

Status Report to the 2016 ISU Congress on the Four Year Plan 2014/15-2017/18

Committee/Commission: ISU Council/Treasurer/ISU Secretariat

Project/Function/Area of Activity: Finance and Accounting

The ISU Council, the Treasurer, Director General and ISU Secretariat have performed activities according to plan and have achieved the results and benefits forecast in the 2014/15-2017/18 Four Year Plan. Since the 2014 Congress, the following areas required and will require specific attention:

The annual auditing of the ISU's financial systems and activity continued to show that the control systems in place are robust and effective.

The ISU Secretariat maintained the necessary summary of Internal Control Systems which is subject to the review of the External Auditors, who confirmed formally that appropriate Internal Control Systems are indeed in place and continuously updated. Based on the recommendation of the external auditors, a change of the ISU Constitution, Art. 18/d), e), f) has been included in the Congress Agenda (Council Proposal No. 39) in order to make the internal contract/payment approval procedure more consistent.

One staff position still to be filled during 2016 refers to an Internal Controller who shall probe each proposed Development Project budget for its value and rational. The Council believes that a sound test of each proposed project and related budget is more effective than costly audits of completed projects mandated by the ISU. Such random audits on specific completed projects merely can confirm whether the approved project has been implemented within the approved limits. Such audits however fall short of evaluating whether the different expense items were actually necessary and/or whether more cost effective options might have been available.

BDO (formerly BDO Visura), a renowned Swiss auditing company, has performed thorough audits of the 2014 and 2015 ISU accounts, to its full satisfaction. For the detailed figures, please refer to the Report of the statutory auditor (BDO) on the financial statements for the years 2014 and 2015.

Due to new Swiss legal accounting standards, the structure of the financial statements compared to previous years has changed. In particular but not limited to the following:

- 1) In the Income Statements, the Financial Incomes and Expenses are reported separately from the Operating Result.
- 2) Inclusion of an "Annual Report" including 6 mandatory topics (ISU workforce – Commercial/economic situation and prospects – Risk evaluation – Research and Development Activities – Exceptional events and Outlook). A copy of the 2015 Annual Report is herewith attached.
- 3) Inclusion of a Cash Flow Statement.

The Treasurer, Director General and the Council follow closely the developments in the financial markets and, if necessary, will make changes as necessary to prevent any kind of financial risk as much as possible. The ISU's investments are based on an investment policy which allows investment only in high class (minimum A3 Moody's respectively A- S&P) interest bearing bonds and short term fiduciary deposits, bought or sold upon advice from the

ISU's three banks (Credit Suisse, Banque Cantonal Vaudoise and partly UBS). Investments are made mainly in the currencies the ISU is involved, namely the US Dollar, the Euro and the Swiss Franc.

For more information please refer to the audited Financial Statements 2014 and 2015, the ISU Budget 2016-2018 and the Treasurer's Report to be given during the 2016 Congress.

Lausanne, May 2016

ANNUAL REPORT 2015

ISU Workforce

During 2015 the ISU Secretariat employed an average of 10 full time employees and 6 part time employees (between 40% and 80%). In addition the ISU contracted freelance personnel in the area of Event Coordination, sports technical monitoring and media coverage as follows:

1 person as Sport Manager Figure Skating with focus on Event Coordination (basically full time)

2 persons as Sports Directors Figure Skating (1 full time – 1 part time)

1 person as Event Coordinator Figure Skating (basically full time)

2 persons as Assistant Event Coordinators Figure Skating (part time)

1 person as Event Coordination Short Track and Sports Director Speed Skating (part time)

1 person as Event Coordinator Speed Skating (part time)

1 person for media services at ISU Figure Skating Events (part time).

The ISU furthermore relies on volunteer based elected and/or appointed Office Holders serving in in the ISU Council (11), ISU Technical Committees (30), ISU Appeals Commission (5), Legal Advisors (2), Treasurer (1), Medical Commission (8), Development Coordinator (1).

Commercial/economic situation and prospects

As an Olympic Winter Sport Federation the ISU continues to benefit from a world-wide media coverage of its ISU Events and the related revenues in 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 contrary is becoming increasingly difficult with an economic slowdown in many areas in the world as well as an increasingly competitive market place being the main reasons. In this context, the ISU was time being unable to replace the Speed Skating Title Sponsor with a similarly lucrative agreement.

Thanks to its long standing conservative investment policy, the ISU has achieved 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' interest.

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 as outlined in the Income Statement.

Risk Evaluation

The main risk factors the ISU is facing can be summarized as follows:

In the commercial area, the ISU is stepping up its efforts in the area of marketing and public relations through a variety of channels with a focus on digital media opportunities and Asian markets. Nevertheless, the potentially contracting sponsorship income constitutes a risk for decreasing incomes in the coming years. Together with higher expenditures as advocated by some ISU Members through proposals to the 2016 Congress, this might result in the beginning of a dangerous spiral towards lower ISU reserves and consequently a reduced ISU autonomy.

In regard to the implementation and protection of its commercial agreement the ISU will face a critical challenge since the two long standing and experienced key members of the Figure Skating Event Coordination team will not be available after the 2016 Congress. Mindful of the importance of professionally conducted Events at a high level as the necessary basis for a continued support by the ISU's commercial partners, the ISU has taken steps in order to train a number of individuals in order to ensure continuity.

In the area of good governance, a variety of negative news related to renowned international sport organizations has shed a negative light on the international sports organizations in general. Without applying urgent reforms in favor of good governance principles and transparency, the ISU's reputation is at risk which ultimately would have detrimental consequences on the ISU's ability to secure commercial agreements and maintain its current activity.

Research and Development Activities

The ISU maintains a high profile Development Program and will continue to closely monitor its effectiveness by applying adjustments if and when appropriate.

In the area of the development of its sports, the ISU mindful of the need to attract a younger audiences, is pursuing developments of new disciplines with the latest achievement being the inclusion of Speed Skating Mass Start races into the Olympic Program.

The ISU has also gradually increased its efforts and budget in the critical area of Public Relations and Marketing with a focus on digital markets and social media.

Exceptional events

The ISU is facing two ongoing, complicated and costly litigations, namely the Pechstein doping case and the European Union Commission investigation into the ISU eligibility rules. The final outcome of both cases will have an impact not only on the ISU but on the whole Olympic Movement.

While for the financial risk there is a substantial insurance coverage through the ISU's liability insurance, negative outcomes in both cases would negatively impact the governance of International Federations with detrimental financial consequences.

The ISU Legal Advisors in cooperation with outside legal counsel and the Director General is 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 wipe out precious energy for positive projects.

Outlook

In the short and medium term of 3-5 years, the incomes are expected to slightly decrease compared to the 2015 level and would not allow to substantially increase the expenditures without curtailing the ISU reserves.

In the long term there are too many unknown factors in the economic but also sports governance area, meaning no reasonable forecast can be made.

Lausanne/Budapest, April 9, 2016

ISU Council