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FEDERAL CONSOLIDATED FINANCIAL STATEMENTS

2017

REPORT

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SYMBOLS AND ABBREVIATIONS

The following symbols and abbreviations were used in the tables in this dispatch:

–	same as 0 or no value
n.d.	not displayed
n.q.	not quantifiable
CHF	Swiss francs
mn	million
bn	billion
%	percent
Δ	difference
Ø	average
>	greater than
<	smaller than
FTE	full-time equivalent

ANNUAL REPORT

A

RESULTS OVERVIEW

The federal consolidated financial statements ended 2017 with a surplus of 9.1 billion, representing an increase of 3.8 billion on the previous year. All three segments achieved a positive result.

RESULTS OVERVIEW

CHF mn	2016	2017	Absolute	Δ 2016–17 %
Statement of financial performance				
Surplus/deficit for the year	5 335	9 100	3 764	70.6
Federal Administration segment	1 195	3 845	2 650	221.8
Enterprises segment	2 775	2 633	-142	-5.1
Social insurance segment	1 366	2 622	1 256	91.9
Statement of financial position				
Net assets/equity	51 365	67 196	15 831	30.8
Cash flow statement				
Total cash flow	-6 137	10 489	16 626	-270.9
Cash flow from operating activities	8 789	22 205	13 415	152.6
Cash flow from investing activities	-18 210	-9 564	8 646	-47.5
Cash flow from financing activities	3 284	-2 152	-5 436	-165.5
Personnel				
Number of full-time employees (FTEs)	165 144	163 423	-1 721	-1.0

The financial statements are being published in this format for the first time. The consolidation scope has been extended relative to the previously published consolidated financial statements. To ensure comparability, the 2016 consolidated financial statements have been prepared with the new consolidation scope.

HIGHER SURPLUS THAN THE PREVIOUS YEAR

The statement of financial performance ended with a surplus of 9.1 billion, representing a year-on-year increase of 3.8 billion. This increase can be explained primarily by the positive set of accounts of the federal budget and the good investment return of social insurance.

Influenced by the accounts in the federal financial statements, the *Federal Administration segment* closed with a surplus of 3.8 billion. This was up by 2.6 billion on the previous year and was attributable mainly to higher tax revenue (+3.3 bn). In particular, withholding tax revenue soared year on year (+2.5 bn). The higher tax receipts also led to higher transfer expenses, which are passed on to the cantons and social insurance in the form of tax shares (+0.6 bn).

Federal enterprises achieved an annual result of 2.6 billion last year, which was down slightly on the previous year (2.8 billion). While operating revenue and expenses developed at the same pace, higher depreciation and amortization (mainly special depreciation at SBB Cargo) adversely affected the result.

Social insurance ended the year with a surplus of 2.6 billion, which was considerably better than the previous year's figure of 1.4 billion. This result was attributable primarily to the positive investment result of the equalization funds (2.4 bn). At 0.2 billion, the social insurance apportionment result was barely positive (previous year: 0.1 bn).

Consolidated net assets/equity rose by 15.8 billion in the year under review, due mainly to the retained annual result. After deduction of dividend payments (0.6 bn), 8.4 billion of the annual surplus achieved (9.1 bn) remained in the accounts. In addition, significant effects were recognized directly in equity (7.4 bn). These concerned largely valuation changes regarding employee retirement benefits.

HIGH NET CASH INFLOW IN THE YEAR UNDER REVIEW

The *cash inflow from operating activities* amounted to 22.2 billion. Most of these funds flowed into the federal budget and federal enterprises.

The net *cash outflow from investing activities* amounted to 9.5 billion. There was an outflow totaling 9.8 billion for tangible and intangible fixed assets. Major investments were made in transportation infrastructure (roads: 2.6 bn; rail: 1.4 bn) and telecommunication infrastructure (1.3 bn). Investments in land/buildings and software amounted to around 1 billion each, and 0.5 billion was spent on railroad rolling stock. Investments stood against depreciation and amortization on existing tangible and intangible fixed assets in the amount of 8.6 billion.

The *cash flow from financing activities* was negative at 2.2 billion. 1.6 billion was used to repay liabilities and 0.6 billion was distributed in the form of dividend payments.

A net cash inflow of 10.5 billion thus remained. Cash and cash equivalents rose by this amount relative to the previous year.

PERSONNEL

The headcount reduction of 1,721 full-time equivalents (FTEs) resulted from various moves in opposite directions. The headcount increase in the ETH Domain (+389 FTEs) was offset by the decrease in the Confederation as parent entity (-393 FTEs), with the result that the headcount within the Federal Administration segment remained stable relative to the previous year. In the federal enterprises segment, Swiss Post (-1,169 FTEs) and Swisscom (-621 FTEs) were the main contributors to the reduction.

WHY FEDERAL CONSOLIDATED FINANCIAL STATEMENTS?

The entities included in the federal consolidated financial statements are all attributable to the Confederation. In order to provide information on their business performance and their asset and financial situation, the individual entities publish separate financial status reports each year.

However, as there are significant capital ties and transfer payments between the Confederation's entities, these separate financial reports on their own do not provide a comprehensive overview of the Confederation's situation in terms of assets, finances and revenue. The consolidated financial statements eliminate this shortcoming and allow for a comprehensive overview of the Confederation's financial situation by taking a net view.

1 FACTS

ASSETS

Assets are marked by high holdings of financial assets and civil engineering structures.

Financial assets come essentially from PostFinance investments and also from social insurance fund assets.

Infrastructure assets are largely associated with the performance of federal tasks in the areas of mobility (motorways, rail transportation) and defense.

LIABILITIES

Liabilities may or may not be recognized in the statement of financial position.

Recognized liabilities include mainly PostFinance client deposits, Confederation bonds and money market paper. In addition, significant amounts of provisions for expected future outflows of funds and obligations under employee pension plans are posted under liabilities.

Liabilities not recognized in the statement of financial position include primarily contingent liabilities from sureties and guarantees, capital commitments for development banks and SERV insurance liabilities.

NET ASSETS/EQUITY

Consolidated net assets/equity amounted to a total of 67 billion. 7 billion of that amount was attributable to minority shareholders of consolidated enterprises (mainly minority interests in Swisscom and BLS Netz AG). The net assets/equity to which the Confederation is entitled thus amounted to 60 billion.

The vast majority of this net assets/equity is restricted and cannot be used for the general performance of tasks. Earmarking within the meaning of the federal consolidated financial statements exists if, at the time of the inflow of funds, the law or fund providers prescribe that the funds are to be used for a predefined purpose.

EMPLOYEES

The Confederation had 163,400 full-time positions (FTEs), divided between the segments Federal Administration (55,800 FTEs) and enterprises (107,600 FTEs). There are no employees in the social security segment, as the operational management of social insurance is carried out by employees of the Federal Administration segment or by the compensation funds outside the consolidation scope.

ASSETS

198 BN FINANCIAL ASSETS

60 BN

LIQUID ASSETS

The high cash holding is due to a lack of investment opportunities. Consequently, both PostFinance and the parent entity deposited large holdings with the Swiss National Bank.

— *Detailed explanations: Section B23/11 in the Notes*

20 BN

RECEIVABLES/ACCRUALS AND DEFERRALS

This includes primarily trade receivables (5 bn), tax and customs duty receivables (6 bn), assets due from compensation funds (4 bn) and prepaid expenses and accrued income (3 bn).

— *Detailed explanations: Section B23/12 in the Notes*

118 BN

FINANCIAL INVESTMENTS

Financial investments are largely in fixed-income instruments. Their share amounted to 75 billion, or 63% of total investments. The remainder is invested in loans (20 bn) and other financial investments.

— *Detailed explanations: Section B23/13 in the Notes*

132 BN INFRASTRUCTURE

41 BN

RAILWAY INFRASTRUCTURE

The existing railway infrastructure of companies controlled by the Confederation is recognized in the statement of financial positions at 29 billion. Further railway infrastructure facilities worth 12 billion are recorded under assets under construction.

34 BN

MOTORWAYS

The existing motorway network is recognized in the statement of financial positions at 23 billion. Moreover, 11 billion is recorded under assets under construction for motorway segments that are still being constructed.

26 BN

LAND/BUILDINGS

Land and buildings are worth 26 billion. High-value buildings in the military and civil sector (e.g. rail, administration and ETH school buildings) have been capitalized. Land is largely associated with motorway construction and the military sector.

14 BN

PROPERTY, PLANT AND EQUIPMENT/ OTHER TANGIBLE FIXED ASSETS

The carrying amount of the Confederation's property, plant and equipment and other tangible fixed assets is 14 billion. The item with the highest value concerns the rolling stock and vehicle fleets of transportation companies (7 bn).

9 BN

DEFENSE EQUIPMENT

The Armed Forces' ammunition inventories are valued at 4 billion and are recognized under inventories. The capitalized defense equipment under tangible fixed assets amounts to 5 billion. However, it should be noted that only the main weapon systems are recognized. The effective value of defense equipment is thus significantly higher.

8 BN

TELECOMMUNICATIONS

The value of telecommunication infrastructures is 8 billion, recognized solely under Swisscom.

— *Detailed explanations: Sections B23/14 and B23/15 in the Notes*

LIABILITIES

114 BN

CLIENT FUNDS

Liabilities from client funds amounted to 114 billion as of the reporting date and consisted of PostFinance client deposits and client deposits in the savings bank for federal employees.

— *Detailed explanations: Section B23/19 in the Notes*

86 BN

BONDS/MONEY MARKET

The Confederation is financed largely with the issuance of Confederation bonds and money market paper. Most of the financial requirements of spun off entities are covered by the Confederation as parent entity. With the exception of the Federal Administration, only Swisscom has significant outstanding amounts on the financial market.

— *Detailed explanations: Section B23/19 in the Notes*

18 BN

EMPLOYEE RETIREMENT BENEFITS

Net liabilities from employee retirement benefits are estimated to be 18 billion. This is an actuarial calculation that is highly dependent on the assumed trend of interest rates.

— *Detailed explanations: Section B23/21 in the Notes*

22 BN

PROVISIONS

Because of its broad range of activities, the Confederation is exposed to myriad risks, for which provisions have to be recognized. Provisions are recorded when an outflow of funds is expected because of a past event but the precise amount and timing of the outflow of funds is still uncertain.

— *Detailed explanations: Section B23/20 in the Notes*

240 BN RECOGNIZED LIABILITIES

27 BN UNRECOGNIZED LIABILITIES

8 BN

SURETIES/GUARANTEES

As part of its task performance, the Confederation provides guarantees for third parties in order to indemnify the lender in the event of non-payment by the borrower. The borrowers can borrow more favorably with the Confederation's guarantee commitment.

— *Detailed explanations: Section B23/23 in the Notes*

8 BN

CAPITAL COMMITMENTS FOR DEVELOPMENT BANKS

Participation in development banks is part of Switzerland's multilateral development assistance. Only a small part of each of the participations is paid in, and the remainder is shown as capital commitments under contingent liabilities.

— *Detailed explanations: Section B23/23 in the Notes*

11 BN

SERV INSURANCE LIABILITIES

The insurance liabilities of Swiss Export Risk Insurance (SERV) amounted to 11 billion as of the reporting date. The insurance liabilities include insurance policies (8 bn) and insurance commitments in principle (3 bn).

— *Detailed explanations: Section B23/25 in the Notes*

NET ASSETS/EQUITY

43 BN RESTRICTED

3 BN

ROADS/URBAN TRANSPORTATION

In recent years, fund inflows into the special financing for road construction and the infrastructure fund via restricted tax receipts have exceeded the investments made. In future, the funds will still have to be allocated to the intended use.

-8 BN

RAIL

In the past, the expenditure of the railway infrastructure fund (or the former FinPT fund) was higher than the funds intended for this purpose. Accordingly, the railway infrastructure fund has negative net assets/equity.

41 BN

SOCIAL INSURANCE

The net assets/equity of federal social insurance is consolidated as a positive element. However, these fund assets are restricted and earmarked for social insurance tasks.

7 BN

OTHER RESTRICTED FUNDS

Other restricted funds include the special funds and special financing allocable to net assets/equity, as well as the restricted funds of the ETH Domain.

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6 BN

RISK CAPITAL

Through their business activities, both PostFinance and SERV are obliged to raise corresponding risk capital.

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11 BN

OTHER NET ASSETS/EQUITY

Other net assets/equity can be used for general task performance.

— *Detailed explanations: Section B14, Statement of net assets/equity*

EMPLOYEES

The Confederation has 163,400 full-time positions (FTEs). These are divided between the segments Federal Administration (55,800 FTEs) and federal enterprises (107,600 FTEs).

FEDERAL ADMINISTRATION

36 900
CONFEDERATION AS PARENT

18 200
ETH

700
OTHER

ENTERPRISES

42 300
SWISS POST

9200
RUAG

32 800
SBB

1400
SKYGUIDE

20 500
SWISSCOM

1400
OTHER

15.8 BN

WAGES AND SALARIES

Wages and salaries paid to employees.

1.6 BN

FIRST PILLAR INCOMING PAYMENTS

Employer contributions paid into own AHV, IV, EO and ALV social insurance funds.

1.9 BN

SECOND PILLAR INCOMING PAYMENTS

Ordinary employer contributions to second pillar pension plans.

2 SEGMENTS

21 OVERVIEW OF CONSOLIDATED ENTITIES

The consolidated figures are summarized in segments. The segments of the consolidated financial statements are heterogeneous and therefore subject to considerable differences in terms of risk and performance. The publication of financial information on individual segments should enable the readers of the financial statements to take a differentiated approach when assessing them.

Federal consolidated financial statements

FEDERAL ADMINISTRATION

Primarily tax-financed entities

Federal financial statements
Confederation as parent

Separate accounts
Railway infrastructure fund RIF
Infrastructure fund IF
Swiss Alcohol Board SAB

Decentralized administrative units
Swiss Federal Institutes of Technology ETH
Swiss Federal Institute for Vocational Education and Training SFIVET
Swiss Federal Institute of Metrology METAS
Pro Helvetia
Swiss National Museum SNM

ENTERPRISES

Entities that are not tax-financed or not primarily tax-financed

Companies with a federal stake
Swiss Federal Railways SBB
Swisscom AG
Swiss Post AG
AlpTransit Gotthard AG
RUAG Schweiz AG
Skyguide AG
SIFEM AG
BLS Netz AG

Decentralized administrative units
Swiss Financial Market Supervisory Authority FINMA
Swiss Federal Institute of Intellectual Property IIP
Swiss Federal Nuclear Safety Authority ENSI
Federal Audit Oversight Authority FAOA
Swiss Export Risk Insurance SERV
Swiss Association for Hotel Credit SAH
Swissmedic

SOCIAL INSURANCE

Federal social insurance

Social insurance
Old-age and survivors' insurance AHV
Disability insurance IV
Compensation for loss of earnings EO
Agriculture family allowances FL
Unemployment insurance ALV

22 FEDERAL ADMINISTRATION SEGMENT

Most of the Federal Administration segment's revenue comes from the fiscal sector. The segment is primarily a transfer budget, which is why the expense side of the statement of financial performance is divided into operating expenses and transfer expenses. Transfer payments are made to recipients both within and outside the consolidation scope.

FEDERAL ADMINISTRATION SEGMENT: STATEMENT OF FINANCIAL PERFORMANCE

CHF mn	2016	2017	Δ 2016–17 Absolute	Δ 2016–17 %
Surplus/deficit for the year	**1 195**	**3 845**	**2 650**	**221.8**
Operating result	**2 303**	**4 806**	**2 504**	**108.7**
Operating revenue	67 435	71 082	3 647	5.4
Tax revenue	63 370	66 687	3 317	5.2
Direct federal tax	21 057	20 944	-113	-0.5
Withholding tax	5 733	8 226	2 494	43.5
Stamp duty	2 021	2 434	414	20.5
Value added tax	22 458	22 904	446	2.0
Other consumption taxes	7 222	7 049	-172	-2.4
Miscellaneous tax revenue	4 881	5 130	249	5.1
Other sovereign revenue	889	1 448	559	62.9
Miscellaneous revenue	3 175	2 946	-229	-7.2
Operating expenses	65 132	66 276	1 144	1.8
Operating expenses	16 905	16 967	63	0.4
Personnel expenses	8 045	8 337	292	3.6
General, administrative and operating expenses	5 607	5 454	-153	-2.7
Depreciation and amortization	3 252	3 176	-76	-2.3
Transfer expenses	48 227	49 308	1 081	2.2
Contributions to the social insurance segment	16 099	16 423	324	2.0
Contributions to the federal enterprises segment	3 083	2 962	-121	-3.9
Contributions to third parties	29 045	29 923	878	3.0
Cantons' share in federal income	5 036	5 505	469	9.3
Fiscal equalization to cantons	3 246	3 281	35	1.1
Individual premium reductions (IPR) to cantons	2 481	2 617	136	5.5
AHV and IV supplementary benefits	1 465	1 495	30	2.1
Compensation to public bodies	1 596	1 590	-7	-0.4
Contributions to international organizations	1 807	2 099	292	16.1
Direct payments for agriculture	2 802	2 806	5	0.2
Research promotion institutions	1 011	978	-33	-3.3
Other contributions to third parties	9 601	9 553	-48	-0.5
Financial result	**-1 290**	**-1 133**	**156**	**-12.1**
Financial revenue	510	394	-116	-22.7
Financial expense	1 800	1 527	-272	-15.1
Proportionate result associated companies	**181**	**172**	**-10**	**-5.3**

OPERATING REVENUE

In the year under review, *tax revenue* amounted to 66.7 billion, representing an increase of 3.3 billion (+5.2%). This result was due primarily to significantly higher withholding tax revenue (+2.5 bn). Revenue rose also in the case of value added tax (+0.4 bn) and stamp duty (+0.4 bn). In contrast, direct federal tax edged down (-0.1 bn).

Nontax revenue came in at 4.4 billion (+0.3 bn). The increase was due essentially to the higher profit distribution from the SNB.

OPERATING EXPENSES

Transfer expenses

Coming in at 49.3 billion, transfer expenses were up by 2.2% on the previous year. 19.4 billion of that was attributable to internal transfer payments to the two other segments of the Confederation. A total of 29.9 billion was paid to recipients outside the consolidation scope.

16.4 billion of the 19.4 billion in *internal transfer expenses* went to social insurance. Restricted tax shares and federal contributions to AHV (11.1 bn) and IV (4.8 bn) are particularly worthy of mention here. An inflow of 3.0 billion went to the federal enterprises segment. Transfer payments were made primarily to companies in the area of public transportation (rail, postal bus) in the form of subsidies for transportation services and civil engineering structures.

External transfer expenses of 29.9 billion went largely to the cantons. Among other things, the cantons received 14.5 billion from shares in federal revenue, fiscal equalization, individual premium reductions, AHV and IV supplementary benefits, and compensation to public bodies. Other recipients of significant transfer payments were agriculture, international organizations and research.

Operating expenses

Operating expenses amounted to 17.0 billion and rose only marginally relative to the previous year. They mainly included personnel expenses and general, administrative and operating expenses of the Federal Administration and the ETH Domain.

Personnel expenses posted a year-on-year increase of 0.3 billion to reach 8.3 billion, and thus accounted for 49% of operating expenses. There was a shift within operating expenses due to new account assignment rules. Certain expenses that were previously recorded under general, administrative and operating expenses are now reported under personnel expenses (0.1 bn).

Infrastructure *depreciation* put a burden of 3.2 billion on the statement of financial performance.

FINANCIAL RESULT

The *financial result* was influenced primarily by the interest expense for Confederation bonds, which amounted to 1.4 billion in the year under review.

23 ENTERPRISES SEGMENT

The composition of operating revenue shows the diverse activities of the entities included in the segment. Services are provided on the market, in the area of basic supply and in the area of economic and safety oversight.

ENTERPRISES SEGMENT: STATEMENT OF FINANCIAL PERFORMANCE

CHF mn	2016	2017	Δ 2016–17 Absolute	%
Surplus/deficit for the year	**2 775**	**2 633**	**-142**	**-5.1**
Operating result	**3 488**	**3 374**	**-114**	**-3.3**
Operating revenue	32 739	33 015	276	0.8
Service and production revenue	28 905	29 064	159	0.6
Postal service revenue	4 524	4 472	-52	-1.2
Income from financial services	1 765	1 785	20	1.1
Telecommunications service revenue	11 643	11 662	19	0.2
Armament sector revenue	1 858	1 955	97	5.2
Transportation revenue	7 805	7 924	120	1.5
Other service revenue	1 309	1 265	-44	-3.3
Other revenue	3 834	3 951	117	3.1
Operating expenses	29 251	29 641	390	1.3
Personnel expenses	13 069	13 089	20	0.2
General, administrative and operating expenses	10 984	11 152	168	1.5
Cost of materials, goods and services	5 230	5 324	94	1.8
Other general, administrative and operating expenses	5 754	5 827	73	1.3
Depreciation and amortization	5 198	5 400	202	3.9
Financial result	**-182**	**-153**	**29**	**-15.8**
Financial revenue	213	266	52	24.5
Financial expense	395	419	24	6.0
Proportionate result associated companies	**3**	**-15**	**-19**	**n.d.**
Income taxes of federal enterprises	**-535**	**-573**	**-39**	**7.3**

SERVICE AND PRODUCTION REVENUE

Postal service revenue is generated by Swiss Post largely with the dispatch of letters, print media and parcels, as well as in the area of services. In the year under review, revenue amounted to 4.5 billion, which was slightly less than the previous year (-1.2%).

Financial service revenue is generated primarily by PostFinance activities and is a net figure. It includes net interest income and net fee and commission income. In the year under review, net income of 1.8 billion was achieved, representing a slight year-on-year increase (+1.1%).

Telecommunications service revenue comes exclusively from Swisscom. Net sales remained stable at 11.7 billion. Sales in the Swiss core business fell to 9.5 billion (-189 mn), due primarily to lower fixed line sales and lower revenue from roaming services. Sales abroad rose by a similar amount (+209 mn).

Armament sector revenue is generated by RUAG. 0.9 billion of the 2.0 billion in sales was generated in the defense technology sector and 1.1 billion in the civil sector. Relative to the previous year, sales grew by 5.2%, essentially in the defense technology sector.

Transportation revenue of 7.9 billion was generated by SBB and BLS Netz AG, as well as by postal buses. Transportation revenue also includes public services. Relative to the previous year, transportation revenue was up by 120 million, or 1.5%, due primarily to higher revenue from SBB passenger transportation.

Other service revenue was slightly lower than the previous year and consisted mainly of air traffic control (Skyguide), insurance services (SERV), Swiss Post merchandise and fees for administrative acts (e.g. IIP, ENSI, Swissmedic, FINMA).

SURPLUS/DEFICIT FOR THE YEAR

The enterprises segment posted an annual surplus of 2.6 billion, which was 142 million less (-5.1%) than the previous year. The result was dragged down by higher depreciation and amortization (+202 mn). Special depreciation was necessary particularly at SBB Cargo.

Swisscom (1,568 mn) and Swiss Post (375 mn) were the biggest contributors to the result. However, it should be noted that half of Swisscom's contribution was attributable to minority shareholders.

24 SOCIAL INSURANCE SEGMENT

The social insurance segment's statement of financial performance is divided into an operating result and a financial result, whereby the operating result corresponds to the social insurance apportionment result.

SOCIAL INSURANCE SEGMENT: STATEMENT OF FINANCIAL PERFORMANCE

CHF mn	2016	2017	Δ 2016–17 Absolute	Δ 2016–17 %
Surplus/deficit for the year	**1 366**	**2 622**	**1 256**	**92.0**
Operating result	**109**	**233**	**125**	**114.5**
Operating revenue	60 758	61 523	764	1.3
Contributions by insured persons/employers	44 378	44 850	472	1.1
Contributions Confederation	12 431	12 639	208	1.7
Contributions cantons	190	193	3	1.8
Tax shares	3 693	3 783	90	2.4
Other revenue	66	56	-10	-15.6
Operating expenses	60 650	61 289	640	1.1
Cash benefits and contributions	59 215	59 857	642	1.1
Administrative expenses	1 434	1 432	-2	-0.2
Financial result	**1 257**	**2 388**	**1 132**	**90.1**
Investment result	1 257	2 388	1 132	90.1

APPORTIONMENT RESULT

Federal social insurance is financed with a pay-as-you-go system. The insurance benefits paid out stand against the contributions of insured persons and employers. A significant portion of the financing also comes from contributions from government units (mainly the Confederation). The apportionment result shows whether contributions and government unit grants are able to cover the insurance benefits paid out.

The consolidated apportionment result of federal social insurance was barely positive at 233 million. However, the apportionment results of the individual social insurance funds varied greatly. While IV (797 mn) and ALV (410 mn) closed with a positive apportionment result, AHV (-1,039 mn) and EO (-49 mn) were in negative territory.

FINANCIAL RESULT

The financial result amounted to 2.4 billion in the year under review (2016: 1.3 bn) and stemmed essentially from the investments of the three compensation funds AHV/IV/EO. The funds are jointly managed and had assets of 36.9 billion as of the reporting date. The funds' different risk profiles are taken into account when investing the assets, which leads to different investment returns.

Unemployment insurance liquidity is ensured by means of a treasury loan from the Confederation.

SOCIAL INSURANCE SEGMENT: STATEMENT OF FINANCIAL PERFORMANCE BY ENTITY

CHF mn	AHV	IV	EO	ALV	Other	*Consoli-dation*	2017
Surplus/deficit for the year	**1 087**	**1 122**	**12**	**400**	**–**	***0***	**2 622**
Operating result	**-1 039**	**797**	**-49**	**410**	**–**	***114***	**233**
Operating revenue	42 253	10 031	1 675	7 717	111	*-264*	61 523
Contributions by insured persons/ employers	31 143	5 218	1 675	7 060	19	*-264*	44 850
Contributions Confederation	8 464	3 626		489	61		12 639
Contributions cantons				163	30		193
Tax shares	2 642	1 142					3 783
Other revenue	5	46		5			56
Operating expenses	43 292	9 235	1 724	7 307	111	*-379*	61 289
Cash benefits and contributions	43 095	8 617	1 721	6 580	109	*-264*	59 857
Administrative expenses	196	504	3	727	2	*–*	1 432
Interest expense (AHV loan to IV)		114				*-114*	–
Financial result	**2 126**	**325**	**61**	**-10**	**–**	***-114***	**2 388**
Investment result	2 012	325	61	-10			2 388
Interest income (AHV loan to IV)	114					*-114*	–

OLD-AGE AND SURVIVORS' INSURANCE (AHV)

AHV ended 2017 with a negative apportionment result of 1,039 million (2016: -767 mn). This year-on-year deterioration was in line with the trend that has been persisting for several years. The apportionment result has been negative since 2014. Although the contributions of insured persons/employers (+0.9%), the Confederation's contributions (+1.8%) and tax shares (+2.4%) were up, they were unable to cover the higher payments (+1.8%).

The total assets of the AHV compensation fund (31.8 bn) generated a return of 6.82%. Thanks to the positive investment result of 2,012 million, AHV ended the year with a positive annual result of 1,087 million.

DISABILITY INSURANCE (IV)

IV ended 2017 with a positive apportionment result of 797 million (2016: 693 mn). This was likewise in line with the trend of previous years. The contributions of insured persons/ employers (+0.9%), the Confederation's contributions (+2.0%) and tax shares (+2.7%) were up. Payments rose by 0.4% year on year.

The total assets of the IV compensation fund (4.2 bn) generated a return of 6.84%. Thanks to the positive investment result of 325 million, IV ended the year with a positive annual result of 1,122 million.

COMPENSATION FOR LOSS OF EARNINGS (EO)

EO ended 2017 with a negative apportionment result of 49 million (2016: -87 mn). The contributions of insured persons/employers and payments changed only marginally relative to the previous year.

The total assets of the EO compensation fund (0.9 bn) generated a return of 6.98%. Thanks to the positive investment result of 61 million, EO ended the year with a positive annual result of 12 million.

UNEMPLOYMENT INSURANCE (ALV)

ALV ended 2017 with a positive apportionment result of 410 million (2016: 148 mn). The contributions of insured persons/employers (+1.8%) and the contributions from the Confederation and the cantons (+1.7%) were up. Payments were down by 2.0% on the previous year.

The ALV treasury loan was reduced by 300 million to 2.2 billion in the year under review.

3 FEATURES

31 CATEGORIES OF CONSOLIDATED ENTITIES

Aside from the central Federal Administration, other entities and organizations are allocated to the Confederation by virtue of ownership and financing relationships or by law. These entities are likewise included in the consolidation scope of the consolidated financial statements.

ORGANIZATIONS/ENTITIES

The consolidated entities of the consolidated financial statements can be categorized as follows:

Confederation as parent
Funds with separate accounts
Decentralized administrative units with their own accounts
Companies with a federal stake
Federal social insurance

CONFEDERATION AS PARENT

The Confederation as parent entity corresponds to the federal budget, which is subject to the debt brake rules. This corresponds to the definition of the federal financial statements and includes the departments and their administrative units, the Federal Chancellery, the Federal Assembly and its Parliamentary Services, the Federal Council, the general secretariats, the federal courts, including the arbitration commission and appeals commission, the Office of the Attorney General and the supervisory authority via the Office of the Attorney General, and the administrative units of the decentralized Federal Administration that do not maintain separate accounts.

The central Federal Administration covers ministerial tasks. These include in particular policy preparation and sovereign tasks, the performance of which is usually associated with intervention concerning fundamental rights (e.g. security, justice). They thus require a high degree of democratic legitimacy and political control; there is also a distinct need for coordination with other tasks of the central Federal Administration.

The Confederation as parent entity is financed mainly with the collection of taxes. While tax receipts account for more than 90% of the Confederation's total receipts, nontax receipts (e.g. profit distributions from companies with a federal stake and fees) are of minor importance. The Confederation as parent entity is essentially a transfer budget. Most of the funds are transferred in the form of contributions, compensation and shares. This transfer expenditure, together with the operating expenditure of the Confederation as parent entity, is subject to the debt brake.

FUNDS WITH SEPARATE ACCOUNTS

The funds with separate accounts include the railway infrastructure fund (RIF) and the infrastructure fund (IF). The functioning of these funds is regulated by corresponding special laws. The Financial Budget Act (FBA) applies on a subsidiary basis. The IF will be replaced by the motorway and urban transportation fund from fiscal 2018 onward. The two funds were spun off from the federal financial statements but are closely linked to them. They have no legal personality of their own. The funds were spun off from the federal financial statements in a bid to increase long-term planning and implementation certainty for investments in transportation infrastructure.

The RIF pays for operations and the preservation of value, as well as for the further expansion of the railway infrastructure. The motorway and urban transportation fund finances all federal expenditure in the motorway sector (operation, maintenance, expansion, completion of the motorway network and elimination of bottlenecks), as well as the contributions for urban transportation infrastructures.

The funds are financed mainly by means of restricted receipts and general federal budget deposits. These funds are subject to the debt brake for the federal financial statements. The RIF additionally receives annual cantonal contributions of 500 million. Withdrawals from the funds are made according to the intended purpose and are not subject to the debt brake.

Consolidated entities

RIF, motorway and urban transportation fund

DECENTRALIZED ADMINISTRATIVE UNITS WITH THEIR OWN ACCOUNTS

The decentralized administrative units with their own accounts are legally independent and spun off from the central Federal Administration. Their task areas are very diverse, and they mainly perform services on a monopoly basis and economic and safety oversight functions. They are spun off from the central Federal Administration because the tasks do not have to be highly coordinated with other federal tasks, on the one hand, and a certain degree of autonomy is advantageous on the other hand. However, close ownership policy management remains indispensable.

Services on a monopoly basis are generally market-based tasks that could in principle be provided privately too. However, due to some market failures, as well as for historical and socio-political reasons, these tasks are performed by the public sector. Tasks that are determined by scientific, technical and international requirements and have little scope for political structuring are additionally subsumed here.

Although the *economic and safety oversight tasks* are of a sovereign nature, they have to be exempt from political influence in operational terms. Spinning off is necessary here in order to ensure the independence of supervisory activities.

The entities are financed according to task performance. Entities that mainly perform services on a monopoly basis are financed largely by contributions from the Confederation as parent entity (transfer payments). In the consolidated financial statements, they are allocated to the Federal Administration segment. Entities that perform economic and safety oversight tasks finance their activities mainly by means of supervisory duties and fees. They are allocated to the enterprises segment.

Consolidated entities

Services on a monopoly basis: ETH, SFIVET, METAS, Pro Helvetia, SNM
Economic and safety oversight tasks: FINMA, IIP, ENSI, FAOA, SAH, Swissmedic

COMPANIES WITH A FEDERAL STAKE

The Confederation holds a majority stake in several companies and controls these companies via its position as majority shareholder.

The services provided by these companies are basically controlled by the market. The public interest in ensuring a minimum supply standard should normally be taken into account by means of statutory provisions on basic supply (e.g. postal services, public transportation).

Accordingly, the entities are likewise financed primarily via the market. To the extent that the companies provide services in order to maintain basic supply, they are compensated from the federal financial statements (or funds with separate accounts).

Consolidated entities

Swiss Post AG, Swisscom AG, RUAG Schweiz AG, Skyguide AG, SIFEM, BLS Netz AG

FEDERAL SOCIAL INSURANCE

The (mandatory) social insurance of the 1st pillar (old-age and survivors' insurance, disability insurance), compensation for loss of earnings, agriculture family allowances and unemployment insurance are regarded as federal social insurance.

The first pillar covers the basic benefits of Swiss old-age, survivors' and disability pension provision. Compensation for loss of earnings provides reasonable compensation for the loss of earnings in the event of compulsory service and maternity leave. AHV and IV are implemented in a decentralized manner via employers, employees, a Central Compensation Office (CCO), the compensation funds of associations, the cantons and the Confederation, as well as IV offices. Asset management is centralized: all contributions go to the three legally independent AHV/IV/EO compensation funds, and all expenditure is also debited to these.

Unemployment insurance provides benefits in the event of unemployment, bad weather stoppages, short-time working and the employer's inability to pay. Unemployment insurance also pays for reintegration measures. Responsibilities are divided between the various implementing bodies. The cantons and social partners are involved in implementation. The compensation office and the supervisory commission for the unemployment insurance compensation fund are primarily responsible for management and supervision. This is a legally dependent fund with its own accounts. The assets of this compensation fund are managed by the Confederation.

Federal social insurance is financed primarily based on the pay-as-you-go system. This means that social insurance benefits are financed essentially using the employer and employee contributions received. A significant portion of the financing for social insurance also comes from contributions from government units.

Consolidated entities

Old-age and survivors' insurance, disability insurance, compensation for loss of earnings, agriculture family allowances and unemployment insurance

32 MANAGEMENT OF THE CONSOLIDATED ENTITIES BY THE CONFEDERATION

Management varies depending on the structure of the entities and organizations. The following framework generally applies.

CONFEDERATION AS PARENT ENTITY AND FUNDS WITH SEPARATE ACCOUNTS

The federal financial statements and the separate accounts of the RIF and IF (or motorway and urban transportation fund) together form the state financial statements. The partial financial statements of the state financial statements are not consolidated, but they must be approved individually by the Federal Assembly.

The Federal Assembly has various instruments at its disposal for managing and controlling the Confederation's expenses and investment expenditure. In this regard, a distinction has to be made between budgetary and supplementary credits, which concern an (annual) accounting period, and the guarantee credits and payment frameworks with which the multi-year management function is performed.

Aside from managing expenditure and expenses, Parliament also has the possibility of directly influencing outputs and outcomes in the budgeting and financial planning process if required. This focus on objectives and results is strengthened by the new management model for the Federal Administration (NMM).

Based the requirements of the Constitution and the law, the Federal Assembly decides on the annual deposits in funds with separate accounts within the framework of the budget. During the term of the funds, it also approves their accounts annually. At the same time as the federal decree on the federal budget, it additionally determines with a simple federal decree the amount of funds withdrawn from the funds annually.

DECENTRALIZED ADMINISTRATIVE UNITS WITH THEIR OWN ACCOUNTS/COMPANIES WITH A FEDERAL STAKE

Despite the spinning off of a federal task, the Confederation remains responsible for the performance of the task as guarantor. The Confederation can be the owner or the main or majority shareholder of the entity. Its influence depends to a large extent on the spun off entity's legal concept. The management instruments must be comprehensive, i.e. they must be geared toward the long, medium and short term.

Management is legally enshrined and is designed for the long term. In that regard, companies limited by shares are based on the Code of Obligations, unless a special law provides otherwise. The Confederation is legally obliged to hold a majority of the capital and voting rights in its companies. There is more regulatory room for maneuver in the case of institutions; in this respect, the sample templates based on the Confederation's corporate governance guidelines and task typology in particular are intended to ensure standardization, provided no deviations are justified.

The Federal Council generally adopts strategic objectives for each spun off entity every four years; only in the case of the economic and safety oversight entities does the supreme governing body decide, with the approval of the Federal Council if need be.

As a rule, owner talks take place several times a year between the owner (federal representatives) and the top management of the spun off entities. These involve interim reporting on the achievement of objectives and discussions concerning current issues.

FEDERAL SOCIAL INSURANCE

The principle of centralized legislation and supervision by the Confederation and decentralized implementation applies. The Confederation monitors the enforcement of laws and ensures they are applied uniformly. In addition, the Federal Council reports regularly on the implementation of social insurance.

The Federal Council's politico-strategic management of federal social insurance essentially corresponds to its function as state leader. The Federal Council and the administration should identify current and future challenges as early as possible and initiate suitable measures where necessary. The Federal Commission for the Old-Age, Survivors' and Invalidity Insurance and the Supervisory Commission for the Unemployment Insurance Fund support the Federal Council in this task by examining issues concerning the implementation and further development of the relevant insurance, among other things. They can also submit suggestions to the Federal Council.

The development of social insurance is highly influenced by the economic and social environment. Social insurance benefits are defined by law and therefore cannot be influenced in the short term by the Federal Council and Parliament.

33 FINANCIAL REPORTING OF THE CONSOLIDATED ENTITIES OF THE CONSOLIDATED FINANCIAL STATEMENTS

Many different documents are published at federal level on the financial situation of the individual organizational or legal entities of the Confederation. These publications are geared primarily toward the needs of political management, as well as statutory and regulatory requirements.

As already shown, significant parts of the Confederation's business activity and thus also comprehensive federal assets and liabilities have been outsourced to special entities for a variety of reasons. As there are numerous significant capital ties and contribution payments between these entities, these financial reports on their own do not provide a comprehensive overview of the Confederation's situation in terms of assets, finances and revenue.

The consolidated financial statements allow for a net view by eliminating internal relationships. In order for the figures presented to be highly meaningful, the consolidated financial statements ensure that valuations are based on uniform principles. The overall view means that the assets, liabilities (including contingent liabilities) and net assets/ equity situation of the Confederation can be depicted in a more transparent manner.

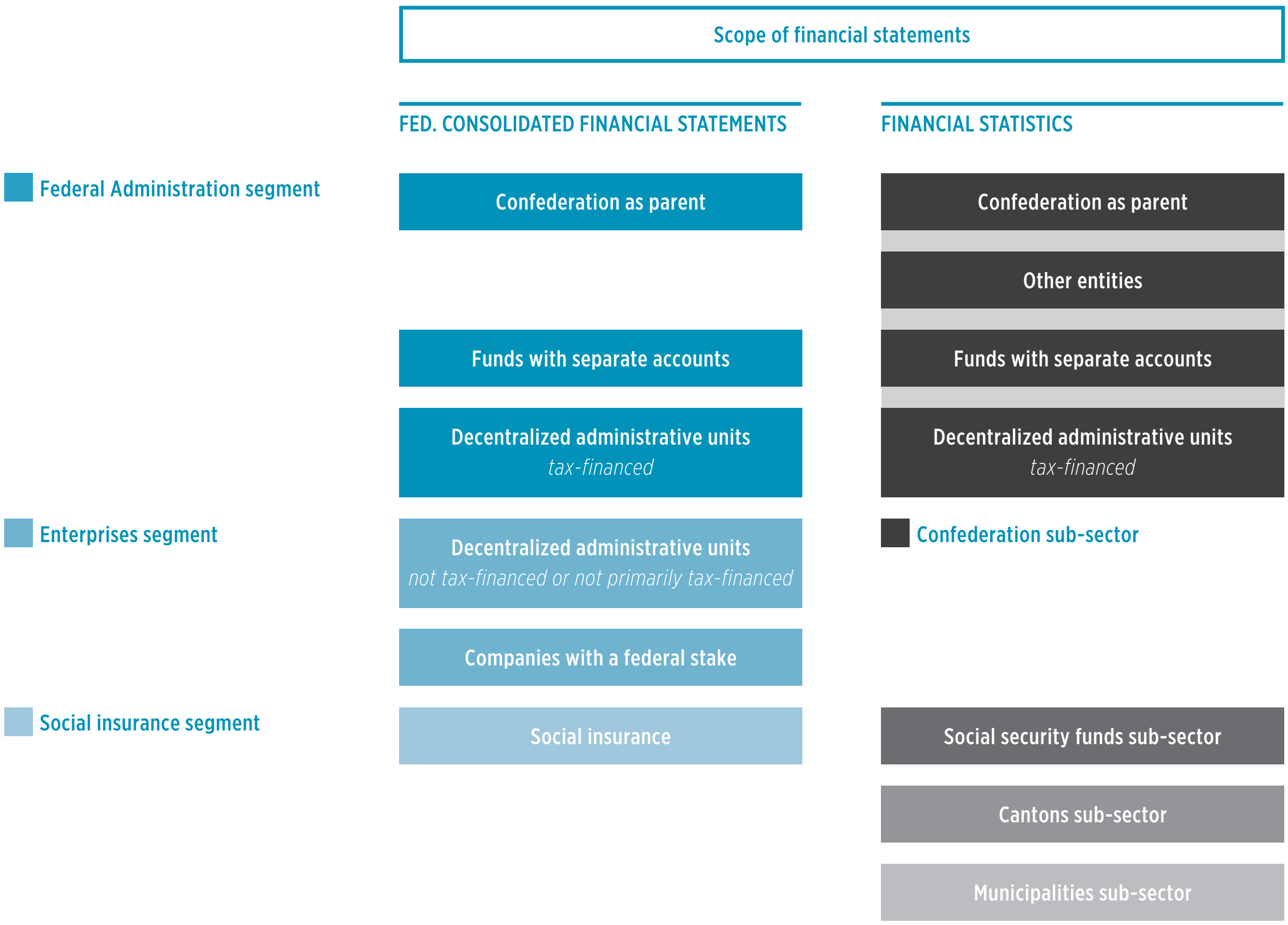
34 RELATIONSHIP BETWEEN THE CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATISTICS

The statistics on Switzerland's public finances ("financial statistics"), show the financial figures of the government units and the general government sector with its four sub-sectors. In contrast, the consolidated financial statements are divided into three segments.

THE GENERAL GOVERNMENT SECTOR IS COMPRISED OF THE FOLLOWING SUB-SECTORS

Confederation sub-sector
Cantons sub-sector
Municipalities sub-sector
Social security funds sub-sector

In the financial statistics, the entities incorporated within the "general government" sector are determined on the basis of the criteria laid down in the European System of Accounts (ESA 2010). In contrast, the consolidated financial statements follow the accounting standard control criterion (IPSAS). As a result, the consolidation scopes of the financial statistics and the consolidated financial statements are not identical.



CONSOLIDATION SCOPE DIFFERENCES

The “Confederation” sub-sector is comparable with the “Federal Administration” segment in the consolidated financial statements, but it is not entirely identical.

The “Confederation” sub-sector is more comprehensive than the “Federal Administration” segment and additionally contains the following: Swiss National Science Foundation, Switzerland Tourism, grid supplement fund and Building Foundation for International Organisations (FIPOI).

The “social security funds” sub-sector is virtually congruent with the “social insurance” segment of the consolidated financial statements. The only difference concerns “Geneva maternity insurance”, which is additionally included in the “social security” sub-sector of the financial statistics.

The “cantons” and “municipalities” sub-sectors are covered only by the financial statistics.

In contrast, companies with a federal stake and decentralized administrative units that are not tax-financed or not primarily tax-financed are combined in the “enterprises” segment in the consolidated financial statements. The entities in this segment are not part of the general government sector in the financial statistics.

MEASUREMENT AND RECORDING DIFFERENCES

The criteria for the recording and measurement of items in the financial statistics differ in some cases from the IPSAS recording and measurement requirements.

In the financial statistics, items in the statement of financial position are more frequently measured at market values, while under IPSAS they are generally valued at historical acquisition and production costs or at amortized cost.

FINANCIAL REPORT

B

FINANCIAL REPORT

1 ANNUAL FINANCIAL STATEMENTS

11 STATEMENT OF FINANCIAL PERFORMANCE

CHF mn	2016	2017	Notes section
Tax revenue	63 370	66 687	1
Service and production revenue	27 747	27 364	2
Social insurance revenue	43 331	43 814	3
Other revenue	5 399	6 297	4
Operating revenue	139 848	144 162	
Personnel expenses	19 816	20 140	5
General, administrative and operating expenses	17 417	17 300	6
Transfer expenses	29 045	29 871	7
Social insurance expenses	59 215	59 857	3
Depreciation and amortization	8 457	8 579	15/16
Operating expenses	133 949	135 748	
Operating result	5 900	8 414	
Financial result	-215	1 102	8
Proportionate result associated companies	185	157	17
Income taxes of federal enterprises	-535	-573	9
Surplus/deficit for the year	**5 335**	**9 100**	
Swiss Confederation share	*4 528*	*8 316*	
Minority interests	*808*	*783*	

12 STATEMENT OF FINANCIAL POSITION

CHF mn	2016	2017	Notes section
Assets	**337 464**	**352 281**	
Current assets	103 356	122 147	
Cash and cash equivalents	49 067	59 556	11
Receivables	16 109	17 618	12
Financial investments	30 340	37 166	13
Inventories	4 857	4 943	14
Prepaid expenses and accrued income	2 958	2 835	
Current income tax assets	25	29	
Non-current assets	234 108	230 134	
Tangible fixed assets	130 821	132 738	15
Intangible fixed assets	8 842	9 065	16
Financial investments	87 324	81 217	13
Financial interests	4 503	4 906	17
Deferred income tax assets	1 918	1 370	
Other non-current assets	700	838	
Liabilities and equity	**337 464**	**352 281**	
Short-term liabilities	155 737	163 092	
Current liabilities	14 384	17 517	18
Accrued expenses and deferred income	6 979	8 830	
Financial liabilities	20 539	20 646	19
Client funds	112 136	114 430	19
Current income tax liabilities	157	246	
Provisions	1 541	1 422	20
Long-term liabilities	130 363	121 993	
Financial liabilities	82 539	79 388	19
Provisions	18 199	20 471	20
Employee retirement benefits	25 649	17 814	21
Deferred income tax liabilities	859	987	
Other liabilities	3 117	3 334	22
Net assets/equity	51 365	67 196	
Minority interests	6 546	7 109	
Net assets/equity of the Confederation	44 819	60 086	
Restricted funds	39 371	42 833	
Other net assets/equity	5 448	17 253	

13 CASH FLOW STATEMENT

CHF mn	2016	2017
Total cash flow	**-6 137**	**10 489**
Cash flow from operating activities	8 789	22 205
Surplus/deficit for the year	5 335	9 100
Depreciation and amortization	8 411	8 577
Income associated financial interests	-193	-157
Profit from disposals	-319	-309
Increase/decrease in provisions, net	-184	2 148
Other non-cash transactions	-4 129	-1 395
Change in net current assets	-132	4 241
Cash flow from investing activities	-18 210	-9 564
Acquisition of tangible and intangible fixed assets	-10 003	-9 834
Disposal of tangible and intangible fixed assets	489	664
Acquisition of financial interests and subsidiaries	-45	-261
Sale of financial interests and subsidiaries	129	100
Financial investment expenditure	-35 504	-38 296
Financial investment receipts	26 690	38 024
Dividends and profit distributions received	33	38
Other cash flows from financing activities	3 284	-2 152
Financial liabilities raised	44 151	39 838
Financial liabilities redeemed	-40 283	-41 397
Capital increase	-0	-0
Dividends and profit distributions	-584	-592
Change in minority interests	-0	-0

CASH FUND STATEMENT

CHF mn	2016	2017
Cash and cash equivalents balance at 01.01.	55 203	49 067
Increase (+)/decrease (-)	-6 137	10 489
Cash and cash equivalents balance at 31.12.	49 067	59 556

14 STATEMENT OF NET ASSETS/EQUITY

CHF mn	Road	Rail	Social insurance	Other	Total restricted funds	Venture capital	Other net assets/ equity	Total net assets/ equity of the Confe- deration	Minority interests	Total net assets/equity
Net assets/equity	1	2	3	4	5 (1–4)	6	7	8 (5–7)	9	10 (8+9)
As of 01.01.2016	**3 413**	**-8 950**	**36 536**	**6 123**	**37 122**	**5 518**	**-3 345**	**39 295**	**5 897**	**45 192**
Change in special funds	-223	–	–	313	90	–	–	90	–	90
Revaluation employee retirement benefits	–	–	–	–	–	–	938	938	570	1 508
Revaluation associated companies	–	–	–	–	–	–	-1	-1	-3	-4
Revaluation financial instruments	–	–	–	–	–	–	197	197	6	204
Change in deferred taxes	–	–	–	–	–	–	-172	-172	-156	-328
Change in currency translations	–	–	–	–	–	–	23	23	-9	14
Total items recognized under net assets/ equity	-223	–	–	313	90	–	985	1 075	407	1 482
Surplus/deficit for the year	205	108	1 366	481	2 159	–	2 369	4 528	808	5 335
Total profit and loss recognized	-18	108	1 366	794	2 249	–	3 353	5 602	1 215	6 817
Dividends	–	–	–	–	–	–	-25	-25	-559	-584
Change in reserves	–	–	–	–	–	929	-929	–	–	–
Other transactions	–	–	–	–	-0	–	-54	-54	-6	-60
As of 31.12.2016	**3 395**	**-8 842**	**37 902**	**6 917**	**39 371**	**6 447**	**-999**	**44 819**	**6 546**	**51 365**
Change in special funds	-88	–	–	110	23	–	–	23	–	23
Revaluation employee retirement benefits	–	–	–	–	–	–	7 340	7 340	423	7 764
Revaluation associated companies	–	–	–	–	–	–	-2	-2	1	-1
Revaluation financial instruments	–	–	–	–	–	–	23	23	-5	19
Change in deferred taxes	–	–	–	–	–	–	-488	-488	-84	-572
Change in currency translations	–	–	–	–	–	–	80	80	71	151
Total items recognized under net assets/ equity	-88	–	–	110	23	–	6 954	6 977	407	7 383
Surplus/deficit for the year	193	572	2 622	53	3 439	–	4 877	8 316	783	9 100
Total profit and loss recognized	105	572	2 622	163	3 462	–	11 832	15 293	1 190	16 483
Dividends	–	–	–	–	–	–	-25	-25	-567	-592
Change in reserves	–	–	–	–	–	110	-110	–	–	–
Other transactions	–	–	–	–	0	–	-2	-1	-59	-60
As of 31.12.2017	**3 500**	**-8 270**	**40 523**	**7 079**	**42 833**	**6 557**	**10 696**	**60 086**	**7 109**	**67 196**

The vast majority of net assets/equity is restricted and cannot be used for the general performance of tasks. Earmarking within the meaning of the federal consolidated financial statements exists if, at the time of the inflow of funds, the law or fund providers prescribe that the funds are to be used for a predefined purpose.

The allocations were as follows:

- The *roads* restricted funds include the net assets/equity of the infrastructure fund (IF) and the special financing for road transportation.
- The *rail* restricted funds include the negative net assets/equity of the railway infrastructure fund (RIF).
- The *social insurance* restricted funds include the net assets/equity of the old-age and survivors' insurance, disability insurance, compensation for loss of earnings and unemployment insurance social security institutions.
- *Other* restricted funds include the special funds and special financing allocable to net assets/equity pursuant to Articles 53 and 54 of the FBA (excluding special financing for road transportation), the other restricted funds of the federal financial statements, as well as the restricted funds of the ETH Domain and Pro Helvetia.

A distinction is also made for the *risk capital* category, which includes the required own funds of PostFinance, as well as SERV's core capital and risk-bearing capital.

After subtracting restricted net assets/equity, risk capital and the capital attributable to minority shareholders of consolidated companies, 10.7 billion remains for general task performance. This sum is influenced primarily by the annual results of the Confederation and federal enterprises, as well as by the revaluation of employee retirement benefits, and it can thus vary considerably from year to year.

2 NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21 CONSOLIDATION PRINCIPLES

CONSOLIDATED FINANCIAL STATEMENT ACCOUNTING STANDARDS

Pursuant to the Financial Budget Ordinance (FBO), the consolidated financial statements are prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The fundamental purpose of financial statements is to give a true and fair view.

CONSOLIDATED ENTITY ACCOUNTING STANDARDS

With the exception of social insurance, all of the entities included in the consolidated financial statements prepare financial statements which also follow the principle of a true and fair view. Consequently, these financial statements are transferred largely unchanged into the consolidated financial statements. However, if the accounting and valuation principles of the rules applied by the consolidated entities differ significantly from those of the IPSAS, the entities' financial statements are adjusted to the IPSAS.

The following significant deviations have been identified and adjusted for the consolidated financial statements:

- *Railway civil engineering structures:* The costs incurred for tunnel excavation work are not capitalized in the financial statements of the SBB, AlpTransit Gotthard (Gotthard, Ceneri) and BLS Netz AG (Lötschberg, Rosshäusern). These civil engineering structures are recognized and depreciated according to their service potential in the consolidated financial statements.
- *Financial liabilities:* The loans with restrictive terms of repayment recognized as financial liabilities in the financial statements of the SBB, AlpTransit Gotthard AG and BLS Netz AG are treated as net assets/equity in the consolidated financial statements. According to the IPSAS, these are attributable to net assets/equity in economic terms irrespective of the legal structure. The loans granted by the Confederation are eliminated during consolidation. The loans with restrictive terms of repayment granted by the cantons remain in consolidated net assets/equity.
- *Employee retirement benefits:* Some financial statements are prepared in accordance with Swiss GAAP FER (e.g. SBB, RUAG and Skyguide). Accordingly, obligations under employee pension plans are recognized under liabilities only if restructuring commitments actually exist. In contrast, the consolidated financial statements recognize a liability for all retirement benefits using an actuarial calculation (IPSAS 39).

DEVIATIONS FROM THE IPSAS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Following the adjustment of the financial statements to the IPSAS as described above, the following areas where the consolidated financial statements do not comply with the IPSAS accounting and valuation principles remain.

Reporting on an accrual basis

Revenue from direct federal tax is recognized at the time of payment by the cantons of the Confederation's share of the revenue and the contributions of insured persons to the Confederation's social insurance are recognized at the time of the incoming payment. This means there is no reporting on an accrual basis.

Accounting an valuation

The capitalization of defense equipment includes the main systems (A systems) according to the armament programs. Other defense equipment expenses are thus recorded at cost and not over the period of the useful life.

INTERCOMPANY RELATIONSHIPS

To enable a net view, intra-group transactions must be eliminated during consolidation. As there are significant capital ties and transfer payments between the consolidated entities, the consolidated financial statements also apply this principle. Consequently, the figures presented are highly meaningful.

For economic reasons (time factor, cost-benefit considerations), the consolidated financial statements deviate from this principle in the following cases. The effects of the simplifications on the statement of financial position and statement of financial performance are insignificant overall and do not lead to any material loss of information. In contrast, the amount of work required to collect these figures would be disproportionately high for the consolidated entities involved.

Fair value transactions between the consolidated entities

The consolidated entities have a variety of reciprocal business transactions that are carried out at market rates (e.g. postal services, telephony and internet fees, rail travel, etc.). During consolidation, these transactions should generally be removed and the resulting intercompany profits eliminated. The revenue from these transactions and the resulting receivables and liabilities are not eliminated for economic reasons (cost/benefit considerations). Both the annual surplus/deficit and the statement of financial position of the consolidated financial statements are only marginally affected by refraining from doing this.

Transactions between the Federal Administration (DDPS) and RUAG are an exception. The total corresponding RUAG revenue is offset against the defense expenses of the DDPS. Intercompany profits are not taken into account. In contrast, reciprocal receivables and liabilities are eliminated.

Direct federal tax transactions

The activities of federal enterprises are generally subject to direct federal tax, unless they are explicitly exempt from it (e.g. rail services). The direct federal tax recognized by the federal enterprises is not eliminated with the corresponding tax revenue or receivables/ liabilities of the Federal Tax Administration.

Similarly, the deferred tax items recognized by the federal enterprises for direct federal tax are not taken into account. The items recognized by the companies for deferred direct federal tax constitute a one-sided intercompany relationship. The Federal Tax Administration does not record any corresponding counter-item for this. The amounts are not reversed in the statement of financial performance or statement of financial position.

22 ACCOUNTING AND VALUATION PRINCIPLES

ACCOUNTING PRINCIPLES

Assets are shown as assets in the statement of financial position if they generate a future economic benefit (net inflows of funds) or if they directly serve the fulfilment of public tasks (service potential). Existing liabilities are shown under liabilities and equity in the statement of financial position if their settlement is likely to result in an outflow of funds. Moreover, it must be possible to estimate them reliably.

VALUATION PRINCIPLES

Items in the statement of financial position are generally valued at historical acquisition and production costs or amortized cost, unless a standard or statutory requirements prescribe a different valuation principle.

CURRENCY TRANSLATION

The reporting currency is Swiss francs. The consolidated financial statements are based on the accounting standards applied by the consolidated entities. This also includes the translation method used by the consolidated entities to convert accounts in a foreign currency or to convert the closing accounts of subsidiaries. No group conversion rates are issued.

VALUE ADJUSTMENT PRINCIPLES

The impairment of recognized assets is always tested if it appears that the carrying amounts may be too high owing to changed circumstances or other events. If this is the case, the procedure is as follows:

Financial assets

An impairment loss on financial assets carried at amortized cost is calculated as the difference between the carrying amount and the present value of estimated future cash flows taking the original effective interest rate into account.

Other assets

The impairment principles for other assets differ depending on whether an asset is classified as a cash-generating or non-cash-generating asset.

Cash-generating assets are assets that are held with the main objective of generating an economic return. In this case, the carrying amount is compared with the recoverable amount (higher of fair value less costs to sell and value in use). If the carrying amount exceeds the recoverable amount, the difference is recognized as a value adjustment.

If the carrying amount of *non-cash-generating assets* exceeds the higher of fair value less costs to sell and service potential, an impairment loss in the amount of the difference is recognized as an expense. It can be difficult to calculate the service potential for some assets, as there are no cash flows. One of the following methods is used to determine the present value of the remaining service potential:

- Replacement cost method with accumulated depreciation
- Restoration cost method

RECOGNITION OF REVENUE

Each inflow of funds of an entity is assessed to determine whether it is an inflow from exchange transactions (IPSAS 9) or an inflow from non-exchange transactions (IPSAS 23). In the case of a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

If an *exchange transaction* exists, the revenue is generally recognized at the time of delivery and service provision. In the case of project contracts, the performance obligation not yet fulfilled is allocated to liabilities. The revenue is accounted for and shown by reference to the stage of completion of the project.

In the case of a *non-exchange transaction*, it is necessary to determine whether or not a service or repayment obligation exists. In the event of such an obligation, the corresponding amount is recognized under liabilities at the time of contract conclusion and the revenue is recognized according to the progress of the project in question.

If neither an exchange transaction nor a service or repayment obligation exists, as is usually the case with grants, the revenue is recognized in full in the statement of financial performance in the year under review.

Revenue is structured as follows:

Tax revenue

Direct federal tax is recorded gross on a cash accounting basis based on the amounts of tax delivered by the cantons during the fiscal year (cash accounting). This means that recognition is not on an accrual basis, as the information required for recognition with the accrual accounting method is not available at the time the annual financial statements are prepared. The cantons' shares are recognized separately as an expense. Revenue pending in the years following any potential abolition of direct federal tax is shown as a contingent asset.

Value added tax revenue is calculated on the basis of amounts receivable and payable from settlements (including supplementary settlements, credit advices, etc.) during the fiscal year. Receivables from estimates due to the non-submission of VAT returns are only recognized as revenue with an empirical value of 20% due to the low probability of an inflow of funds.

Service and production revenue

Service revenue is recognized on a straight-line basis over the term of the contract or at the time the service is rendered. Revenue from product sales is recognized in the statement of financial performance when the risks and opportunities of ownership of the products are transferred to the buyer.

Social insurance revenue

Contributions by employers and insured persons (personal contributions and wage contributions) are based on the current contribution rates. They are recorded on a cash accounting basis.

Other revenue

Some other revenue, such as building revenue, is recorded on a pro rata basis. Other forms of other revenue, such as the Swiss National Bank's profit distribution, are recognized when the legal entitlement to the payment has arisen.

RECOGNITION OF EXPENSES

In accordance with the principle of accrual accounting, expenses are allocated to the accounting period in which they were incurred (e.g. personnel expenses). In the area of general, administrative and operating expenses, the time at which the goods or services were received or supplied is generally decisive. In the case of transfer expenses, the expenses are recorded on the basis of an order or other legally binding assurance or, in cases where no direct service is rendered, at the time when the contribution becomes due.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recognized in the statement of financial position at acquisition cost or production cost, less accumulated depreciation. Depreciation is on a straight-line basis over the estimated useful life of the asset. The permissible useful life ranges are as follows:

Property, plant and equipment	
Machines, appliances, tools, office machines, etc.	3–15 years
Passenger vehicles, delivery vans, lorries, buses	3–20 years
Railway locomotives, aircraft, ships	10–33 years
IT (hardware), communication systems	2–10 years
Furniture	3–20 years
Fixtures and fittings, operating equipment	3–25 years
Land and buildings	
Land	unlimited
Buildings, structures	10–75 years
Hydraulic engineering structures	40–80 years
Armaments	
Main systems (A systems)	10–50 years
Communication infrastructures	
Technical equipment (cables, ducts)	30–40 years
Technical equipment (transmission and switching equipment)	3–15 years
Other assets	3–15 years
Motorway infrastructures	
Roads, bridges	30 years
Tunnels	50 years
Electromechanical equipment	10 years
Rail infrastructures	
Technical equipment (cables, ducts), railway technology, overhead lines	10–33 years
Civil engineering structures (bridges, tunnels), substructure, superstructure	25–50 years
Tunnel excavations	80 years

The capitalization of *defense equipment* includes the main systems (A systems) according to the armament programs. Defense equipment comprising components with differing periods of useful life is not recorded or depreciated separately. Other defense equipment eligible for capitalization is not recognized in the statement of financial position. Unlike the main systems, the data required for capitalization of other defense equipment can be collected only with considerable effort, which is why it is not capitalized. Except in the case of main systems, the expenses for this defense equipment are thus incurred at the time of procurement and are not recorded over the period of the useful life.

The completed *motorways* taken over by the cantons as of January 1, 2008 are depreciated on a flat-rate basis over a period of 30 years, as they were not allocated to different asset classes prior to the introduction of the NFE. This also applies to the buildings in connection with motorways (maintenance depots, etc.). In contrast, assets completed after January 1, 2008 can be allocated to asset classes.

Federal *works of art* are not capitalized in the statement of financial position. The Federal Office of Culture keeps an inventory of all items owned by the Confederation.

INTANGIBLE FIXED ASSETS

Intangible fixed assets acquired or created are valued at acquisition or production cost.

Goodwill	No planned amortization, impairment test
Software	Term or useful life
Other intangible fixed assets (licenses, patents, rights, client relationships, brands)	Term or useful life

FINANCIAL INTERESTS

A distinction must be made between associates and other financial interests.

In the case of *associates*, the Confederation can have a significant impact on their business activities without controlling them. A significant impact is generally assumed with a 20% to 50% share of voting rights. Associates are generally valued at equity. Alternatively, they can also be valued at cost if the proportionate equity of a financial interest is less than 50 million.

Other financial interests are financial interests in companies and organizations over which the Confederation cannot exercise control or have significant influence due to its position. Other financial interests are shown under this item in the statement of financial position only if they are held for the performance of tasks. In this case, they are valued at cost because, as a rule, there are no fair values. In contrast, financial interests for investment purposes are recognized under financial investments and, for the most part, are valued at market rates.

Equity method

Valuation using the equity method is based on closing accounts that are adjusted to the accounting standards of the consolidated financial statements.

Valuation using the equity method is based on the company's most recent closing accounts available. If this does not correspond to the reporting date of the consolidated financial statements, either closing accounts are obtained for the reporting date of the consolidated financial statements or they are based on the company's last available closing accounts and are updated to reflect the significant transactions between the two reporting dates.

Valuation at cost

The initial valuation at cost is based on the actual acquisition costs. The acquisition value generally corresponds to the capital paid in.

Subsequent measurement is also based on acquisition costs, as no market prices can be used for measurement. Acquisition costs in foreign currencies are valued at the exchange rate applicable on the reporting date.

If the company significantly restricts its business or administrative activities or if future financial flows (e.g. the possibility of conversion into liquid funds, interest payments, dividend payments) are adversely affected, impairment is tested.

EMPLOYEE RETIREMENT BENEFITS

Employee retirement benefits include obligations under pension plans of the Confederation and federal enterprises which pay out benefits upon retirement, death and disability.

In accordance with the requirements of IPSAS 39, these pension plans are to be classified as defined benefit plans. In contrast to the static method of accounting for employee benefits under Swiss pension law, vested employee benefits are measured on a basis to reflect future changes in salary and pension levels, applying the “substance over form” approach in IPSAS 39. The employee retirement benefits shown in the statement of financial position correspond to the present value of defined benefit employee retirement benefits less the fair value of plan assets.

The current service cost and obligations under pension plans are calculated using the actuarial valuation method known as the projected unit credit method (PUC). The calculation is based on information on those insured (wage, retirement savings, etc.) using demographic parameters (retirement age, fluctuation rate, disability rate, mortality rate) and financial parameters (wage and pension development, interest rate). The calculated values are discounted to the measurement date using a discount rate.

The statement of financial performance shows the current service cost, past service cost from plan changes, any gains or losses on plan settlements, administrative costs and the interest on net retirement benefits under personnel expenses. In this case, plan changes and settlements, to the extent that they have led to acquired rights, are recognized directly in the statement of financial performance in the period in which they arise.

Actuarial and investment gains and losses from pension plans are recognized directly in net assets/equity in the reporting period in which they arise. Actuarial gains and losses result from changes in the parameters used and from experience adjustments.

The assumptions made by the consolidated entities are applied unchanged for the calculation of employee retirement benefits. This also applies for all assumptions in connection with risk sharing. In contrast to the individual financial statements of SBB, RUAG and Skyguide in accordance with Swiss GAAP FER, where a liability is recognized only to the extent of the actual restructuring commitments, the consolidated financial statements recognize a liability for all retirement benefits in accordance with IPSAS 39.

Other benefits (long-service benefits, vacation and overtime, etc.) are included in provisions (employee benefits).

PROVISIONS

Provisions are recognized where a liability has arisen from a past event, an outflow of funds will probably be required to settle that liability, and the amount of the liability can be reliably estimated. Where it is unlikely that an outflow of funds will be required (<50%) or the amount cannot be estimated reliably, it is disclosed as a contingent liability. A provision for restructuring costs is recognized only when a detailed formal plan for the restructuring has been presented, the plan has been communicated, and the level of costs can be measured with sufficient reliability.

23 EXPLANATIONS CONCERNING THE ANNUAL FINANCIAL STATEMENTS

1 TAX REVENUE

CHF mn	2016	2017
Tax revenue	**63 370**	**66 687**
Direct federal tax	21 057	20 944
Natural persons	10 409	10 332
Legal entities	10 648	10 612
Withholding tax	5 733	8 226
Withholding tax incoming payments	25 073	30 960
Withholding tax refunds	-19 878	-20 746
Change in provisions	500	-2 000
US withholding tax	37	12
Stamp duty	2 021	2 434
Issue tax	209	407
Transfer stamp tax	1 106	1 315
Insurance premium stamp duty and other	706	713
Value added tax	22 458	22 904
General federal resources	17 310	17 654
Restricted funds	5 148	5 250
Other consumption taxes	7 222	7 049
Mineral oil tax	4 688	4 523
Tobacco duty	2 131	2 139
Spirits tax	272	275
Beer tax	131	112
Miscellaneous tax revenue	4 881	5 130
Transportation taxes	2 178	2 409
Customs duties	1 134	1 103
Casino tax	274	273
Incentive fees	1 294	1 345

2 SERVICE AND PRODUCTION REVENUE

CHF mn	2016	2017
Service and production revenue	**27 747**	**27 364**
Postal service revenue	4 524	4 472
Postal service revenue	4 524	4 472
Income from financial services	1 765	1 785
Financial service revenue	2 022	1 959
Financial service expenses	-257	-174
Telecommunications service revenue	11 643	11 662
Telecommunications services Switzerland	9 665	9 476
Telecommunications services abroad	1 978	2 187
Armament sector revenue	1 290	1 365
Defense technology	206	270
Civil area	1 084	1 095
Transportation revenue	5 246	5 333
Passenger transportation rail	3 165	3 316
Passenger transportation postal bus	463	479
Freight transportation rail	851	838
Ancillary operating revenue rail	213	210
Cantons' contributions/compensation	554	491
Other service revenue	3 279	2 747
Air traffic control	310	343
Income from insurance services	83	86
Swiss Post merchandise	508	459
ETH research/science services	741	586
Other services federal enterprises	1 636	1 274

3 SOCIAL INSURANCE REVENUE/EXPENDITURE

CHF mn	2016	2017
Net result social insurance	**-15 884**	**-16 043**
Social insurance revenue	43 331	43 814
Contributions by employers and insured persons	44 649	45 115
Cantons' contributions/other revenue	251	250
./. social insurance revenue from consolidation scope	-1 569	-1 550
Social insurance expenses	59 215	59 857
Direct old-age and survivors' insurance (AHV) benefits	42 339	43 095
Direct disability insurance (IV) benefits	8 580	8 617
Direct benefits concerning compensation for loss of earnings (EO)	1 742	1 721
Direct benefits concerning agriculture family allowances (FL)	108	109
Direct unemployment insurance (ALV) benefits (net AHV contributions)	6 446	6 316

Federal social insurance is financed primarily with the employer and employee contributions received. In addition, significant financing comes from contributions from the ordinary federal budget and restricted tax shares. The above overview shows a net view of the social insurance result. The Confederation's contributions which are paid into its own social insurance funds in the form of contributions, tax shares and employer contributions are excluded.

4 OTHER REVENUE

CHF mn	2016	2017
Other revenue	**5 399**	**6 297**
Capitalized own work	1 570	1 661
Rail	1 145	1 225
Other	424	436
Building revenue	631	701
Building revenue rail operations	469	498
Federal buildings	64	70
Other	98	133
Other sovereign revenue	889	1 448
Revenue from exchange transactions, fines	12	109
SNB profit distribution	333	577
Revenue from concessions, quota auctions	316	285
Gifts, bequests to the ETH	115	119
Other revenue from payments, royalties	113	359
Other revenue	2 310	2 487
Cantonal contributions to rail companies	500	500
Net revenue special financing in liabilities	28	19
Other misc. revenue	1 781	1 968

5 PERSONNEL EXPENSES

CHF mn	2016	2017
Personnel expenses	**19 816**	**20 140**
Wages and salaries	15 742	15 814
Retirement benefit cost	2 581	2 575
Other personnel expenses	1 493	1 752

6 GENERAL, ADMINISTRATIVE AND OPERATING EXPENSES

CHF mn	2016	2017
General, administrative and operating expenses	**17 417**	**17 300**
Cost of materials, goods and services	5 493	5 561
Building expenses and rent	1 830	1 723
IT expenses	1 194	1 201
Armed Forces operating and defense expenses	978	1 067
Other general and administrative expenses	1 062	464
Other operating expenses	6 859	7 283

7 TRANSFER EXPENSES

CHF mn	2016	2017
Transfer expenses	**29 045**	**29 871**
Cantons' share in federal income	5 036	5 505
Fiscal equalization to cantons	3 246	3 281
Individual premium reductions (IPR) to cantons	2 481	2 617
AHV and IV supplementary benefits	1 465	1 495
Compensation to public bodies	1 596	1 590
Contributions to international organizations	1 807	2 099
Direct payments for agriculture	2 802	2 806
Research promotion institutions	1 011	978
Redistribution of incentive fees	759	842
Rail regional transportation amounts	782	701
Net expense special financing in liabilities	195	156
Other contributions to third parties	7 865	7 802

8 FINANCIAL RESULT

CHF mn	2016	2017
Financial result	**-215**	**1 102**
Financial revenue	1 977	3 058
Interest income	501	697
Revenue from financial interests	288	270
Market value adjustments	700	1 795
Other financial revenue	488	297
Financial expense	2 192	1 956
Interest expense	1 845	1 758
Capital procurement expenses	70	59
Impairments on financial investments	39	21
Market value adjustments	18	-9
Other financial expense	219	127

9 INCOME TAXES OF FEDERAL ENTERPRISES

CHF mn	2016	2017
Income taxes of federal enterprises	**535**	**573**
Expenses for current income taxes	465	471
Expenses for deferred income taxes	70	103

10 BREAKDOWN BY SEGMENT

CHF mn	Federal Administ-ration	Compa-nies	Social insurance	*Consoli-dation*	2017
Statement of financial performance					
Surplus/deficit for the year	3 845	2 633	2 622	–	9 100
Operating result	4 806	3 374	233	–	8 414
Operating revenue	71 082	33 015	61 523	*-21 457*	144 162
Operating expenses	66 276	29 641	61 289	*-21 457*	135 748
Financial result	-1 133	-153	2 388	–	1 102
Proportionate result from associated companies	172	-15	–	–	157
Income taxes of federal enterprises	-0	-573	–	–	-573
Personnel					
Number of full-time employees (FTEs)	55 822	107 602	0	*0*	163 423

11 CASH AND CASH EQUIVALENTS

CHF mn	2016	2017
Cash and cash equivalents	**49 067**	**59 556**
Cash	912	2 645
Sight deposits with financial institutions	47 999	56 824
Short-term deposits	155	86

12 RECEIVABLES

CHF mn	2016	2017
Receivables	**16 109**	**17 618**
Trade receivables	5 039	4 983
Tax and customs receivables	4 568	5 793
Current account receivables from compensation funds	3 750	3 730
Other current account receivables	711	854
Other receivables	2 711	2 983
Value adjustments on receivables	-670	-725

13 FINANCIAL INVESTMENTS

CHF mn	2016	2017
Financial investments	**117 664**	**118 382**
Short-term financial investments	30 340	37 166
Fixed-rate investments	22 614	31 622
Variable-rate investments	77	74
Other securities	3 073	2 493
Loans	4 001	2 392
Other financial investments	113	60
Derivative financial instruments	463	524
Long-term financial investments	87 324	81 217
Fixed-rate investments	51 589	43 237
Variable-rate investments	127	3
Other securities	6 556	7 170
Loans	17 430	17 264
Other financial investments	11 623	13 544

14 INVENTORIES

CHF mn	2016	2017
Inventories	**4 857**	**4 943**
Civil inventories and work in progress	1 736	1 837
Military inventories	3 488	3 501
Value adjustments on inventories	-367	-395

15 TANGIBLE FIXED ASSETS

2017 CHF mn	Advances and assets under construction	Property, plant and equipment	Land and buildings	Armaments	Infrastructure communi-cations	Infrastructure motorways	Infrastructure rail	Total
Acquisition costs								
As of 01.01.2017	27 315	36 155	54 582	16 754	27 022	42 345	41 214	245 387
Additions	7 043	711	136	183	1 333	–	6	9 413
Disposals	-35	-1 007	-1 024	-17	-664	-1 080	-319	-4 147
Change in consolidation scope	1	16	374	–	1	–	–	391
Reclassifications	-6 612	1 539	996	11	95	2 569	1 344	-58
Currency translations	3	34	12	–	386	–	–	435
As of 31.12.2017	27 715	37 447	55 076	16 932	28 174	43 834	42 244	251 420
Accumulated depreciation								
As of 01.01.2017	–	-21 935	-28 689	-11 590	-19 246	-20 580	-12 526	-114 566
Depreciation and amortization	–	-1 824	-996	-610	-1 114	-1 503	-1 149	-7 197
Impairments	-2	-152	-100	–	–	-60	–	-314
Reversal of impairments	–	–	0	–	–	–	–	0
Disposals	-0	914	777	17	668	1 080	273	3 730
Change in consolidation scope	–	-6	-114	–	–	–	–	-120
Reclassifications	–	-5	0	–	21	-0	0	16
Currency translations	–	-20	-4	–	-208	–	–	-231
As of 31.12.2017	-3	-23 027	-29 125	-12 183	-19 880	-21 063	-13 402	-118 683
Carrying amount as of 31.12.2017	**27 712**	**14 420**	**25 950**	**4 749**	**8 294**	**22 771**	**28 842**	**132 738**

2017 CHF mn	Advances and assets under construction	Property, plant and equipment	Land and buildings	Armaments	Infrastructure communi-cations	Infrastructure motorways	Infrastructure rail	Total
Acquisition costs								
As of 01.01.2016	36 486	34 863	53 653	16 597	26 127	41 747	31 230	240 702
Additions	6 807	696	151	248	1 424	–	12	9 337
Disposals	-198	-1 056	-1 134	-154	-637	-1 077	-320	-4 576
Change in consolidation scope	-0	-24	-4	–	–	–	–	-28
Reclassifications	-15 780	1 684	1 916	63	108	1 675	10 293	-40
Currency translations	-0	-7	-0	–	–	–	–	-7
As of 31.12.2016	27 315	36 155	54 582	16 754	27 022	42 345	41 214	245 387
Accumulated depreciation								
As of 01.01.2016	–	-21 193	-28 646	-10 978	-18 716	-20 196	-11 695	-111 425
Depreciation and amortization	–	-1 771	-1 017	-712	-1 103	-1 458	-1 068	-7 128
Impairments	-175	-3	-94	-54	–	-2	–	-328
Reversal of impairments	–	1	–	–	–	–	–	1
Disposals	175	999	1 060	154	571	1 076	244	4 279
Change in consolidation scope	–	20	3	–	–	–	–	23
Reclassifications	–	8	5	–	1	–	-7	7
Currency translations	–	5	0	–	–	–	–	5
As of 31.12.2016	–	-21 935	-28 689	-11 590	-19 246	-20 580	-12 526	-114 566
Carrying amount as of 31.12.2016	**27 315**	**14 220**	**25 893**	**5 164**	**7 776**	**21 765**	**28 688**	**130 821**

Advance payments and assets under construction comprise mainly motorways (10.9 bn), construction projects and advance payments for railway infrastructure (7.5 bn), and Gotthard and Ceneri civil engineering structures not yet invoiced (4.7 bn).

Property, plant and equipment/other tangible fixed assets include the rolling stock of railway companies (6.9 bn).

16 INTANGIBLE FIXED ASSETS

2017 CHF mn	Assets under construction	Goodwill	Software	Other intangible fixed assets	Total
Acquisition costs					
As of 01.01.2017	844	6 952	5 841	3 084	16 721
Additions	419	–	397	173	989
Disposals	-21	–	-633	-961	-1 615
Change in consolidation scope	-1	88	-1	104	190
Reclassifications	-485	–	581	-39	57
Foreign currency exchange differences	0	163	128	52	344
As of 31.12.2017	757	7 204	6 313	2 414	16 687
Accumulated depreciation					
As of 01.01.2017	–	-1 488	-4 221	-2 170	-7 879
Depreciation and amortization	–	–	-745	-213	-957
Impairments	-48	-24	-36	-7	-114
Reversal of impairments	–	–	–	–	–
Disposals	6	–	631	952	1 589
Change in consolidation scope	–	–	3	0	4
Reclassifications	–	–	-30	15	-15
Foreign currency exchange differences	–	-103	-104	-43	-249
As of 31.12.2017	-42	-1 615	-4 501	-1 464	-7 621
Carrying amount as of 31.12.2017	**715**	**5 589**	**1 812**	**949**	**9 065**

2016 CHF mn	Assets under construction	Goodwill	Software	Other intangible fixed assets	Total
Acquisition costs					
As of 01.01.2016	780	6 976	5 449	3 028	16 233
Additions	500	1	350	113	964
Disposals	-5	-0	-367	-79	-451
Change in consolidation scope	-2	-3	–	-36	-41
Reclassifications	-430	–	410	61	40
Foreign currency exchange differences	0	-22	-0	-3	-24
As of 31.12.2016	844	6 952	5 841	3 084	16 721
Accumulated depreciation					
As of 01.01.2016	–	-1 497	-3 871	-1 974	-7 342
Depreciation and amortization	–	–	-700	-281	-981
Impairments	-0	-4	-3	-7	-14
Reversal of impairments	–	–	–	–	–
Disposals	0	–	360	79	439
Change in consolidation scope	–	–	–	11	11
Reclassifications	–	–	-6	-0	-7
Foreign currency exchange differences	–	13	0	2	15
As of 31.12.2016	–	-1 488	-4 221	-2 170	-7 879
Carrying amount as of 31.12.2016	**844**	**5 464**	**1 620**	**914**	**8 842**

17 FINANCIAL INTERESTS

2017 CHF mn	BLS AG	Rhaetian Railway RhB	Matterhorn Gotthard Infra-struktur AG	Other licensed transportation companies	Development banks	Developing countries and countries in transition	Other	Total
Financial interests								
As of 01.01.2016	560	1 015	368	796	661	229	613	4 242
Additions	–	–	–	24	36	33	91	184
Disposals	–	–	–	-28	–	-8	-54	-90
Dividends	–	–	–	–	–	–	-33	-33
Share of net result recognized in statement of financial performance	2	38	52	92	–	–	9	193
Share of net result recognized in net assets/equity	–	–	–	–	–	–	-4	-4
Other transactions	–	–	–	–	–	-9	28	19
Currency translations	–	–	–	–	-2	-8	2	-8
As of 31.12.2016	562	1 053	420	884	695	237	652	4 503
Additions	–	–	–	1	45	41	122	209
Disposals	–	–	–	–	–	-18	-103	-121
Dividends	–	–	–	–	–	–	-38	-38
Share of net result recognized in statement of financial performance	3	43	37	74	–	–	–	157
Share of net result recognized in net assets/equity	–	–	–	–	–	–	-1	-1
Other transactions	–	–	–	–	–	31	149	180
Currency translations	–	–	–	–	-1	-2	20	17
As of 31.12.2017	565	1 096	457	959	739	289	801	4 906

FINANCIAL INTERESTS IN LICENSED TRANSPORTATION COMPANIES

Significant interests in licensed transportation companies are valued using the equity method. The net assets/equity of licensed transportation companies is valued in accordance with the IPSAS guidelines. The following items are treated differently under the IPSAS than in licensed transportation companies' accounting standards:

a. Licensed transportation companies receive conditionally repayable public-sector loans to finance railway infrastructure. Repayment of the loans is subject to conditions which generally do not apply. Conditionally repayable loans are shown as liabilities in licensed transportation companies' financial statements. Irrespective of the legal structure, the funds received are attributable to licensed transportation companies' net assets/equity in economic terms.

b. The investment contributions for tunnel excavation work are granted by the Confederation to licensed transportation companies as non-repayable payments. Based on the DETEC Ordinance on Accounting in Licensed Enterprises (ALEO), the investments made with them are recognized in licensed transportation companies' statements of financial performance and are thus not recognized in the statement of financial position. In the consolidated financial statements, these civil engineering structures are recognized and depreciated according to their service potential.

FINANCIAL INTERESTS IN DEVELOPMENT BANKS

Financial interests held for the performance of tasks are measured at amortized cost. Financial interests held in foreign currencies are valued annually at the exchange rate applicable on the reporting date.

18 CURRENT LIABILITIES

CHF mn	2016	2017
Current liabilities	**14 384**	**17 517**
Trade payables	4 270	5 109
Tax and customs liabilities	5 308	6 853
Current accounts	3 897	4 676
Other liabilities	910	880

19 FINANCIAL LIABILITIES

CHF mn	2016	2017
Financial liabilities	**215 214**	**214 464**
Short-term financial liabilities	132 675	135 076
Client funds	112 136	114 430
Bonds	6 344	8 528
Liabilities from money market paper	6 963	7 169
Bank loans	689	790
Liabilities from financial leases	219	51
Negative replacement values	1 167	872
Other financial liabilities	5 158	3 236
Long-term financial liabilities	82 539	79 388
Bonds	74 178	70 515
Bank loans	2 617	2 917
Client funds	93	80
Liabilities from financial leases	707	1 232
Other financial liabilities	4 945	4 645

20 PROVISIONS

CHF mn	Withholding tax	Military insurance	Coins in circulation	Discontinuation, restoration, disposal	Benefits for employees	Other	Total
As of 01.01.2016	**9 700**	**2 083**	**2 211**	**1 795**	**1 490**	**2 682**	**19 961**
Increase	–	180	48	11	98	1 526	1 864
Decrease	-500	–	–	-124	-29	-462	-1 116
Utilization	–	-90	-13	-22	-72	-828	-1 024
Present value adjustments	–	–	–	56	2	2	60
Consolidation scope changes	–	–	–	–	-1	-3	-4
Currency translations	–	–	–	0	-0	0	-0
As of 31.12.2016	**9 200**	**2 173**	**2 246**	**1 716**	**1 488**	**2 918**	**19 741**
Increase	2 000	117	35	81	110	1 058	3 401
Decrease	–	–	–	-26	-26	-533	-585
Utilization	–	-184	-10	-7	-88	-392	-682
Present value adjustments	–	–	–	8	1	-1	8
Consolidation scope changes	–	–	–	–	0	4	5
Currency translations	–	–	–	–	2	4	6
As of 31.12.2017	**11 200**	**2 106**	**2 271**	**1 771**	**1 487**	**3 059**	**21 893**
of which short term	*–*	*199*	*–*	*37*	*578*	*608*	*1 422*
of which long term	*11 200*	*1 907*	*2 271*	*1 734*	*908*	*2 450*	*20 471*

WITHHOLDING TAX

The withholding tax provision covers expected future tax refund claims in respect of revenue which has already been recognized on the basis of tax returns received. Under the applicable measurement basis, a percentage is deducted from incoming payments recorded, representing what is presumed to have been paid out as refunds or recorded as accrued expenses in the year under review. An empirical value representing the residual share of net income due to the Confederation is also deducted. The balance is the level of provision required to match the share of receipts likely to be claimed as refunds in subsequent years. Based on the information available, it is possible to determine only the refunds from receipts outstanding in the current year. Amounts payable from receipts in previous years are not taken into account.

MILITARY INSURANCE

Suva operates the military insurance scheme as a separate social insurance fund on behalf of the Confederation. In the event of a claim, provision must be made for the projected pension liabilities. Actuarial methods are used for the calculation. Pensions are capitalized taking account of the relevant parameters (e.g. mortality, size of pension, inflation or interest income for calculating the actuarial reserves). Similarly, the future costs of any treatment, daily benefits and other cash benefits as a result of damage to health are calculated.

COINS IN CIRCULATION

A provision is made for coins in circulation. The amount corresponds to 65% of the nominal value of newly minted coins supplied to the SNB, adjusted for the change in inventories at the SNB. These withdrawals are shown under appropriation for this provision. Based on eurozone empirical values, a loss rate of 35% should be anticipated, as not all coins are delivered to the SNB, even after several years have passed.

DISCONTINUATION, RESTORATION AND DISPOSAL COSTS

The provisions include the future costs for the dismantling and decommissioning of nuclear facilities owned by the Confederation, as well as for the disposal of radioactive waste from these facilities. The calculation is based on a swissnuclear estimate and is subject to significant inaccuracy because of the lack of comprehensive empirical data associated with the dismantling of nuclear facilities and the long planning horizon for the disposal of radioactive waste. Moreover, the provisions include the costs for the demolition of telecommunications facilities and the restoration of land owned by third parties to its original condition.

EMPLOYEE BENEFITS

Employees' vacation entitlement and overtime, as well as long-service entitlements are recognized under provisions for employee benefits.

21 EMPLOYEE RETIREMENT BENEFITS

In accordance with the legal requirements in Switzerland, group entities have legally independent foundations and thus eliminate their retirement benefit obligations. Under IPSAS 39, Swiss pension funds qualify as defined benefit plans, which is why the actuarially determined funding surplus or deficit is recognized in the group statement of financial position. Each pension fund has its own equal representation body consisting of the same number of employee and employer representatives. The pension foundations bear their own underwriting and investment risks. The investment strategy is defined in such a way that the regulatory benefits can be paid when they become due.

EMPLOYEE RETIREMENT BENEFITS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION

CHF mn	2016	2017
Employee retirement benefits	25 649	17 814
Present value of employee retirement benefits	104 498	101 337
Fair value of plan assets	-78 850	-83 524

The net employee retirement benefits recognized in the statement of financial position fell by 7.8 billion during the year under review, due mainly to employee retirement benefit valuation changes (3.0 bn) and the good investment performance of plan assets (4.8 bn). These items were recognized directly in net assets/equity.

RETIREMENT BENEFIT COST IN ACCORDANCE WITH IPSAS 39

CHF mn	2016	2017
Retirement benefit cost	2 581	2 575
Current service cost (employer)	2 395	2 517
Plan changes	10	-64
Administrative costs	37	40
Interest expense for employee retirement benefits	603	427
Interest income from plan assets	-463	-346

REVALUATION OF EMPLOYEE RETIREMENT BENEFITS AND PLAN ASSETS

CHF mn	2016	2017
Revaluation recognized in net assets/equity	**1 507**	**7 764**
Actuarial gains (+)/losses (-)	-1 170	2 979
Change in financial assumptions	275	3 084
Change in demographic assumptions	-1 270	735
Experience adjustments	-175	-840
Revenue from plan assets (excl. interest based on discount rate)	2 677	4 785

DETAILS OF INDIVIDUAL PLANS

The most significant plans are at the Confederation, the ETH Domain, Swiss Post, Swiss Federal Railways and Swisscom. The key data of these plans is presented below:

BREAKDOWN BY SEGMENT

	Confe-deration as parent	ETH Domain	Swiss Post	SBB	Swisscom
Number of active insured persons	39 789	19 237	41 716	30 634	19 071
Number of pensioners	27 824	5 950	36 274	26 600	8 127
Discount rate	0,30%	0,30%	0,50%	0,60%	0,69%
Risk sharing	no	no	yes	no	yes

DISCOUNT RATE

The discount rate for discounting employee retirement benefits is determined individually by the group entities and adopted unchanged for the consolidated financial statements. In principle, the discount rates for federal enterprises are based on first-class corporate bonds and, for public institutions, on Confederation bonds.

RISK SHARING

With the customary valuation of employee retirement benefits under IPSAS 39, it is assumed that the costs for funding current pension commitments (i.e. restructuring measures) are borne exclusively by the employer. However, under certain circumstances, the statutory obligation to jointly fund retirement benefit obligations may also be taken into account in the form of risk sharing when valuing the retirement benefit obligation in order to provide a more realistic picture of the pension plans' actual costs for the enterprises. This nevertheless requires the assumption of measures that have not yet been adopted and thus creates considerable scope for discretion. With the exception of Swisscom and Swiss Post, the group entities do not apply risk sharing at present.

The first-time inclusion of risk sharing reduced Swisscom's retirement benefit obligation by 856 million in 2016 and Swiss Post's by 1,121 million in 2017. This reduction in retirement benefit obligations was recognized directly in net assets/equity as an estimate change.

22 OTHER LONG-TERM LIABILITIES

CHF mn	2016	2017
Other long-term liabilities	**3 117**	**3 334**
Special funds	669	669
Nuclear damage fund	492	499
Family compensation fund	77	75
Other special funds	100	95
Restricted funds	1 999	2 239
Restricted research contributions	1 333	1 428
Special financing	635	767
Other restricted funds	31	44
Other long-term liabilities	449	426

23 CONTINGENT LIABILITIES

CHF mn	2016	2017
Contingent liabilities	**18 515**	**18 769**
Sureties and guarantees	7 451	8 247
Subsidized housing	3 258	3 309
Licensed transportation companies	1 919	2 117
IMF monetary assistance decree	–	195
IMF PRGT	780	1 441
Oceangoing vessels	579	426
Other sureties and guarantees	915	759
Capital commitments for development banks	8 294	8 106
Litigation	760	1 197
Other contingent liabilities	2 011	1 220
Decommissioning and disposal	427	390
Misc. other contingent liabilities	1 584	830

SURETIES AND GUARANTEES

The Confederation grants sureties and guarantees as part of task performance. It thus undertakes to make certain payments in favor of the guarantee holder if a borrower fails to meet its payment obligations toward the guarantee holder. The Confederation provides these guarantees free of charge.

Subsidized housing is indirectly funded by way of sureties issued. The Confederation issues guarantees in respect of second mortgages of natural persons for the promotion of housing construction. It can also issue guarantees to public housing construction organizations or act as a guarantor for bonds of public central issuers.

In favor of *licensed transportation companies,* the Confederation guarantees loans which are taken out for the procurement of low-interest resources. The credit facility approved by Parliament for this purpose amounts to 11 billion. This is used to issue guarantee bonds in tranches in favor of licensed transportation companies.

For the Swiss National Bank (SNB), the Confederation guarantees the repayment of loans granted by the SNB to the *IMF's Poverty Reduction and Growth Trust* (PRGT). The PRGT grants loans on preferential terms to low-income member countries and is financed by means of bilateral contributions and IMF resources.

CAPITAL COMMITMENTS FOR DEVELOPMENT BANKS

Capital commitments refer to guarantee capital which has not yet been paid up that can be called upon if necessary by development banks. Participation in the banks is part of Switzerland's development assistance, as these banks promote sustainable economic and social development in the target countries. Guarantee capital helps to secure the bonds issued by the banks on the international capital markets.

24 CONTINGENT ASSETS

CHF mn	2016	2017
Contingent assets	**21 803**	**20 237**
Unrecognized receivables from direct federal tax	18 000	19 300
Other contingent assets	3 803	937

Unrecognized receivables from direct federal tax (excluding cantons' share of 17%) are levied ex post and only fall due in the year following the fiscal year in question. The booking of receipts is undertaken by the federal government to coincide with the delivery of the federal government's share by the cantons (cash accounting). If direct federal tax were levied at the end of 2017, there would still be an estimated 19.3 billion in receipts anticipated the following years. These assets are owed to the Confederation by law. Recognizing all receivables up to and including the 2017 tax year is not possible, however, as these are not yet available as of the reporting date. For this reason, the estimated outstanding balances are reported as contingent assets.

Other contingent assets consist mainly of disputed receivables from withholding tax and stamp duty. These are legally contested receivables whose enforceability has to be clarified.

25 SERV LIABILITY SCOPE

CHF mn	2016	2017
SERV liability scope		
SERV liability scope	14 000	14 000
Utilization	10 080	10 780
Utilization in %	72%	77%

The Federal Council is responsible for determining the maximum scope of Swiss Export Risk Insurance (SERV) insurance liabilities. This currently amounts to 14 billion. The liability scope sets the total exposure ceiling that SERV can assume for insured benefits. The liability scope is reviewed periodically and adjusted where necessary.

At the end of 2017, the insurance liability amounted to 10.8 billion, whereby the liability scope was 77% utilized. Insurance liabilities include outstanding insurance policies (8 bn) and insurance commitments in principle (3 bn).

26 EVENTS AFTER THE REPORTING DATE

The 2017 consolidated financial statements were approved by the Federal Council on April 11, 2018. Up to that date, the following events requiring disclosure had occurred after the reporting date.

LOAN TO THE INTERNATIONAL MONETARY FUND IMF

On October 11, 2017, the Federal Council instructed the Swiss National Bank (SNB) to grant the IMF a loan of CHF 8.5 billion. The corresponding agreement was signed by the IMF on January 30, 2018. Once signed by the IMF, the credit line became legally binding. The loan will be reported as a contingent liability in the future.

24 SCHEDULE OF HOLDINGS

CONSOLIDATED ENTITIES

Financial interests	Capital share (in %)	Valuation method
Federal Administration segment		
Confederation as parent		
Federal Department of Foreign Affairs	100	Full consolidation
Federal Department of Home Affairs	100	Full consolidation
Federal Department of Justice and Police	100	Full consolidation
Federal Department of Defence, Civil Protection and Sport	100	Full consolidation
Federal Department of Finance	100	Full consolidation
Federal Department of Economic Affairs, Education and Research	100	Full consolidation
Federal Department of the Environment, Transport, Energy and Communications	100	Full consolidation
Authorities and courts	100	Full consolidation
Separate accounts		
Railway infrastructure fund (RIF)	100	Full consolidation
Infrastructure fund (IF)	100	Full consolidation
Swiss Alcohol Board (SAB)	100	Full consolidation
Decentralized administrative units (tax-financed)		
Swiss Federal Institutes of Technology Domain (ETH)	100	Full consolidation
Swiss Federal Institute for Vocational Education and Training (SFIVET)	100	Full consolidation
Swiss Federal Institute of Metrology (METAS)	100	Full consolidation
Pro Helvetia	100	Full consolidation
Swiss National Museum (SNM)	100	Full consolidation
Significant associated companies		
BLS AG	22	Equity
Rhaetian Railway (RhB)	43	Equity
Matterhorn Gotthard Infrastruktur AG	77	Equity
Federal enterprises segment		
Federal enterprises		
Parent company incl. its subsidiaries		
Swiss Post AG	100	Full consolidation
Swisscom AG	51	Full consolidation
Skyguide AG	100	Full consolidation
SBB AG	100	Full consolidation
AlpTransit Gotthard AG	100	Full consolidation
BLS Netz AG	50	Full consolidation
SIFEM AG	100	Full consolidation
RUAG Schweiz AG	100	Full consolidation
Decentralized administrative units (not tax-financed or not primarily tax-financed)		
Swiss Financial Market Supervisory Authority (FINMA)	100	Full consolidation
Swiss Federal Institute of Intellectual Property (IIP)	100	Full consolidation
Swiss Federal Nuclear Safety Inspectorate (ENSI)	100	Full consolidation
Federal Audit Oversight Authority (FAOA)	100	Full consolidation
Swiss Export Risk Insurance (SERV)	100	Full consolidation
Swiss Association for Hotel Credit (SAH)	21	Full consolidation
Swissmedic	66	Full consolidation
Federal social insurance segment		
Old-age and survivors' insurance (AHV)	100	Full consolidation
Disability insurance (IV)	100	Full consolidation
Compensation for loss of earnings (EO)	100	Full consolidation
Agriculture family allowances (FL)	100	Full consolidation
Unemployment insurance (ALV)	100	Full consolidation