court.
- The European Union Commission December 8, 2017 decision relating to the ISU eligibility rules. In summary, after a long procedure, the EU Commission concluded that the ISU indeed violated the EU competition rules but the EU Commission did not impose any penalty and offered remedy procedures to adjust the ISU Rules to become compliant with EU competition rules. While the ISU appeal against the EU Commission remains pending, a remedy settlement was achieved in due time for the 2018 ISU Congress and formalized in the updated eligibility Rules (Rule 102) as well as the ISU Communication No. 2171 'Open International Competitions' which also

relates to competitions organized by third-party organizers (not ISU Member federations). It is worthwhile to note that the International Federation (IF) pre-authorization principle for international competitions organized by third-party organizers prevails. Also, the IF role in the development of the sport was recognized by the EU Commission and in the case of the ISU, a solidarity contribution can be claimed from third-party organizers (ISU Communication No. 2171, Para B.).

The ISU Legal Advisors, in cooperation with outside legal counsel and the Director General, are monitoring both cases very closely. For the EU Commission investigation, the ISU is also consulting with the IOC and other International Federations. In addition, both cases result in a substantial workload for the concerned ISU Office Holders and divert precious energy from positive projects.

Outlook

In the short term, until the 2022 Congress, the better than expected income situation for the years 2016 through 2018 allows and justifies the budgeting of losses for the budget years 2019 through 2022 in order to satisfy the ever-increasing needs of funding ISU activities. After 2022 however, increased revenues will be needed in order to maintain the current level of expenditures without using the ISU reserves.

In the long term there are too many unknown factors in the economic and sports governance areas, and therefore no reasonable forecasts can be made.

Lausanne, June 2019

ISU Council