
FINANCIAL REPORT 2016

MANAGEMENT REPORT,
CORPORATE GOVERNANCE AND
ANNUAL FINANCIAL STATEMENTS

About this Financial Report

■ Structure of annual reporting documents

The Swiss Post annual reporting documents for 2016 consist of:

- Swiss Post Annual Report
- Swiss Post Financial Report (this document, consisting of the management report and corporate governance section as well as the annual financial statements for the Group, Swiss Post Ltd and PostFinance Ltd)
- PostFinance Ltd Annual Report
- PostBus Switzerland Ltd Performance Report
- GRI report (in accordance with the Global Reporting Initiative guidelines)
- Annual Report key figures

■ True-to-scale representation of figures in charts

Charts are shown to scale to present a true and fair view.

20 mm is equivalent to one billion francs.

Percentages in charts are standardized as follows:

Horizontal: 75 mm is equivalent to 100 percent.

Vertical: 40 mm is equivalent to 100 percent.

■ Key for charts and tables

- Current year
- Previous year
- Positive effect on result
- Negative effect on result

■ Languages

This Financial Report is available in English, German, French and Italian. The German version is authoritative.

■ Ordering

Electronic versions of the annual reporting documents are available at www.swisspost.ch/annualreport.

The Annual Report and Financial Report are also available in printed form.

■ Forward-looking statements

This report contains forward-looking statements. They are based on current management estimates and projections, and on the information currently available to management. Forward-looking statements are not intended as guarantees of future performance and results, which remain dependent on many different factors; they are subject to a variety of risks and uncertainties, and are based on assumptions that may not prove accurate.

SIMPLE YET SYSTEMATIC – SWISS POST.

Reliable, value-enhancing and sustainable.



8,188 million

francs in **operating income**, down slightly year-on-year.



558 million

francs in **Group profit**, down year-on-year.



2,089 million

addressed letters were posted in Switzerland in 2016.



122 million

parcels were delivered in Switzerland by PostLogistics in 2016.



119 billion

francs represents the level of **average customer assets** held by PostFinance.



152 million

passengers were transported by PostBus in 2016.



80 points

Customer satisfaction remains high.



16%

is the **CO₂ efficiency improvement** over 2010 achieved by Swiss Post by the end of 2016.



61,265

employees, slightly below the **headcount** for the prior year.



82 points

The index figure for **employee commitment** is a testament to motivated and committed employees.

Financial Report 2016

Management report	5
Business activities	6
Markets, solutions and services	6
Geographical segmentation	7
Access points in Switzerland	8
Customers	9
Brands	10
Organization	11
Developments	12
Trends in the environment	12
Market trends	13
Group strategy	16
Guidelines	16
Strategic framework	18
Strategic goals	18
Strategic thrusts	19
Business development areas	19
Market strategies	21
Financial controlling	23
Business performance	25
Key figures	25
Drivers	26
Profit situation	30
Assets and financial situation	43
Appropriation of profit	44
Non-financial results of a material nature	45
Risk report	53
Risk management principles	53
Risk management system	53
Risk situation	55
Internal control system	57
Outlook	59
Corporate governance	61
Group structure and shareholders	62
Legal form and ownership	62
Control by the Confederation	62
Regulatory accounting	62
Net costs arising from the universal service obligation	62
Reduction in the delivery prices of newspapers and magazines eligible for subsidies	63
Capital structure	63
Board of Directors	63
Composition	63
Changes in the year under review	65
Uniform management	66
Role and working method	66
Information and supervisory tools	67
Executive Management	67
Composition	67
Changes in the year under review	69

Remuneration	70
Policy	70
Determination	70
Level of remuneration	71
Auditor	73
Information policy	73
Group annual financial statements	75
Consolidated income statement	76
Consolidated statement of comprehensive income	77
Consolidated balance sheet	78
Consolidated statement of changes in equity	79
Consolidated cash flow statement	80
Notes	81
Auditor's report	155
Swiss Post Ltd annual financial statements	159
Income statement	160
Balance sheet	161
Notes	162
Auditor's report	167
PostFinance annual financial statements	169
Reconciliation	170
PostFinance Ltd statutory annual financial statements	171
Balance sheet	172
Income statement	174
Appropriation of profit	175
Cash flow statement	176
Statement of changes in equity	177
Notes	178
Information on the balance sheet	191
Information on off-balance sheet transactions	202
Information on the income statement	203
Auditor's report	205
Five-year overview of key figures	207

MANAGEMENT REPORT

Swiss Post operates in the communication, logistics, financial services and passenger transport markets. It generates around 86 percent of its sales in competition. The remaining 14 percent is accounted for by the monopoly on letters weighing less than 50 grams, where Swiss Post is in competition with electronic services. Around 86 percent of sales are generated in Switzerland.

Business activities	6
Organization	11
Developments	12
Group strategy	16
Financial controlling	23
Business performance	25
Risk report	53
Outlook	59

Comprehensive coverage of customer requirements.

Business activities

Markets, solutions and services

Swiss Post operates in the communication, logistics, financial services and passenger transport markets. In each market, it offers products and services that meet the fundamental needs of business and private customers. Swiss Post is increasingly combining elements from different markets into customer-oriented integrated solutions.

Swiss Post generates around 86 percent of its sales in competition. The remaining 14 percent is accounted for by the monopoly on letters weighing less than 50 grams, where Swiss Post is in competition with electronic services.

Services provided for private customers include letters, parcels, courier and express shipments, a customer-oriented range of third-party products, financial services (payments, savings, investments, retirement planning and financing) and passenger transport services.

The services offered to business customers are structured partly as solutions for retail (e-commerce) or for banks and insurance (document solutions) and partly as specific products and services in the four markets.

Communication market

Letters

Services include various shipping options for individual letters and bulk mailings in Switzerland and abroad (urgent items, priority items, non time-critical items, and letters with Track & Trace), collections and deliveries, automated franking solutions, address management and online tools, as well as hybrid services combining physical and digital options for receipt and delivery.

Dialogue marketing

Customers can choose from the entire range of dialogue marketing services: addressed and unaddressed promotional mailings in Switzerland and abroad, individual dialogue marketing solutions, consulting and system solutions, address management and response management.

Print media

Swiss Post is responsible for the national and international distribution of subscription newspapers and magazines, daily newspapers, monthly magazines and periodicals, and local and regional newspapers. It also offers early-morning and special deliveries, publishing logistics, subscription management, lettershop tasks and newsstand distribution.

Document solutions

Services include business process outsourcing solutions for business customers on both the document input and output sides. Starting out from traditional mailroom management, Swiss Post Solutions (SPS) has constantly expanded its portfolio of services for document processing via physical and a range of digital channels. In addition to mailroom services, SPS now offers a variety of services in document input and output processing as well as business process services. The offer is rounded off with solutions for greater automation of business processes through the use of a variety of new technologies such as robotics and artificial intelligence.

Logistics market

E-commerce

Swiss Post is the only provider in Switzerland to offer a complete portfolio of services along the e-commerce value chain: from the design of online shops to order processing, payment, logistics and customer service.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

National/international parcels

Swiss Post offers customized logistics solutions for sending parcels within Switzerland and abroad. In particular, it focuses on connecting physical logistics with integrated IT solutions and on services to make it easy to send and receive parcels. It will even be possible to manage incoming parcels from the first quarter of 2017. Services also include international document and goods shipments in almost all countries with value-added services such as customs clearance and Track & Trace for consignment tracking.

Freight and warehousing

Swiss Post provides business customers with national and international freight and contract logistics from a single source with value-added services such as cross-docking and combined road and rail transport. Central warehousing locations and storage systems for all kinds of goods complete the product portfolio.

Innight / Express / Courier / SameDay

As a leading supplier of overnight logistics, Swiss Post transports tens of thousands of consignments, night after night and delivers them before the working day begins directly to where they are needed, for example a technician's vehicle, mechanic's workshop, shop or operating theatre. The service is also offered for consignments from abroad. With Courier and Express, urgent consignments reach their recipients in the shortest possible time by the most direct route. Swiss Post has also offered SameDay Services since October 2016.

Financial services market

PostFinance is one of Switzerland's leading financial institutions and, as the market leader in payment transactions, ensures a seamless daily flow of liquidity. Whether dealing with payments, savings, investments, retirement planning or financing, PostFinance meets its customers on their level, speaks their language and offers them straightforward products with fair conditions. This makes it the ideal partner for everyone who wants to manage their own finances as easily as possible.

Passenger transport market

PostBus is the market leader in public bus transport in Switzerland. PostBus is expanding its presence in Swiss cities and conurbations and increasingly positioning itself as a provider of sustainable and combined mobility services. It intends to set itself apart more and more by offering ground-breaking system management and other management services in conjunction with the rollout of operational control systems and passenger information systems as well as sales systems including the entire IT infrastructure.

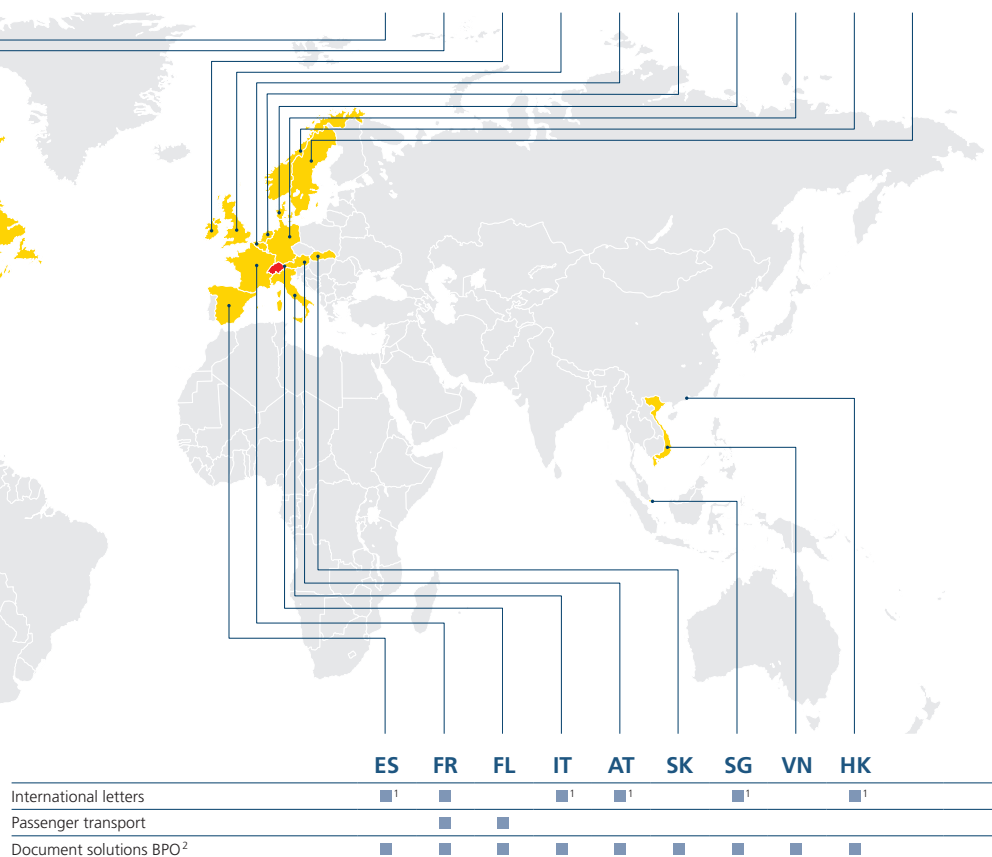
Geographical segmentation

Swiss Post operates in 20 countries. In Europe, North America and Asia, it is represented by subsidiaries, franchise or cooperation partners and sales agents, depending on local requirements (see figure on following page). Cooperation with partners abroad gives it access to their global logistics networks. PostBus operates several bus networks in France through more than a dozen subsidiaries, as well as the entire regional transport network in Liechtenstein. Domestic business accounts for around 86 percent of Group sales, with 14 percent generated abroad.

Present in Switzerland and selected countries abroad.

Swiss Post abroad

2016	US	CA	IE	UK	BE	NL	DK	DE	NO	SE
International letters	■ ¹			■ ¹	■ ¹	■ ¹	■ ¹	■ ¹	■ ¹	■ ¹
Passenger transport										
Document solutions BPO ²	■	■	■	■		■		■		



1 Countries in which joint venture Asendia companies operate.
2 BPO: business process outsourcing.

Unique sales network with customer-centered access points.

Access points in Switzerland

Compared with other companies around the world, Swiss Post has one of the most efficient, dense and diversified networks of access points. It covers the communication, logistics, financial services and passenger transport markets.

Thousands of Swiss Post employees and numerous partner staff provide personal assistance to Swiss Post customers at 1,323 post offices and 852 postal agencies as well as via home delivery services in 1,319 locations. There is also a network of 43 PostFinance branches and 57 consulting offices where customers can speak to staff in person about financial services. 178 PostFinance employees advise small and medium-sized business customers directly at their premises. In the passenger transport market, PostBus passengers are looked after personally by drivers in 2,242 vehicles.

There is a dense network of access points in addition to these opportunities for personal contact. 1,005 Postomats, 14,729 letter boxes, 350,730 P.O. Boxes and 79 My Post 24 terminals are accessible throughout Switzerland around the clock. With the PickPost service, customers can decide for themselves where they want to collect or drop off parcels and registered letters. As well as being available at 2,175 branches, the service can be used at 201 other acceptance and collection points, such as train stations and petrol stations with attractive opening hours. Thanks to the pick@home service, more than 4 million private letter boxes can be used as personal acceptance points for parcels, directly at the customer's front door. To meet the specific needs of business customers, Swiss Post operates

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

334 suitably equipped post office counters and 29 business customer points in industrial or business districts – most of which are accessible around the clock with a badge. There are also further acceptance points with a direct link to letter and parcel processing at the letter and parcel centers.

Swiss Post is developing the network of the future and ensuring greater customer proximity. By the year 2020, it will increase the number of access points and the services they provide, while ensuring the financing of the postal network in the long term. To do so, it is relying on increased use of the proven agency model, the development of its home delivery service, the opening of several hundred additional service points such as My Post 24 terminals, acceptance and collection points or business customer points, as well as on the expansion of the range of products for business customers, e.g. with mail collection directly from the company's headquarters, even for SMEs.

Beyond the physical network, private and business customers can interact with Swiss Post via the Swiss Post Customer Center and via various online services (e.g. www.swisspost.ch, www.postshop.ch, www.postfinance.ch and www.postbus.ch) and via mobile applications (e.g. Post-App, PostFinance App and PostBus App). Many customers also take advantage of social networks to communicate with Swiss Post.

More information on developments in the network and universal service can be found on pages 13–16 of the Annual Report.

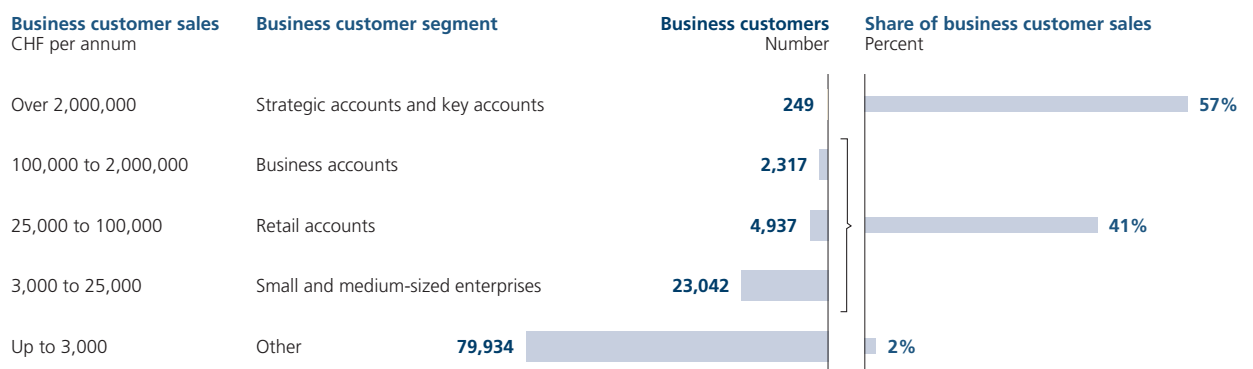
In the passenger transport market, PostBus offers 882 PostBus routes in Switzerland, covering 12,076 kilometres and 11,773 stops in the public transport network, as well as tourist routes, school buses and dial-a-ride buses. To round off its services, it also operates the PubliBike bike sharing service, providing 1,100 bikes at 118 stations.

Customers

Swiss Post's communication and logistics customer base comprises several million individuals and around 110,000 companies ranging from small businesses to large multinationals. Most of Swiss Post's income stems from its business customers. Its 249 strategic accounts and key accounts are particularly important, generating around 57 percent of business customer sales. The Group's business customers also include 2,317 business accounts with annual sales of between 100,000 and 2 million francs, 4,937 retail accounts (annual sales of 25,000–100,000 francs) and 23,042 small and medium-sized enterprises (SMEs, annual sales of 3,000–25,000 francs). The remaining 80,000 or so business customers in the communication and logistics market are micro-enterprises with sales of up to 3,000 francs.

Key accounts generate more than half of logistics sales.

Communication and logistics market | Business customer segments¹
2016



¹ Due to a new recording method, the customer pyramid is only comparable to that of previous years to a limited extent.

Brands

As one of the best-known brands in Switzerland, Swiss Post is very popular with customers. Thanks to its strong market presence, its brand values are well established among the Swiss population and business customers.

Confidence in Swiss Post is maintained at a persistently high level by continually optimizing brand strategy, which guarantees a consistent experience of the core brand and the two flagship brands PostFinance and PostBus. Synergy effects are achieved and the brands are compellingly brought to life across all the distribution channels by means of closely coordinated interplay between the different communication tools in terms of content, form and timing.

Brands and markets



Building on Swiss Post's target positioning and values, "The Yellow Tour" interactive campaign launched in 2015 entered its second phase, bringing the new access points and innovative services closer to the general public. Swiss singer-songwriter Bastian Baker, the face and voice of the campaign, showed just how location- and time-independent Swiss Post services really are. Following on from a variety of concerts and events in 2015, the campaign continued in 2016, above all with TV and print adverts as well as online measures.

Measures that convey the brand values will continue to be developed in the future in order to achieve the desired target positioning based on Swiss Post's new vision. The most recent reputation measurement shows that Swiss Post remains the market leader in its core business, achieving a recognition value of 93 percent. Its scores in terms of "affinity", "quality" and "professionalism" are also at a persistently high level. The Swiss population and companies nonetheless associate Swiss Post primarily with letter and parcel services and the characteristic "reliability", and only to a lesser extent with the values "innovative", "dynamic" and "flexible". Around three quarters of those questioned are still unfamiliar with the new skills and services offered to connect the physical and digital worlds and therefore credit Swiss Post with relatively little professionalism in these areas.

The people surveyed who are already familiar or very familiar with these new skills and products perceive Swiss Post as a dynamic, flexible and innovative company and award Swiss Post significantly higher marks in a number of key areas than customers who mainly use traditional services. This result highlights the strategic importance of the new, physical-digital services from a business perspective and illustrates their potential to strengthen the core brand and market position of Swiss Post.

Swiss Post is setting new standards in its target markets thanks to the physical-digital interplay of the services offered. It aims to specifically integrate the underlying expertise at the interface between the physical and digital worlds into the future brand identity, brand presence and communication, and strengthen the perception of Swiss Post as a leading product and systems provider. This will enable Swiss Post to expand its role as the backbone of the universal service and to position itself more and more as a "provider that makes life easier" and that understands the needs of the state and of business and private customers while generating considerable customer benefit by providing easily accessible, user-friendly services both on and offline.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

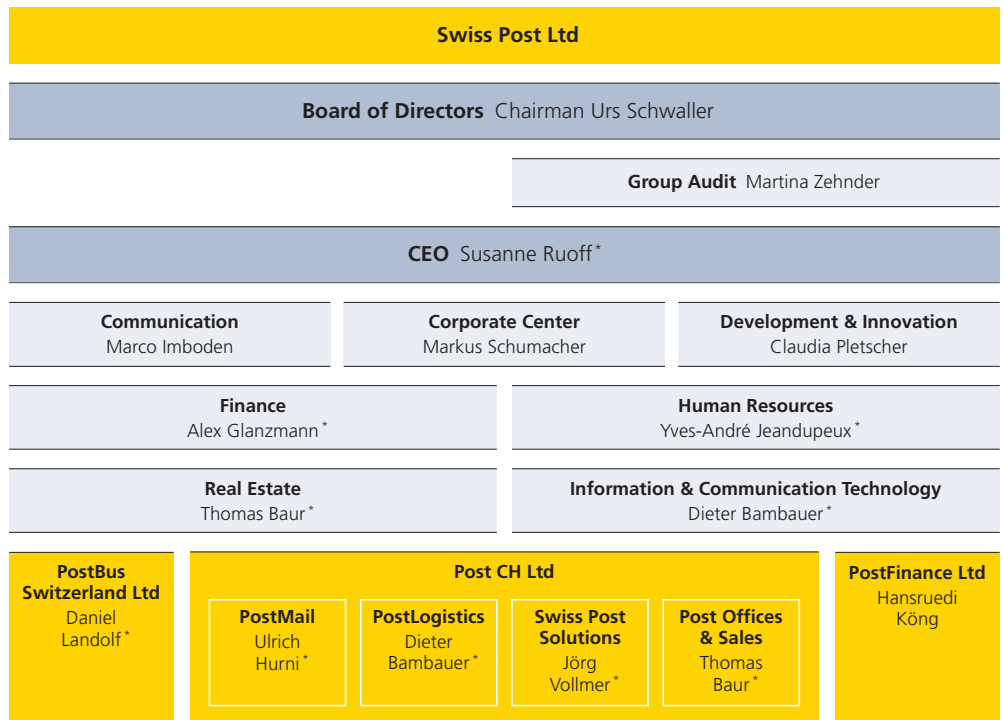
Organization

Swiss Post is divided into six executive Group units: PostMail, Swiss Post Solutions and Post Offices & Sales operate in the communication market, PostLogistics focuses on the logistics market, PostFinance on the financial services market and PostBus on the passenger transport market. They are presented in the annual financial statements as individual segments.

The Communication, Corporate Center, Development & Innovation, Finance, Human Resources, Real Estate and Information & Communication Technology units support the management of the Group and the provision of services by the executive Group units. In the annual financial statements, the results for these units are included in Other.

Organization chart

31.12.2016



* Member of Executive Management

The legal structure comprises the holding company Swiss Post Ltd and its strategic subsidiaries, which in turn have subsidiaries of their own.

To ensure that Swiss Post remains competitive in the future, in autumn 2016 Executive Management and the Board of Directors adopted organizational measures in the Development & Innovation unit, for the sales and solutions business and with regard to the HR, Finance and Communication support functions that will be implemented from 2017.

More information on the Board of Directors and Executive Management can be found on pages 63–65 and 67–69. For details of changes to the Board of Directors and Executive Management during the year under review, see pages 65 and 69.

Developments

Trends in the environment

Legal and political: change in requirements

Postal companies can look back on a long history as part of public administration. For the past three decades or so however, they have been undergoing major transformation: the parcel and letters markets are being deregulated, new competitors are emerging, postal companies are being corporatized, partially or fully privatized – whilst regulatory requirements such as the universal service obligation or collective employment contracts remain the same. Postal companies once again find themselves trying to reconcile the conflicting demands of the market and the state. Faced with declining letter volumes, margin pressure in the parcel market and a challenging economic situation, they are negotiating subsidies or the loosening of the universal service obligation with their respective governments. In this tense environment, financing the universal service increasingly poses a particular challenge for Swiss Post. The Federal Council checks the usefulness, efficiency and economic viability of the universal service on a regular basis, and submits a report to Parliament every four years. This legislative evaluation represents the first step in the further development of postal legislation. The required evaluation report from the Federal Council is expected at the beginning of 2017.

Social: change in consumer culture

Mobile access to the Internet via smartphone and the use of the Internet for communication (via social media), for trading and banking transactions and, increasingly, for the Internet of things, are speeding up the pace of our living and working environments. Freely available time is gaining in importance at the expense of money and material goods. The consumer society is gradually becoming a sharing society, combined with a growing awareness of sustainability. The challenge for Swiss Post is to give its customers flexibility by offering them a balance of physical and digital products (e.g. in city logistics) and to recognize the opportunities for playing new roles in sectors such as mobility solutions or the circular economy.

Technological: digitization

There is a constant need to adapt to keep up with the ongoing digital transformation. Thanks to robotics, industry is opening up to fundamental new possibilities for high-precision, cost-efficient production. Artificial intelligence, chatbots and voice-controlled assistants are increasingly taking over administrative tasks for humans. In-store and digital concepts and channels in the retail trade are being completely transformed. The collection of large data volumes (big data) is being replaced by data mining (smart data): profile data is evaluated, offers and services are customized to meet the needs of individual customers, and predictions regarding personal behaviour patterns are made. Intelligent automation can be used to analyse large quantities of information and automate entire business processes. The challenge for Swiss Post is to identify the relevant opportunities from the variety of new business models and skills being created (e.g. document solutions, mobile production, chatbots) and rise to meet them rapidly.

Economic: globalization and competition

Economic pressure on Swiss Post is rising in all four markets. The low interest environment is likely to persist due to the weak European economy. The ongoing internationalization in e-commerce is bringing international logistics competitors to Switzerland, who are continuing to put pressure on prices. Digital substitution is progressing in the mail business, but its intensity is difficult to predict. It therefore represents a material risk for Swiss Post. Technology leaders such as Amazon, Uber, Apple etc. are increasingly moving into Swiss Post's markets with disruptive business models. Swiss Post must develop its business models at a rapid pace whilst ensuring the necessary process and cost efficiency.

Legal requirements
changing over time.

The physical and
digital worlds are
merging.

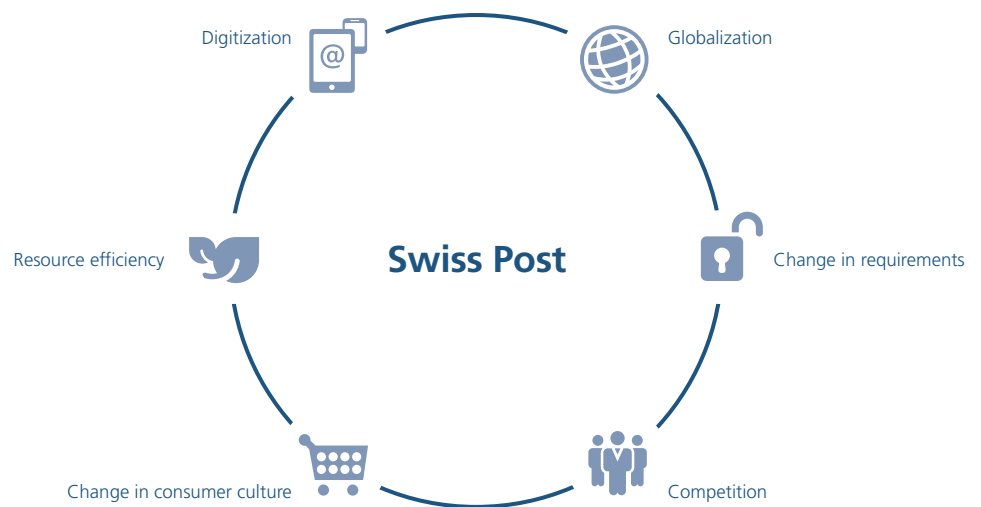
Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Environmental: resource efficiency

The scarcity of natural resources is raising awareness about environmental sustainability among customers, investors and legislators. Demand for environmentally sustainable products continues. There is a growing awareness of the importance of environmentally sustainable logistics. An optimum mix of energy efficiency and renewable energy is becoming a critical factor for companies seeking to combat escalating costs or, in certain cases, to gain new competitive advantages. The challenge for Swiss Post is to combine business success with environmental awareness and social responsibility.

Trends in the environment

2016



Market trends

Communication market

Potential in promotional mailings and document processing.

In the letters market, Swiss Post provides Switzerland's universal postal service. It fulfils this mandate with a statutory residual monopoly on letters up to 50 grams. Around 70 percent of all mail processed by Swiss Post is already deregulated. This includes newspapers, unaddressed mail and addressed mail over 50 grams. The primary challenge for PostMail and Post Offices & Sales remains substitution by digital media. The growing number of customers switching to electronic channels continues to produce a drop in letter volumes and falling demand for conventional over-the-counter services. Competition is becoming more intense and pressure on margins is rising, increasing the need for cost and price flexibility within the industry and a targeted development of the postal network together with additional services in the communication market. At the same time, the market for promotional mailings offers growth opportunities. The international letters market remains fiercely competitive. Further mergers and partnerships can be expected in order to secure market positions. Driven by changing customer behaviour as well as by cost and efficiency concerns, major corporations are increasingly outsourcing standardized business processes. The potential for future growth in this area remains huge in virtually every industry. Swiss Post Solutions, as a leading international provider of document solutions, is tapping into this potential with innovative customer solutions.

Growth: e-commerce is driving logistics.

Logistics market

Competition in the logistics market continues to grow. It is characterized by a rising level of internationally targeted, more aggressive competition and growing pressure on prices and margins. This is spreading to parcels and express deliveries. New providers from outside the sector, mainly from the digital world, are forcing their way into the logistics market. They do not need to make a profit in logistics as this can already be generated in their core business. Customers, particularly business customers, are sensitive to prices, but expect high quality at the same time. There is a demand for flexible recipient services and all-in solutions including cross-border services such as customs clearance and international networks. The need for faster processing times in the CEP segment (Courier, Express, Parcels) will increase further. This is leading to an increase in PRIORITY parcels and greater demand for same-day solutions, as well as for receipt of parcels seven days a week, from morning until night. E-commerce is also a strong driver for cross-border mailing. Volumes of small consignments from Asia are rising sharply in particular. Swiss Post is testing the commercial use of drones and delivery robots in collaboration with partner companies. The focus is primarily on their use in exceptional cases or the transport of urgent special items. High personnel expenses cannot be offset by price adjustments. Overall, the logistics market has the potential for growth, driven by the rapid rise in e-commerce business. The challenge for logistics is to convert customers' global procurement requirements into new, profitable business models. At the same time, the boundaries between parcel logistics and goods logistics continue to blur. PostLogistics intends to build on its position as lead logistics provider (lean logistics processes, optimized logistics networks and continuous improvement and cost reduction). With digitization and the increased transparency of business processes, customers want electronic data links along the entire transport chain, right into companies, to accompany the flow of goods. In goods logistics, Switzerland is becoming bound by the increasingly international network structures. The introduction of environmental and incentive taxes such as CO₂ taxes and the performance-related heavy goods vehicle tax are having a direct impact on the logistics margins that can be achieved.

Financial services market

Diversification of income structure.

The ongoing low, and in some cases negative, interest rates on the national and international financial markets are having a significant effect on earnings. In the current interest rate environment, it is becoming increasingly difficult for PostFinance to find profitable investments for the customer deposits entrusted to it. As a result, it loses out on income equivalent to a figure in the double-digit millions each year. This trend is expected to continue in the coming years and heighten the disadvantage of PostFinance not being able to issue its own loans and mortgages. In order to guarantee long-term profitability in this market environment, it is essential for PostFinance to diversify its entire income structure and to tap into new business areas in which non-interest income can be generated. In the year under review, a range of strategic measures were implemented in line with this objective. With the launch of the new e-trading for example, PostFinance has strengthened its range of investment products. PostFinance is also highlighting its leading role as an innovative, digitally-oriented company by investing in young, innovative or highly specialized start-ups in the financial industry. It focuses investments on know-how and new technologies in order to make even better and even simpler products and services accessible to its customers.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Passenger transport market

More pressure from purchasers to make savings.

As purchasers of regional passenger transport services, the Confederation and cantons will be even less able to pay compensation to transport companies owing to scarcer financial resources. But public transport mobility requirements are constantly increasing. As a reduction in services is highly unlikely, services will have to be provided at lower cost and with less public-sector compensation.

Today's individual mobility behaviour calls for more flexible, versatile and combinable mobility services that will shape public transport. For instance, the shared use of bicycles and e-bikes in urban areas is becoming increasingly important. At the same time, environmental change is leading to growing demand for environmentally friendly mobility. The industry is therefore undergoing technological advances and is becoming more investment-intensive as a result.

PostBus faces a major challenge to maintain its position on an increasingly competitive national and international stage. An increase in tenders for bus services can also be expected. However, the Swiss market is not particularly attractive to foreign companies, since growth is quite small and the larger urban networks and rail services today are not currently put out to tender. Competitors in the international market are becoming significantly larger, not least due to company mergers.

Group strategy

Swiss Post creates added value for Switzerland, customers, employees and its owner.

Swiss Post's vision and strategy are derived from postal legislation and the directives of its owner. These directives are set out in the strategic goals of the Federal Council, which are revised every four years. Swiss Post's six strategic goals are, in turn, derived from the Federal Council's goals. Swiss Post seeks to create added value for Switzerland, customers, employees and its owner by safeguarding the quality of its universal service, operating in a sustainable manner, increasing customer satisfaction and employee commitment, and meeting its owner's financial goals by achieving stable market positions. Swiss Post aims to ensure these goals are met by means of five strategic thrusts. Swiss Post is considering growth options that could be achieved through new business models in various development areas.

Group strategy

2014–2016

Statutory mandate and strategic goals set by the Federal Council

Vision and core values Simple yet systematic – Swiss Post.				
"reliable"		"value-enhancing"		"sustainable"
Strategic goals Create added value for				
Switzerland	Our customers	Our employees	The owner	
Universal service Regulatory audit certification Sustainability Improve CO ₂ efficiency by 10 percent by the end of 2016	Customer satisfaction at least 78 points (scale of 0–100)	Employee commitment at least 80 points (scale of 0–100)	Finances EBIT of CHF 700–900 million in the 2014–2016 period Market position Leading market positions in Switzerland and in e-commerce	
Strategic thrusts				
Exploiting and helping shape regulatory conditions	Defending and developing core business	Business performance and growth in selected markets	Optimizing costs and improving efficiency	Competitive prices
Strategic measures				

Guidelines

Statutory mandate

The revised postal legislation was adopted by the Swiss Parliament in December 2010 and has been in force since October 2012. The revision aimed to harmonize effective competition and a high-quality universal service. The Postal Services Act aims to guarantee a sufficient, inexpensive universal service for the entire Swiss population in every part of the country. Swiss Post has a universal service obligation to provide postal services and payment transaction services respectively. In the Postal Ordinance, the Federal Council differentiates between the two mandates, paving the way for a customer-oriented, financially viable service in line with market needs. Swiss Post's monopoly on domestic letters up to 50 grams is an important pillar for financing the universal service.

The universal postal service obligation sets out guidelines concerning the range of services, prices and quality to be provided. The first objective is to meet the needs of sender customers. The second objective is to take into account the needs of recipient customers. High demands are placed on Swiss

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Post for home delivery (delivery method and nationwide coverage). A and B Mail are universal service products for which much stricter guidelines regarding delivery times must be met than in other countries (97 percent of letters and 95 percent of parcels must be delivered on time). Individual consignments that form part of the universal service are offered in post offices and postal agencies. Access points should be accessible to 90 percent of the population within 20 minutes on foot or by public transport. In areas where Swiss Post offers a home delivery service, they must be less than 30 minutes away. Besides what it offers under the universal service, Swiss Post can also provide additional services outside the universal service.

The universal service for payment transactions includes opening an account and making transfers, inpayments and outpayments. Payment transaction services should be accessible to 90 percent of the population within 30 minutes on foot or by public transport. Unlike the universal postal service, the payment transaction service is formulated without reference to specific technologies, enabling the introduction of modern, more customer-friendly services.

Classification of services

2016	Monopoly services	Services open to competition
Universal services	Addressed letters up to 50 g	e.g. letters over 50 g, parcels up to 20 kg, payment transactions
Services outside the universal service		e.g. unaddressed items, express and courier consignments, savings accounts

Federal Council's strategic goals

Innovative,
customer-focused
and profitable in
competition.

The Confederation, as Swiss Post's owner, manages the company through the designation of strategic goals. For the strategy period 2013–2016, the Federal Council expected Swiss Post to offer a high-quality universal service throughout Switzerland and according to the same principles. Swiss Post was required to offer a high standard of marketable, innovative products and services in its core business in the communication, logistics, financial services and passenger transport markets. The aim was to generate profitable growth and to increase the company's earning power as a result of efficiency improvements. In financial terms, the Federal Council expected Swiss Post to maintain and increase the company's value in the long term, and to achieve industry-standard returns in all business areas. The Federal Council also expected the profits made to be used to fund the equity required by PostFinance Ltd under banking law, and to be partly distributed as dividends to the Confederation. Net debt may not exceed operating profit (EBITDA). Swiss Post was also expected to pursue a progressive and socially responsible human resources policy to justify the confidence of its employees. To do so, it should offer attractive, competitive employment conditions, help employees to balance work and family commitments and encourage fair representation of gender and language region.

In December 2016, the Federal Council passed the new goals for the period running from 2017 to 2020. The key points from the previous goals are maintained for the years 2017 to 2020. In the light of changes in the markets, the Federal Council has also modified the goals. One of the newly defined goals set down is that the Federal Council expects Swiss Post to offer products and solutions in its core business in the communication, logistics, financial services and passenger transport markets in both physical and electronic form. The universal service must be available in physical form at all times. A further new goal is for Swiss Post to provide services in the areas of information and data transmission.

Simple yet systematic – Swiss Post.

Vision and core values

In 2014, Swiss Post set itself a new, Group-wide reference point for its future development.

Simple yet systematic – Swiss Post.

We connect the physical and digital worlds, setting new standards with our products and integrated solutions. We make it easier for our customers to operate in today's complex environment, giving them greater scope to succeed.

Changing customer requirements are the basis for Swiss Post's actions. Based on its capacities in communication, logistics, financial services and passenger transport, Swiss Post increasingly represents integrated solutions and continues to offer individual products and services in modular form. Swiss Post understands the world as interlinked and builds bridges between physical and digital channels. It wants to win over customers by offering them products that are both easy to access and easy to use, while creating a consistent customer experience across all its points of contact. This will enable Swiss Post to develop and maintain a high-quality universal service.

In order to implement its vision, Swiss Post's actions are guided by its core values: "reliable", "value-enhancing" and "sustainable".

Strategic framework

Swiss Post's guidelines and its overall understanding of key strategic issues are embedded in its strategic framework. Within these guidelines, its operating units are able to respond promptly to current market requirements.

In particular, the strategic framework contains statements on understanding customers, the core business and supplementary business, market positions, competitive strategies, geographic focus, information economics and data management, information technology focus, profitability, sustainability, innovative strength and management style.

Swiss Post's strategy development for 2017 to 2020 is based on the strategy presented, as well as introducing new elements in relation to customers, markets and growth targets. In the following section, the emphasis is placed on the goals and thrusts from the previous strategy period from 2014 to 2016.

Strategic goals

Swiss Post set its priorities for the strategy period 2014 to 2016 in the form of six strategic goals, and determined how it intended to meet the challenges of its operating environment and achieve its top-level directives.

Added value for the owner:

- Swiss Post wants to achieve an annual EBIT of 700 to 900 million francs in the 2014–2016 strategy period (see page 33)
- In Switzerland it aims to attain leading market positions with its business activities and in e-commerce (see page 26)

Added value for customers:

- Swiss Post attains a consistently high customer satisfaction rate of at least 78 points (on a scale of 0 to 100) (see page 45)

Added value for employees:

- Employee commitment remains at the high level of at least 80 points (on a scale of 0 to 100) (see page 46)

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Added value for Switzerland:

- Swiss Post fulfils its mandate to provide a high-quality universal service (see page 52)
- It aims to increase its CO₂ efficiency by 10 percent by the end of 2016 (base year: 2010, see page 49)

Strategic thrusts

In order to achieve its goals, Swiss Post is pursuing five strategic thrusts:

- Exploiting and helping shape regulatory conditions
To enable Swiss Post to continue to develop sustainably in the long term, it is crucial to make optimal use of the regulatory conditions, particularly with a view to focusing even more closely on customer requirements and boosting competitiveness.
- Defending and developing core business
Swiss Post offers its private and business customers consistently high-quality services. A high level of customer focus is crucial here, both in product development and in daily contact with customers across all channels. Swiss Post also ensures the continuous improvement of services and processes, the development of new, innovative products, and the implementation of top-class quality control and quality assurance.
- Business performance and growth in selected markets
Swiss Post aims to ensure its growth is sustainable and profitable. In Switzerland and abroad, it consistently follows a growth plan that takes the long view and proceeds step by step. This enables it to manage and safeguard the profitability of its growth.
- Optimizing costs and improving efficiency
In an increasingly dynamic marketplace, it is imperative that Swiss Post secures and improves efficiency. In the communication market in particular, it is facing far-reaching changes. It intends to meet these challenges in future with balanced, socially responsible solutions.
- Competitive prices
Swiss Post was, is and will remain dependent on its ability to charge competitive prices in order to provide high-quality services. By doing so, it also seeks to fund a well-functioning universal service.

Business development areas

To ensure the fulfilment of its strategic goals, Swiss Post concentrates its resources on the further development of its business development areas and creates new business models within each area.

E-commerce

Within this business development area, Swiss Post systematically combines e-commerce-specific processes and services from the communication, logistics and financial services markets. By combining modular services from individual markets to form integrated solutions, and consistently gearing its product portfolio and services to meet the needs of online retailers, Swiss Post can position itself as a key service provider along the e-commerce value chain. As the systems leader in Switzerland, Swiss Post offers a complete portfolio of services covering the entire e-commerce value chain. Setting up and operating online shops, marketing, ordering and payments, logistics and customer care. With YellowCube, Swiss Post operates a highly automated solution that takes care of the entire logistics chain for online retailers. Swiss Post also simplifies online purchases thanks to customization of parcel receipt. It is also testing new technologies from Industry 4.0 and building up local digital marketplaces (platforms). In addition, Swiss Post offers the Login Post Connector central Swiss Post login, enabling customers to log in to various online shops. With this service, Swiss Post is making a significant contribution to the development of the e-commerce market.

Successful customers thanks to integrated solutions from Swiss Post.

Direct marketing

Direct marketing is one of the most effective marketing tools for customer acquisition and customer retention. Swiss Post provides business customers with a wide range of products and services for promotional letters. The advertising market continues to offer potential for growth, e.g. via the integration of direct marketing as a separate media category in the MA Strategy inter-media study (planning tool for advertisers) from WEMF AG for advertising media research or by the positioning of physical promotional mailings in online retail.

Online and mobile banking

The shift of payment transactions to digital channels is being pushed ahead by technological developments. PostFinance therefore intends to continue to develop its role as the market and innovation leader in online and mobile banking, placing particular emphasis on customers who manage their own finances. In addition to e-finance as an entry portal, Swiss Post offers a range of modern, user-friendly services that make life easier for customers, such as its mobile banking app, the new e-trading and the contactless PostFinance Card.

In autumn 2015, PostFinance launched TWINT, the first payment and shopping app in Switzerland that can be used across different channels. In spring 2016, TWINT and Paymit, the second Swiss mobile payment solution, agreed to operate a joint mobile payment system combining the advantages of the two systems, which were previously run separately. The new solution operates under the TWINT brand. Users are the first to benefit from the joint payment solution. It is widely accepted among high street retailers, can be used to make purchases online and in retailer applications, to settle invoices and pay at machines for food, car park tickets, ski passes and other goods and services. Credit transfers between users also remain possible.

E-post

Swiss Post is focusing on e-post to pursue hybrid and digital growth initiatives in the postal sector. It is establishing hybrid systems such as E-Post Office, the smart online letter box. Recipients decide how they receive their mail: on paper or in electronic form. Swiss Post is also transposing the high level of customer confidence it enjoys into the digital world, for example by setting up digital elections and votes with the cantons or operating a modular platform that provides a network for all healthcare professionals treating a patient and facilitates the secure exchange of electronic patient data. In addition, Swiss Post is developing digital security products for the identification and authentication of users.

Document solutions

The administration processes in companies and public institutions are undergoing change through digital transformation. Swiss Post connects the physical and digital worlds by handling the efficient processing, management and archiving of documents such as invoices, forms, orders or customer correspondence on behalf of its customers. For example Swiss Post digitizes paper-based data and feeds it into customers' electronic business processes, archives old files and active documents both digitally and physically, prepares digital data for printing and high-circulation physical mailing and handles in-house post processing, either physically or digitally. Swiss Post wants to position itself as a key provider of document solutions both in Switzerland and abroad, and aims to benefit from market growth thanks to industry-focused integrated solutions.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Mobility solutions

Personal mobility is in transition. There is a demand for mobility services that can be individually combined across all transport modes (intermodal mobility) whilst meeting the growing requirements for ecological sustainability and the “use don’t own” principle. Swiss Post has set itself the goal of becoming a leading integrated provider in this future mobility market. To do so, it is making targeted efforts to develop new solutions to complement private and public transport, such as bike sharing (PubliBike), and is entering into partnerships in order to coordinate individual transport modes. In close collaboration with the authorities, it is testing new technologies such as self-driving buses in Sion (“SmartShuttle”) and investing in the development of platforms to allow the digital networking of different transport modes.

Market strategies

The various market strategies represent further key elements to ensure the fulfilment of Swiss Post’s goals.

Communication

PostMail

By deploying the latest technology, PostMail is consolidating maximum reliability and quality with excellent value for money. Letters are specifically positioned as a means of communication that stand out from other competing media due to their strong impact as an essential part of cross-media communication. Growth opportunities can be found in direct marketing, abroad in Asendia (the 50 percent joint venture with France’s La Poste), in the international B2C business, and in the development of cross-channel communications products at the interface between the physical and the digital world.

Swiss Post Solutions

Swiss Post Solutions (SPS) is expanding its position as a leading provider of solutions for business process outsourcing and innovative services in document solutions. The employees at SPS serve business customers in the insurance, banking, telecommunications, media, retail, energy and travel and transport sectors. SPS operates in all the major economic areas around the globe. Its core markets remain Switzerland, Germany, the UK and the USA.

Post Offices & Sales

Post Offices & Sales provides services in communication, logistics and payment transactions that are as easily accessible and customer-oriented as possible. Post Offices & Sales relies on a mix of traditional and new access points, which complement each other and, in turn, offer the best possible universal postal service for all requirements, regions and generations.

Logistics

PostLogistics

PostLogistics has positioned itself as the quality and cost leader in the following segments: national and international parcels, small consignments and warehousing, Innight, Express, Courier and e-commerce. Its core business lies in the domestic parcels segment. PostLogistics intends to develop its position through consistent cost management, increased automation, investments in infrastructure and the expansion of value-added services for sender and recipient customers. In the international parcels segment, PostLogistics positions itself as a market leader in cross-border logistics and customs clearance. Small consignments, warehousing and Innight, Express and Courier complete the range. Within cross-border transport, PostLogistics plans to strengthen its presence and safeguard its connections to cross-border networks. PostLogistics offers a key service in e-commerce with its YellowCube logistics solution.

Financial services

PostFinance

PostFinance wants to be the Swiss financial service provider that helps its customers manage their money as easily as possible. This makes it the first choice for all private and business customers who manage their own finances, anytime and anywhere. PostFinance provides its customers with solutions that make it easier for them to manage their financial affairs and offer added value. It provides a tailor-made service to individual customers that fits in perfectly with their value chain.

Passenger transport

PostBus

PostBus intends to build on its leading position in bus transport systems management, differentiate itself from the competition with the best value for money, and increasingly position itself as a provider of sustainable and combined mobility services. In its core business, PostBus aims to remain the number one in regional transport in Switzerland, to strengthen its market position in cities, conurbations, in integrated and mobility solutions, and to seek further targeted growth abroad.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Financial controlling

Maintain the company's value in the long term.

One of the aims of financial controlling at Swiss Post Group is to achieve the financial goals of the Federal Council. In accordance with these goals, Swiss Post must maintain and if possible increase the company's value in the long term. Value added is created when the adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also factors in the risks and the capital employed. The Federal Council also expects Swiss Post to be able to finance its investments from the generated cash flow.

In order for the above goals to be achieved, financial controlling within Swiss Post Group generally operates with target agreements and accountability for results. All business units are responsible for achieving the agreed goals. Besides economic value added, which is included as a key figure in the calculation of the variable performance component of management remuneration (please also see "Determination of remuneration" in the Annual Report), operating profit (before management, licence fees and net cost compensation) is an important financial goal. The units have a large degree of freedom within the framework of strategic planning. For individual plans such as investments, projects or acquisitions of participations with a considerable financial impact or for plans with strategic importance, Swiss Post's Executive Management or Board of Directors decides according to the funds required and the type of business.

Swiss Post's financial reporting is based on two main instruments: management reporting and the consolidated financial statements. The management reporting shows the contribution of the Group units and markets to the result. It indicates the financial success of the strategic market areas and product groups and provides information on the attainment of the annual goals as well as the implementation of the strategic measures. The management reporting, first and foremost, serves the management of the units and the Group. It is based on the same set of basic values as the consolidated financial statements.

The consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) set out the business performance of the legal units of Swiss Post. Hence, they are used primarily for reporting on the overall company and the segments. Segment reporting is divided into Group units and national/international or by region in accordance with IFRS 8.

Swiss Post and the units are managed based on the following instruments:

- Income statement, balance sheet and cash flow statement
These form the basis of financial management at unit and Group levels. The reporting on the income statement takes place monthly, that on the balance sheet and cash flow statement quarterly.
- Annual goals
The annual goals are to help achieve the quantitative and qualitative goals formulated in the strategies. They cover the following areas: market, service provision, resources, management and organization. The success in meeting the annual goals is measured semi-annually.
- Key figures
The key figures are divided up into finance, customers, employees, strategic measures and processes. They reflect the business and financial performance of the units and the Group. They also form a basis for setting targets with the CEO. The development of the key figures is reported as part of monthly reporting.

– Statement of the strategic market areas and product groups

The statement of the strategic market areas and product groups and of the strategic measures is used as a financial management tool for the Group units. Reporting takes place semi-annually.

– Commentary

The comments are an integral component of the reporting at all levels. They are designed to provide insight into the main developments, plans as well as problems and measures in the relevant unit as well as the assessment from unit management. As well as showing change from the previous year, they describe the expectations for the current and following years. The periodicity of the commentary depends on the key figure on which it is based and the variance.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Business performance

Key figures

Group profit
down slightly.

All four markets contributed to the positive result. Swiss Post generated Group profit of 558 million francs in 2016. Operating profit (EBIT) fell to 704 million francs. Swiss Post achieved a good overall result again in 2016 despite the increasingly difficult environment. The fall in profit year-on-year is due to the negative interest rate situation as well as to declining volumes for structural reasons. As a result of the current change in Swiss Post's core business, further reductions were necessary in the useful lives of operating materials.

Group | Key figures

2016 with previous year for comparison		2015	2016
Results			
Operating income	CHF million	8,224	8,188
Generated abroad ¹	CHF million	1,149	1,124
	% of operating income	14.0	13.7
Reserved services ²	CHF million	1,225	1,161
	% of operating income	14.9	14.2
Operating profit ³	CHF million	823	704
As a share of operating income	%	10.0	8.6
Generated abroad	CHF million	57	64
	% of operating profit	6.9	9.1
Group profit ³	CHF million	645	558
Employees			
Headcount at Swiss Post Group	Full-time equivalents	44,131	43,485
Abroad	Full-time equivalents	7,449	7,195
Financing			
Total assets	CHF million	120,327	126,689
Customer deposits (PostFinance)	CHF million	107,380	110,533
Equity	CHF million	4,385	4,881
Investments			
Investments	CHF million	437	450
Other property, plant and equipment, intangible assets	CHF million	317	302
Operating property	CHF million	57	103
Investment property	CHF million	47	31
Investments	CHF million	16	14
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities	CHF million	-2,990	-354
Value added ⁴	CHF million	5,193	5,145
Economic value added	CHF million	169	121

1 Definition of "abroad" in accordance with the segmentation in the Financial Report.

2 Letters up to 50 g.

3 Normalized figures for 2015.

4 Value added = operating profit + personnel expenses + depreciation – gain/loss on the sale of property, plant and equipment, intangible assets and interests.

Additional key figures and explanatory notes can be found in the Annual Report key figures (for reference source, see page 206).

Drivers

The economy

Global economic growth remained within the expected bandwidths throughout the year. Production capacities were gradually better utilized in many countries. This was reflected above all in the labour market, with a rise in employment and a reduction in unemployment. Moderate growth continued in the eurozone. The economic effects of the Brexit decision in the United Kingdom have so far been less pronounced than initially feared. Utilization of overall production capacity remained unsatisfactory in Switzerland, however. Underutilization was seen in the manufacturing and retail sectors in particular. The construction industry was an exception, with utilization once again significantly above the long-term average.

Customers and sectors

New internal performance mandate for Post Offices & Sales

As part of a strategy revision, responsibility for postal products for private customers was transferred from Post Offices & Sales to PostMail and PostLogistics. At the same time, Post Offices & Sales took responsibility for My Post 24 and PickPost as part of assuming overall responsibility for customer access points. In addition, the logic behind financial management at Post Offices & Sales has been improved. From 2016, sales services have been remunerated by means of commission, and other services (such as acceptance) are paid for in line with a new system for greater transparency of results. On balance, the effect on operating profit was negative for Post Offices & Sales, PostLogistics and PostMail, but positive for PostFinance. Thanks to these measures, Swiss Post hopes to achieve better control of incentives for the units involved with regard to sales, efficiency improvements and product design.

Communication market

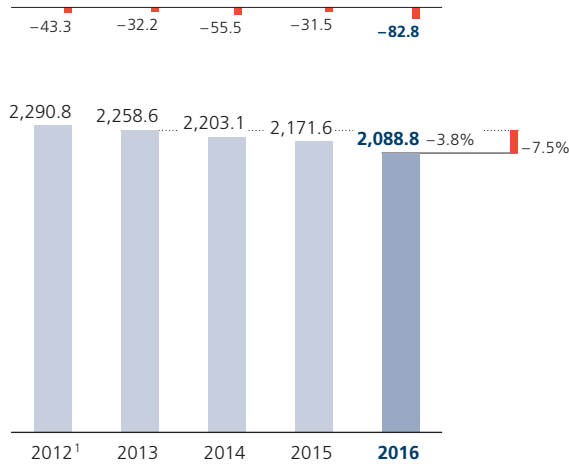
Conventional products from PostMail and Post Offices & Sales continue to be replaced by digital products and services. Product volumes declined in the communication market. The number of addressed letters handled in 2016 was down 3.8 percent on the previous year. Unaddressed mail decreased by about 3.5 percent year-on-year. Newspaper delivery volumes saw negative performance (-2.4 percent) due to changes in customer behaviour. Over-the-counter inpayments declined by 5.4 percent. Mail import and export volumes fell 0.7 percent year-on-year. The reliability and quality of these services continue to be guaranteed by the use of the latest technology and a mix of traditional and new access points. At Swiss Post Solutions, income from services provided fell year-on-year due to a business unit transfer and exchange rate trends. The products offered by Swiss Post Solutions for the outsourcing of business processes and innovative services in document solutions are meeting with growing demand.

Substitution pressure on traditional postal services continues.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

More pronounced decline in letter volumes.

Communication market | Addressed letters in millions
2012 to 2016
2013 = 100%



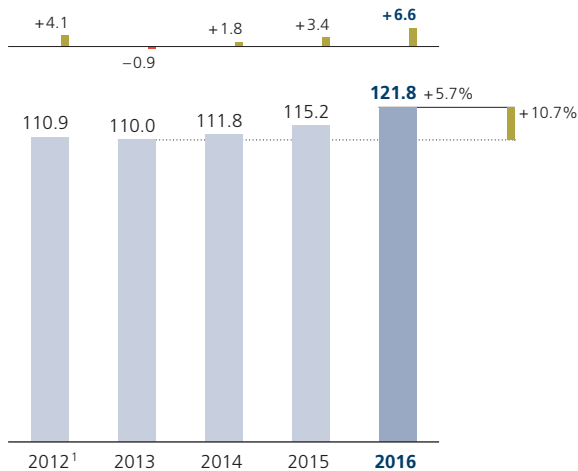
Logistics market

Online trade remains high.

The logistics market is gaining further momentum both nationally and internationally. New providers from the digital world are becoming established on the market. Customers are price-sensitive and have high expectations as regards quality. PostLogistics positions itself as the quality and cost leader in the following segments: national and international parcels, small consignments and warehousing, Innight, Express, Courier and e-commerce. Domestic parcel volumes carried by PostLogistics increased year-on-year (+5.5 percent). A rise of 9.5 percent was registered in terms of import and export volumes. The overall increase stood at 5.7 percent.

Further increase in parcel volumes.

Logistics market | Parcels in millions
2012 to 2016
2013 = 100%



The interest rate situation represents a challenge.

Financial services market

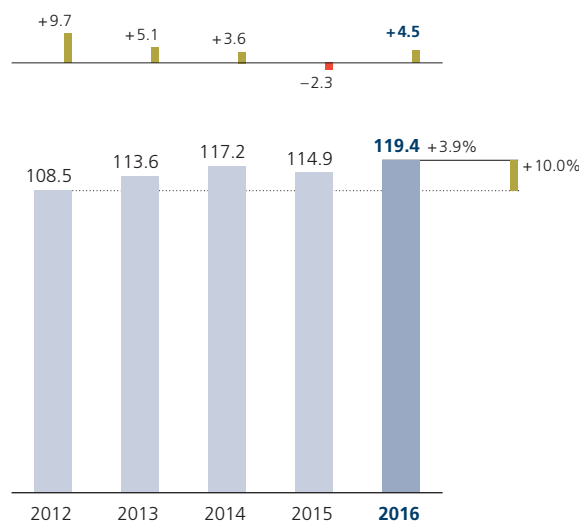
The ongoing uncertain situation on the domestic and international financial and capital markets with negative interest rates in some cases increasingly presents PostFinance with significant challenges. The competitive disadvantage in not being able to issue our own loans and mortgages is becoming more pronounced. For this reason, to guarantee PostFinance's long-term profitability in the current market environment, it is essential for us to diversify our income structure and to tap into new sources of revenue in which non-interest income can be generated. PostFinance therefore intends to expand its services in the investment area in a targeted manner.

In addition, customer requirements are changing quickly. Our society, and with it the banking world, are rapidly becoming more and more digital. PostFinance is adapting its corporate strategy accordingly and is on the way to becoming a digital powerhouse.

In addition, PostFinance wants to take the pressure off its customers and help them manage their money as easily as possible.

Increase in customer assets.

Financial services market | Average customer assets in CHF billion
2012 to 2016
2012 = 100%

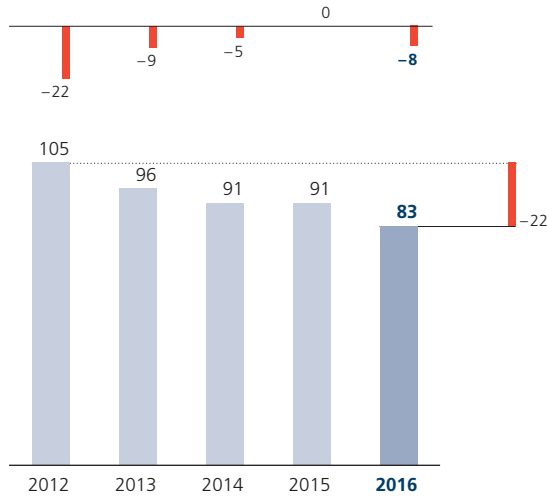


The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rates and lack of profitable investment opportunities weighed on net interest income, further eroding interest margins. Customer deposits were up by around 4.5 billion francs, PostFinance invests a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A large amount of liquidity is still held at the Swiss National Bank. Since January 2015, PostFinance has been charged negative interest on the sight deposit balance exceeding the defined exemption limit. In turn, PostFinance has established the necessary framework to be able to pass these costs on to major customers. In addition, a fee on the credit balance will be charged to private customers with cash assets of over one million francs from February 2017.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Intense pressure on margins.

Financial services market | Interest margin in basis points
2012 to 2016



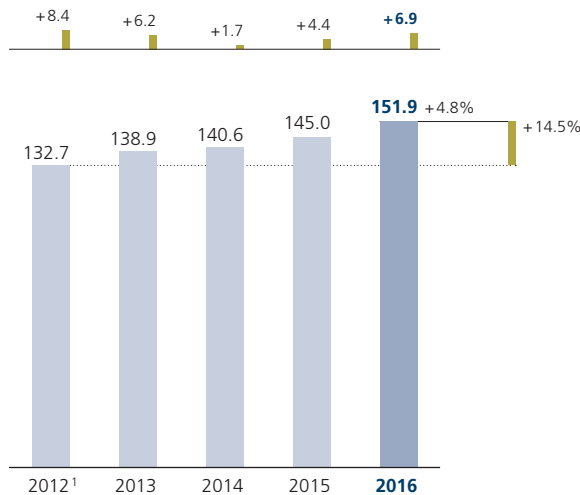
Passenger transport market

Stronger demand for mobility solutions.

The national passenger transport market continues to show strong demand for mobility solutions. The rise in demand from the population is in contrast to the limited budgets of public entities, which is reflected in an increase in tenders for bus services. In this context, PostBus was still able to increase the number of passengers in Switzerland by 4.8 percent to 151.9 million people during the last financial year. PostBus has also been operating urban bus networks and bus routes in France for a number of years. In 2016, PostBus increased the number of kilometres covered by 7.8 percent, recording a total of 153.3 million kilometres. The expansion of services in France as well as in Switzerland contributed to this rise.

Longstanding increase in passenger numbers.

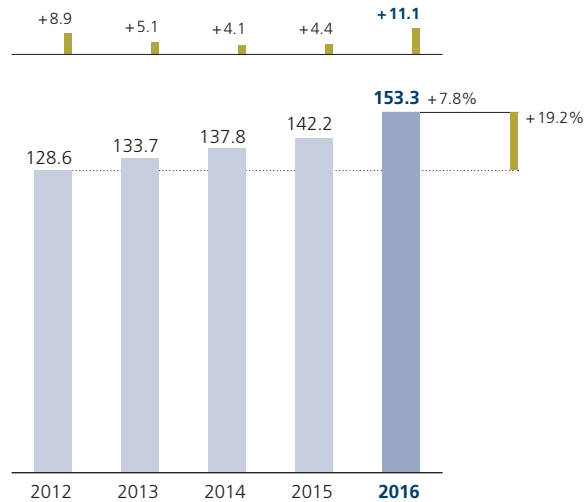
Passenger transport market | Number of passengers (Switzerland) in millions of passengers
2012 to 2016
2012 = 100%



1 Key figures adjusted due to the switch to system-based levies in the regions of Ticino and Valais.

Faster expansion of services.

Passenger transport market | Kilometres covered in millions of km
2012 to 2016
2012 = 100%



Profit situation

Economic value added

Positive economic
value added.

In line with the Federal Council's financial goals, Swiss Post is expected to maintain the positive economic value added in the long term. Economic value added is created when adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also factors in the risks and the capital employed. In order to meet the stated financial goal, economic value added is included as a key figure in the calculation of the variable performance component of management remuneration (please also see "Determination of remuneration" on page 70).

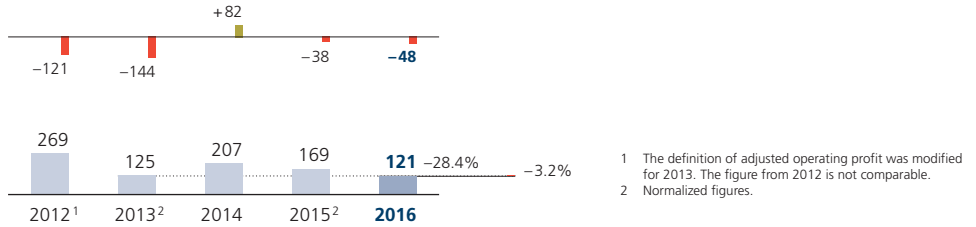
Economic value added in the communication, logistics and passenger transport markets is calculated from adjusted operating profit minus capital costs (cost of capital for logistics multiplied by average invested capital). In the financial services market, it is calculated from earnings before tax in accordance with IFRS minus capital costs (cost of capital in the financial services market multiplied by relevant average capital amount).

As at 31 December 2016, Swiss Post met the financial expectations of the Federal Council and generated economic value added of 121 million francs. The decrease year-on-year is mainly due to the decline in operating profit. Despite higher capital requirements, the decline was only moderate due to falling interest rates.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

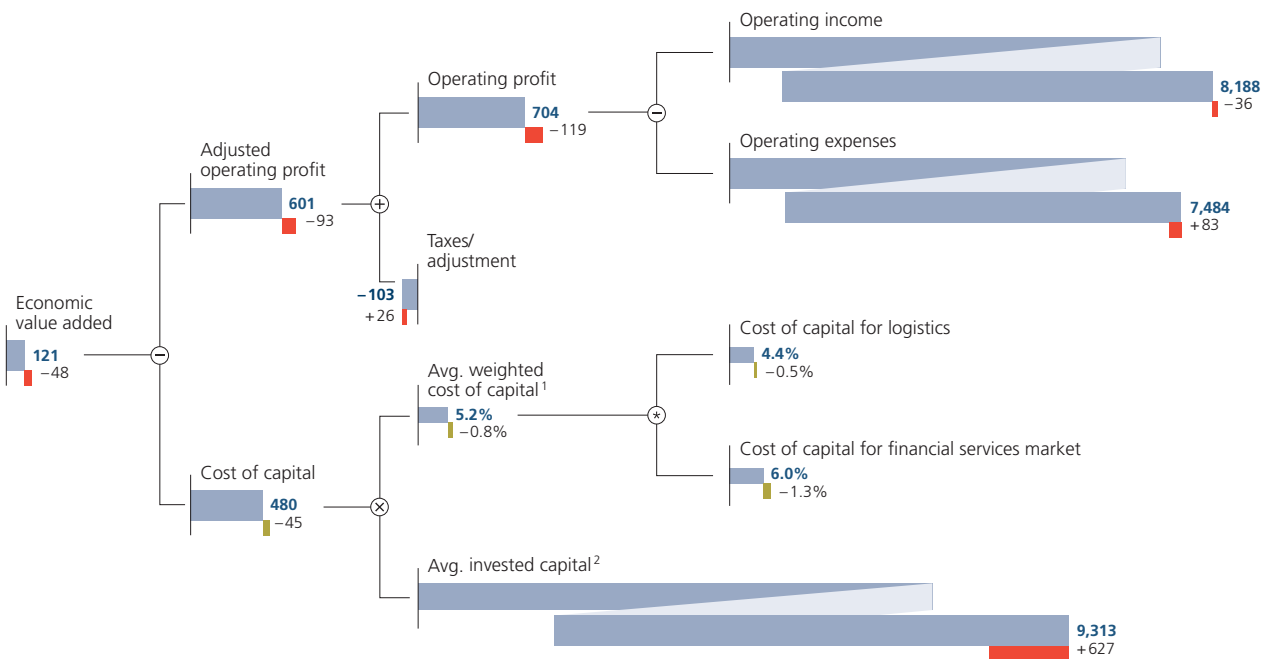
Economic value added affected by decline in operating profit.

Group | Economic value added in CHF million
2012 to 2016



Lower capital costs absorb decline in operating profit.

Group | Economic value added in CHF million
2016



⊗ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).
¹ Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity for the financial services market.
² In logistics units corresponds to the average net operating assets (NOA) of 4,848 million francs and at PostFinance to the average equity in accordance with Basel III of 4,465 million francs.

Decline in operating income.

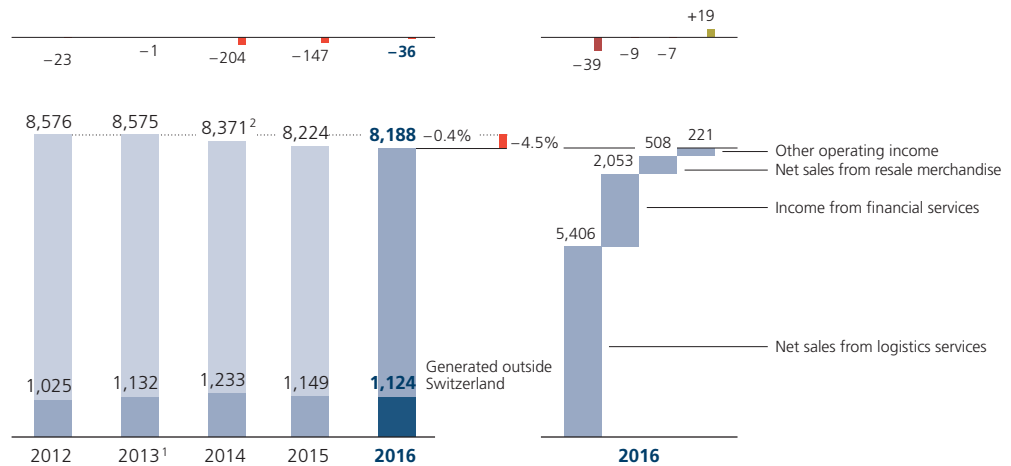
Income statement

Operating income

Operating income stood at 8,188 million francs in 2016 (prior year: 8,224 million francs), down 36 million francs year-on-year. This was mainly due to declining volumes of addressed letters and interest rate-related decreases in revenue.

Decline in operating income.

Group | Operating income in CHF million
2012 to 2016
2012 = 100%



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2015 Group annual financial statements, Basis of accounting, Accounting changes, Change in the recognition method for commission expenses and income).

Net sales from logistics services fell by 39 million francs year-on-year to 5,406 million francs. This decline was the result of lower volumes of addressed letters and a decrease in revenue due to competition. Net sales from resale merchandise remained stable. Lower income from interest business was recorded in income from financial services. The stated lower income was partly offset by higher capital gains realized on the sale of equity holdings and an investment as well as by higher commission and services income. Other operating income rose year-on-year, principally thanks to higher rental income from the "PostParc" property.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

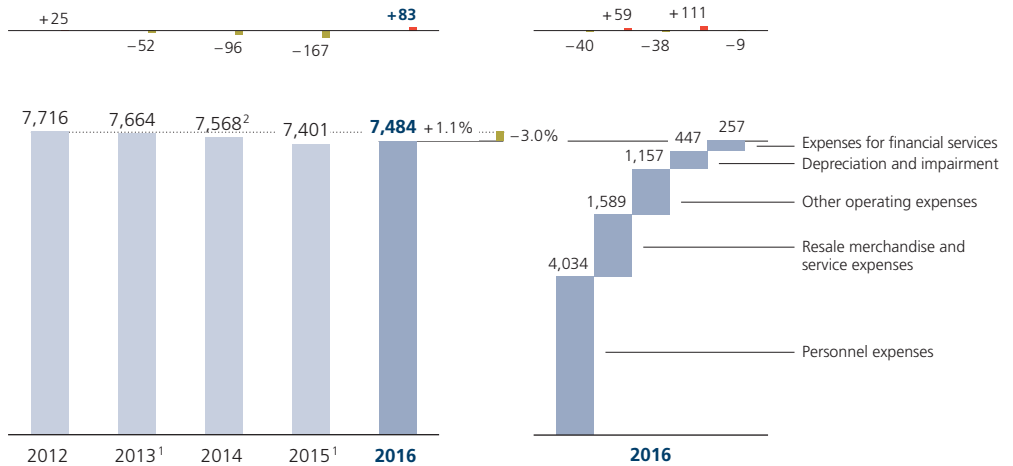
Higher operating expenses.

Operating expenses

Operating expenses rose by 83 million francs to 7,484 million francs year-on-year (prior year normalized: 7,401 million francs). Personnel expenses in relation to total operating expenses remained stable and stood at around 54 percent in 2016.

Additional depreciation required for logistics centers.

Group | Normalized operating expenses in CHF million
2012 to 2016
2012 = 100%



1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2015 Group annual financial statements, Basis of accounting, Accounting changes, Change in the recognition method for commission expenses and income).

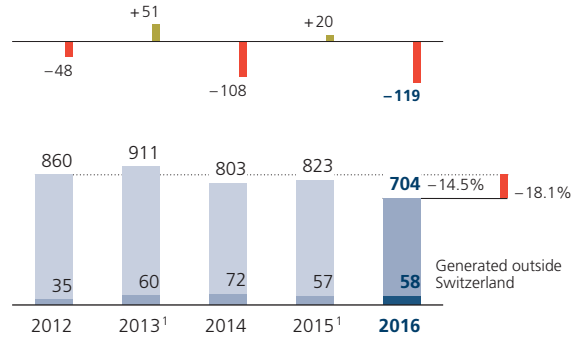
The decline in personnel expenses in comparison with the normalized prior-year figure was mainly due to lower costs for wages and salaries. The 59-million-franc rise in resale merchandise and service expenses was due to higher compensation for PostBus operators and higher compensation paid for international postal traffic for accounting reasons. Expenses for financial services fell by 9 million francs. Other operating expenses decreased by 38 million francs in 2016. This decline was mainly due to the tenant fit-out of the new Swiss Post headquarters, which was partly recognized in profit or loss last year. Depreciation and impairment expenses increased by 111 million francs. This rise was due to the transfer of the "PostParc" property to the asset portfolio and to the adjustment of the useful lives of tenant fit-outs in logistics centers (see Note 2, Basis of accounting, Change in estimate).

Operating profit

Swiss Post generated an operating profit of 704 million francs in 2016. This represents a decrease of 119 million francs in comparison with the normalized prior-year figure. The fall in profit year-on-year is due to the negative interest rate situation as well as to declining volumes for structural reasons. As a result of the current change in Swiss Post's core business, further reductions were necessary in the useful lives of tenant fit-outs.

Core business under pressure.

Group | Operating profit in CHF million
2012 to 2016



Slight decline in Group profit.

Group profit

At 7 million francs, net income from associates and joint ventures was lower than the previous year (12 million francs). Financial income totalled 18 million francs, with financial expenses standing at 64 million francs. The net change in the financial result had no impact on Group profit. Expenses for income taxes fell by 36 million francs in comparison with the normalized prior-year figure to 107 million francs. Group profit amounted to 558 million francs in 2016.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
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53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

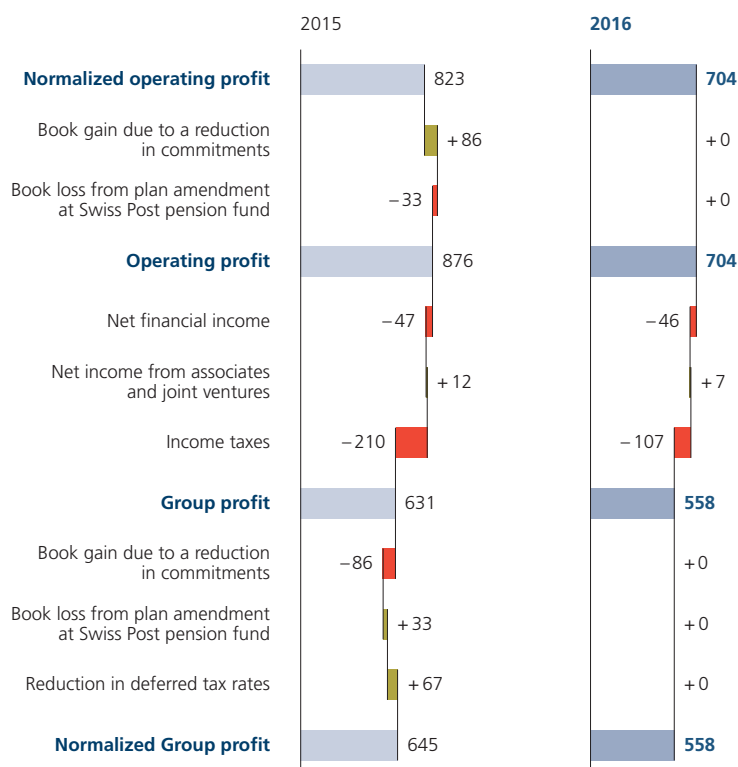
One-off items in 2015 – non-recurring in 2016

Swiss Post's financial result included the following one-off items in 2015 which were normalized in the management report:

- A book gain due to reduced obligations in expenses for wages and salaries (86 million francs)
- A book loss due to the adjustment of the technical interest rate at the Swiss Post pension fund from 1 January 2015, which led to an increase in employee benefit expenses (33 million francs)
- The adjustment of deferred tax rates, which generated an increase in expenses for income taxes in individual subsidiaries (67 million francs)

No one-off items were recognized in the 2016 reporting period.

Group | One-off items in operating profit and Group profit in CHF million
2015 and 2016



Segment results

Overview

All four markets contributed to the positive operating profit.

Group Segment results	Operating income ¹		Operating result ^{1,2}		Margin ³		Headcount ⁴	
	CHF million		CHF million		Percent		Full-time equivalents	
	2015	2016	2015 ⁵	2016	2015	2016	2015	2016
1.1. to 31.12.2016 with prior-year period CHF million, percent, full-time equivalents								
PostMail	2,820	2,906	358	317	12.7	10.9	16,494	16,241
Swiss Post Solutions	609	558	15	20	2.5	3.6	7,177	6,803
Post Offices & Sales	1,601	1,196	-110	-193			6,299	6,006
Communication market	4,678	4,359	263	144	5.6	3.3	29,970	29,050
PostLogistics	1,552	1,572	145	117	9.3	7.4	5,219	5,151
Logistics market	1,552	1,572	145	117	9.3	7.4	5,219	5,151
PostFinance ⁶	2,143	2,155	459	542			3,594	3,614
Financial services market	2,143	2,155	459	542			3,594	3,614
PostBus ⁷	849	923	29	36	3.4	3.9	2,939	3,210
Passenger transport market	849	923	29	36	3.4	3.9	2,939	3,210
Other ⁸	941	919	-73	-135			2,409	2,460
Consolidation	-2,291	-2,041	-	-				
Group	8,224	8,188	823	704			44,131	43,485

1 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.

2 Operating result corresponds to earnings before net non-operating financial income/expenses and taxes (EBIT).

3 The financial services market (PostFinance) uses the indicator return on equity; no margin is calculated for "Other"; negative margins are not reported.

4 Average expressed in terms of full-time equivalents (excluding trainees).

5 Normalized figures.

6 PostFinance Ltd also applies the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.

7 Within the field of regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.

8 Includes service units (Real Estate and Information & Communication Technology) and management units (e.g. Human Resources, Finance and Communication).

Communication market

PostMail

The continuing decline in volumes led to a fall in the result. PostMail recorded an operating profit of 317 million francs in 2016, falling short of the prior-year figure by 41 million francs.

The transfer of private customer products from Post Offices & Sales and foreign currency effects in connection with the abandoning of the minimum euro exchange rate in the prior year resulted in a considerable increase in expenses and income. Overall, both of these items had virtually no impact on profit or loss.

The decline in the volume of addressed letters was more pronounced year-on-year and had a negative effect on operating income. The reduction in newspaper volumes was partly offset in terms of sales by means of moderate price increases. Sales from unaddressed mail also registered a slight decline. Income from international consignments was above the prior-year figure due to exchange rate effects on foreign subsidiary and import consignments. Provisions recognized for outstanding obligations arising from business activities resulted in a 20 million franc decrease in the result.

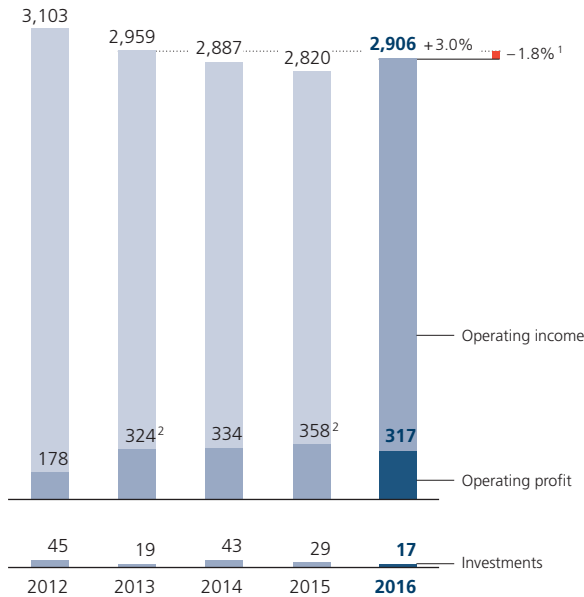
Headcount fell by 253 full-time equivalents year-on-year. This was due to the ongoing impact of measures to optimize processes, as well as to lower staff requirements as a result of declining volumes.

PostMail: ongoing decline in volumes.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

PostMail responsible for letters – private customers from 2016.

PostMail | Operating income, normalized operating profit and investments in CHF million
2012 to 2016



1 Difference since new postal legislation came into force in 2013.
2 Normalized figures.

Since 2013, PostMail has achieved an operating profit of over 300 million francs, making a substantial contribution to the Group result. The increase in operating profit between 2012 and 2013 was due to the new postal legislation which came into force in 2013. During the same period, the joint venture Asendia was established with France's La Poste.

Declining average annual volumes of addressed letters of 2 percent as well as decreases in subscription newspapers and import consignments contributed to lower operating income. The increase in operating income between 2015 and 2016 was due to the transfer of product responsibility for private customer letters from Post Offices & Sales to PostMail.

Annual investments of 30 million francs on average ensure the continuing excellent quality and high level of automation of PostMail services. In recent years, investments have been made in the expansion of distribution centers and in the optimization of sorting and delivery processes in particular.

Swiss Post Solutions

Swiss Post Solutions achieved an operating profit of 20 million francs in 2016. Operating profit was 5 million francs higher than the prior-year figure.

At 558 million francs, operating income was 51 million francs down on the previous year. The decline is mainly due to the effects of an intra-Group transfer of a business unit and the disposal of non-strategic activities (-42 million francs in total). Other reasons include the negative exchange rate effect caused by the weak British pound in the United Kingdom (-15 million francs) and lower volumes, particularly in Switzerland (-4 million francs). In contrast, higher operating income was achieved with existing customers and new business due to increases in profitability, particularly in Germany (+8 million francs) and the United States (+2 million francs). Swiss Post Solutions recorded organic growth from its existing business of one percent.

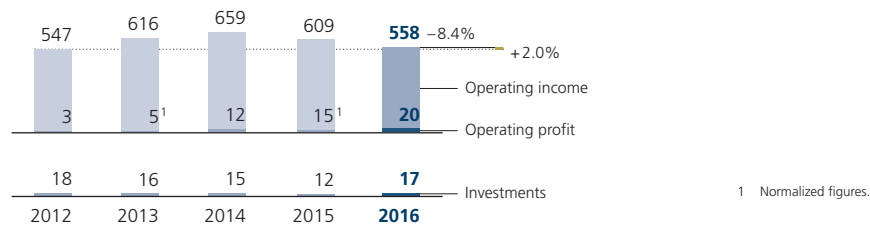
Operating expenses totalled 538 million francs, down 56 million francs on the previous year. The decline was mainly due to the items mentioned under operating income and recognized in expenses. Cost reductions were also achieved by the implementation of measures to increase efficiency and improvement projects.

Swiss Post Solutions:
positive trend in
operating profit.

Average headcount fell by 374 to 6,803 full-time equivalents year-on-year. The decrease is mainly due to the sale of Swiss Post Solutions Card Systems GmbH (–143 employees) and the representations in Vietnam (–95 employees) and France (–39 employees).

Expansion of market position for comprehensive services.

Swiss Post Solutions | Operating income, normalized operating profit and investments in CHF million
2012 to 2016



The progression of the Swiss Post Solutions business unit has been heavily influenced by the optimization of the portfolio of products and interests over the past five years.

Operating income and investments in each year during the observation period were principally characterized by acquisitions of interests and demergers, together with restructuring measures. The material changes concerned the acquisition of the document solutions business from Pitney Bowes in the UK (in 2013), the demerger of Solution House (in 2015) and the sale of Swiss Post Solutions Card Systems GmbH (in 2016).

Post Offices & Sales

Product responsibility for letters and parcels for private customers was transferred to PostMail and PostLogistics on 1 January 2016. Since this date, Post Offices & Sales has been managed as Swiss Post's sales channel for private and SME customers. Sales services are invoiced to the other Group segments. In 2016, Post Offices & Sales achieved an operating result of –193 million francs.

At 1,196 million francs, operating income was comprised principally of 486 million francs of operating income from the sale of resale merchandise (prior year: 492 million francs) and 706 million francs of payments for internal services.

Operating expenses decreased to 1,389 million francs. The decline in headcount led to a reduction of 35 million francs in personnel expenses.

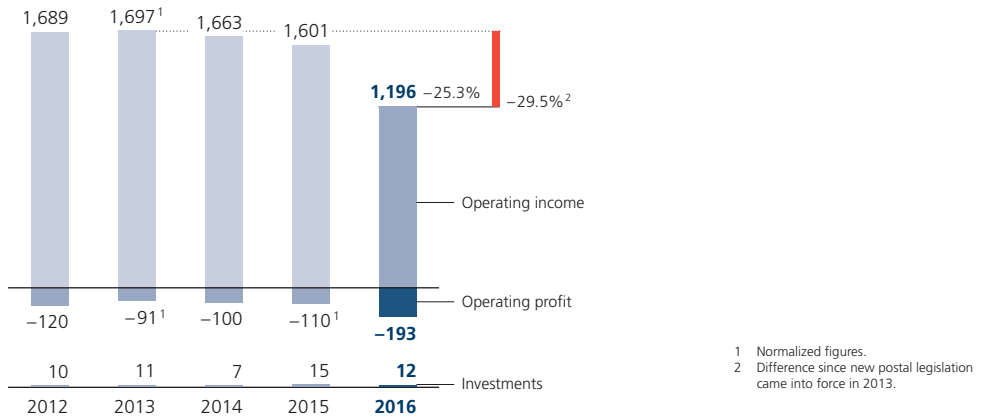
Headcount of 6,006 employees fell by a total of 293 full-time equivalents year-on-year, due principally to developments in the post office network.

Post Offices & Sales: new performance mandate.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Transfer of product responsibility for letters and parcels for private customers.

Post Offices & Sales | Operating income, normalized operating result and investments in CHF million
2012 to 2016



It is difficult to compare the 2016 operating result with that of previous years due to the new internal performance mandate for Post Offices & Sales. The focus over the past five years has been on reducing the negative contribution to results. A comparison of figures over several years shows that the necessary positive impact on results is being achieved in the long term thanks to network development, and that the substantial decline in revenue from letters, parcels and payment transactions is being absorbed.

Constant investments over the past few years have ensured that Post Offices & Sales meets its share of the universal service obligation.

Logistics market

PostLogistics

PostLogistics posted operating profit of 117 million francs in 2016, which was 28 million francs lower than the normalized prior-year figure. The drop in operating profit was mainly due to higher expenses as a result of the transfer of product responsibility for private customer parcels from Post Offices & Sales.

Operating income stood at 1,572 million francs, 20 million francs up year-on-year. This rise was due to higher parcel volumes and greater demand for value logistics solutions, thereby more than offsetting the loss of customers in small consignment transport, warehousing and Innight, and lower revenue in the fuel business.

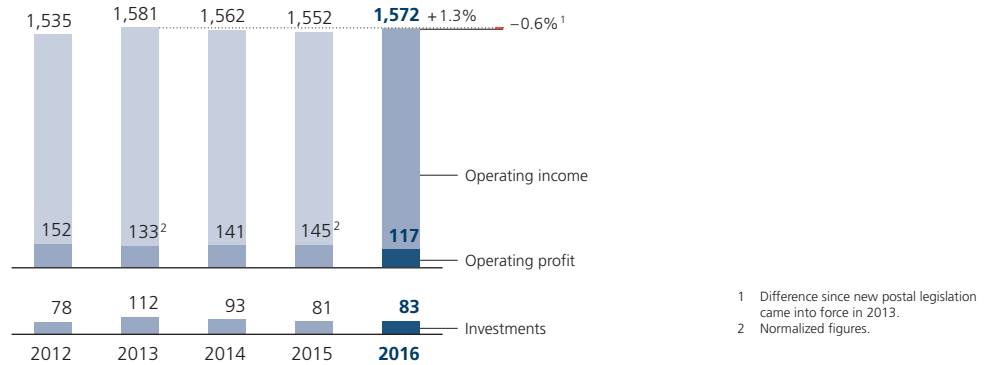
Operating expenses increased by 48 million francs year-on-year to 1,455 million francs. This rise was primarily due to higher costs for processing private customer parcels. Other reasons include greater transport costs resulting from growth in parcel volumes for business customers and additional depreciation and amortization.

Average headcount fell by 68 to 5,151 full-time equivalents as a result of the increased use of third-party transporters in parcel transport and optimizations in small consignment transport.

PostLogistics:
operating profit
down year-on-year.

Stable trend in operating income over the last five years.

PostLogistics | Operating income, normalized operating profit and investments in CHF million
2012 to 2016



After achieving stable results in previous years, PostLogistics recorded a drop in operating profit in 2016. This decline was mainly due to the transfer of product responsibility for private customer parcels mentioned above.

Operating income has remained stable over the past five years, increasing in 2016 compared with the previous two years. Greater competition and the associated loss of customers in small consignment transport and warehousing, as well as falling prices in the parcel market, were more than offset by the constant increase in parcel volumes. However, growth was only recorded in business customer parcel volumes, while private customer parcel volumes have been declining for years. The increase in online trade was the main reason for growth in the business customer sector.

Investments in 2016 were in line with the average level seen in recent years.

Financial services market

PostFinance

In 2016, PostFinance recorded an operating profit of 542 million francs, representing an increase of 83 million francs in comparison with the normalized prior-year figure.

Operating income was up 12 million francs to 2,155 million francs. Lower income from the interest business (97 million francs) was offset principally by higher capital gains realized on the sale of equity holdings and an investment totalling 70 million francs, as well as by higher commission and services income of 20 million francs.

Operating expenses decreased by 71 million francs year-on-year to 1,613 million francs. Service and commission expenses dropped by 83 million francs due to modifications to payments within the Group. Changes in interest payable due to market conditions resulted in a 49 million franc decline in interest expense. These lower expenses were offset by higher impairment losses on financial assets of 46 million francs (prior year: 22 million francs) and higher personnel expenses of 17 million francs. General and administrative expenses rose, principally as a result of higher property maintenance expenses.

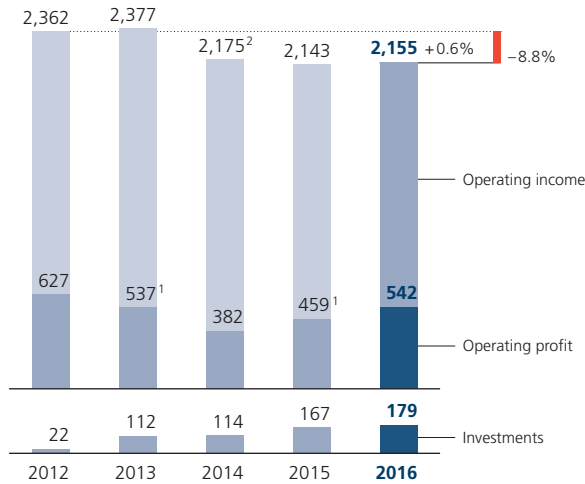
Additional jobs were created for the implementation of strategic projects. Headcount rose by 20 full-time equivalents year-on-year to an average of 3,614 full-time equivalents.

PostFinance:
significant increase
in operating profit.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Highly volatile operating profit due to portfolio impairment losses and low interest rates.

PostFinance | Normalized operating income, normalized operating profit and investments in CHF million 2012 to 2016



Operating profit at PostFinance is greatly dependent on portfolio impairment losses and/or portfolio reversals of impairment on financial assets, which are highly volatile due to market conditions.

The interest differential business is the most important source of revenue for PostFinance. Operating income has declined in the last few years due to the ongoing low interest situation, which has also eroded interest margins, having a negative effect on net interest income. This situation will remain a challenge for PostFinance over the next few years.

Non-interest related revenue in net service and commission income and trading activities, which has increased in recent years, had a positive effect on operating income.

Investments have increased significantly over the last two years. The business activities of PostFinance were integrated into a private limited company under private law in 2013. As part of its capitalization, PostFinance Ltd acquired a real estate portfolio, which it has continued to invest in ever since. Investments have also been made in modernizing the core banking system.

Passenger transport market

PostBus

At 36 million francs, operating profit at PostBus exceeded the prior-year figure by 7 million francs. This was primarily due to the fall in fuel prices of an average of 9 centimes year-on-year (4 million francs) and to the expansion of products and services (4 million francs). PostBus subsidiaries also improved their result by 1 million francs.

Operating income stood at 923 million francs, which corresponds to growth of 9 percent. The expansion of services and newly acquired networks in Switzerland and abroad are the main factors responsible for this growth. Operating expenses rose to 887 million francs (+8 percent) due to the number of kilometres covered and the increase in employee benefit expenses.

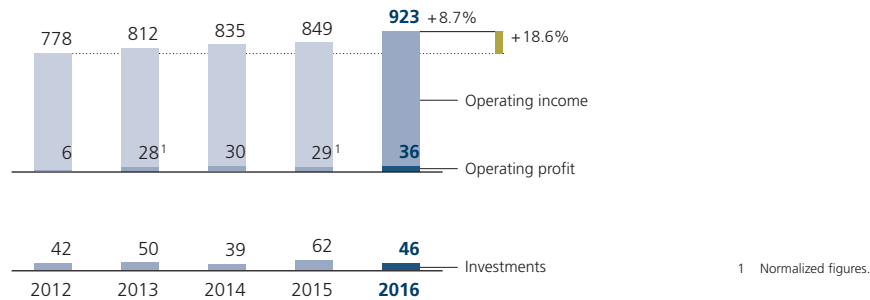
A reimbursement was required as a result of the definitive cost apportionment determined in 2015 with the Mobilis fare network, leading to an impact of 2 million francs on the result.

Newly acquired networks and acquisitions (such as Bassin de Thau and Grindler), together with growth in Switzerland (expansion of services in Zurich and Western Switzerland) resulted in a 9 percent increase in average headcount.

PostBus: constant operating profit.

Constant growth in the passenger transport market.

PostBus | Operating income, normalized operating profit and investments in CHF million
2012 to 2016



The operating profit generated in the 2016 financial year was up 7 million francs year-on-year to 36 million francs. On average, operating profit has stood at 26 million francs in each of the past 5 years.

Operating income has increased by an average of 4 percent in recent years. In comparison with the 2012 financial year, operating income has risen by 145 million francs to 923 million francs. This represents an increase in revenue of 19 percent. The largest rise of 74 million francs was generated in 2016. Around two-thirds of this figure was the result of the expansion of services in Switzerland as well as new acquisitions and newly acquired networks in the French business. The lowest growth in operating income was recorded in 2015, principally due to the abandoning of the minimum euro exchange rate by the Swiss National Bank that year, leading to a decline in the growth of operating income from the French business.

An average of 48 million francs has been invested in each of the past five years. In the current financial year, investments were 46 million francs lower than the five-year average due to improved conditions in vehicle procurement.

Management and service units

The management and service units generated an operating result of –135 million francs in 2016. The result was therefore 62 million francs lower year-on-year.

At 919 million francs, operating income declined by 22 million francs year-on-year. The decrease was mainly due to a reduction in intra-Group income.

Operating expenses increased by 40 million francs to 1,054 million francs. Additional depreciation was required during the reporting period due to shorter useful lives of operating materials in logistics centers. Personnel expenses increased by 14 million francs.

Headcount rose by 51 to 2,460 full-time equivalents.

Management and service units: decline in operating result.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
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53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

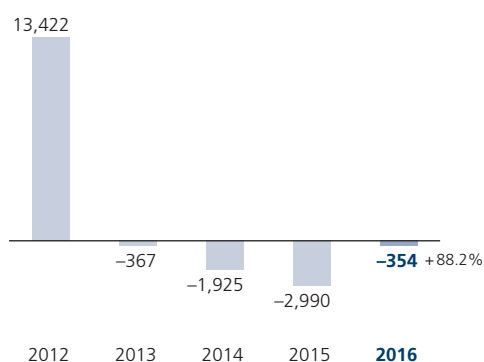
Assets and financial situation

Cash flow and investments

Cash flow from operating activities totalled –354 million francs in 2016. A negative cash flow from operating activities of –2,990 million francs was recorded in the 2015 comparison period. The outflow of funds in 2016 mainly concerned the financial services business. For more information on changes in the consolidated cash flow statement, see page 80.

Balance between investment activity and progression of customer deposits.

Group | Cash flow in CHF million
2012 to 2016

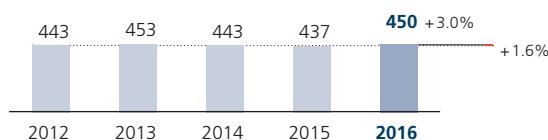


Pillar level reduced by a factor of 10 in relation to the standard benchmark.

Overall, investments in property, plant and equipment (285 million francs, mainly in operating property and vehicles), as well as in investment property (31 million francs), intangible assets (120 million francs) and interests (14 million francs) were up 13 million francs on the previous year. Excluding the positions from financial services reported in the balance sheet, cash flow was sufficiently high for the company to finance its own investments. In the coming year, Swiss Post will continue to take steps to automate its processes in order to improve efficiency, which is reflected in higher planned investments of around 500 to 600 million francs in comparison with the previous financial year. Investments will mainly be made in property, plant and equipment, predominantly in Switzerland.

Investment activities with a focus on the logistics and financial services markets.

Group | Investments in CHF million
2012 to 2016



Net debt

For the indicator net debt/EBITDA (operating profit before depreciation and amortization) Swiss Post has set a maximum figure of 1 as its target. Customer deposits and financial assets of PostFinance Ltd are not included in the calculation of this indicator. Values above the target are possible in the short term. Values below the target indicate financial leeway. The target was met as at 31 December 2016.

Consolidated balance sheet

Amounts due from banks

In comparison with 31 December 2015, amounts due from banks decreased by 1,363 million francs.

Financial assets

In comparison with the end of 2015, financial assets increased by 6,769 million francs.

Property, plant and equipment

The carrying amount for property, plant and equipment fell by 151 million francs compared with 31 December 2015.

Customer deposits

Since the end of the previous year, customer deposits at PostFinance have risen by 3,153 million francs to 110,533 million francs. As at 31 December 2016, customer deposits accounted for around 87 percent of the Group's total assets.

Other liabilities (provisions)

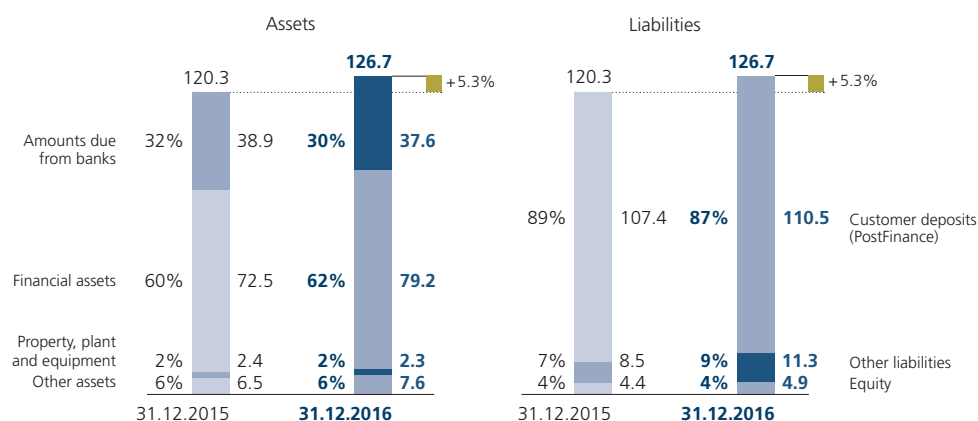
Provisions including employee benefit obligations increased by 266 million francs in comparison with the previous year-end figure. This was essentially due to an increase in employee benefit obligations of 233 million francs associated with imputed interest rates. The imputed interest rate had to be reduced due to interest trends on the financial markets.

Equity

Consolidated equity as at 31 December 2016 (4,881 million francs) was calculated net of the appropriation of profit for 2015.

Higher customer deposits result in an increase in financial asset holdings.

Group | Balance sheet structure in CHF billion
As at 31.12.2015 and 31.12.2016



Appropriation of profit

The appropriation of profit is determined by legal provisions and by the requirements of the business. The key issue is an appropriate capital structure. The amount remaining after the payment of the dividend to the owner is transferred to the reserves.

The proposed appropriation of profit of Swiss Post Ltd can be found on page 166.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Non-financial results of a material nature

In addition to the financial goal (EBIT of between 700 and 900 million francs) and the aim of holding “the leading market position in Switzerland”, Swiss Post has set itself the following strategic goals (see pages 16 and 18):

- Customer satisfaction: at least 78 points on a scale of 0–100
- Employee commitment: at least 80 points on a scale of 0–100
- Sustainability: 10 percent improvement in CO₂ efficiency by the end of 2016 in comparison with 2010
- Universal service: unrestricted regulatory audit certification

Customer satisfaction

Customers have been very satisfied with Swiss Post for years.

Swiss Post adapts to changing customer requirements and develops its products and services accordingly. For 18 years Swiss Post has commissioned an independent institute to conduct and evaluate an annual satisfaction survey among around 23,000 private and business customers throughout Switzerland and in selected countries abroad for quality assurance and improvement purposes. Data is collected regarding satisfaction with Swiss Post – both in general and specifically in relation to the range of products and services, customer contact, customer advisors, prices (or value for money) and problem solving.

Group | Customer satisfaction

2013 to 2016 Index 100 = maximum	2014	2015	2016
Swiss Post Group	80	80	80
Business customers (Switzerland)			
PostMail (national consignments)	79	79	79
PostMail mail (international consignments)	77	77	79
PostLogistics	77	77	78
PostFinance ¹	82	79	78
Swiss Post Solutions	82	79	83
Post Offices & Sales	82	82	83
Postal agencies	– ²	80	– ²
Private customers			
PostFinance ¹	84	80	80
Post Offices & Sales	86	87	86
Home delivery service	– ²	84	– ²
Postal agencies	– ²	79	– ²
PostBus, commuters	76	74	74
PostBus, leisure travellers	84	83	81

¹ The 2015 results are not comparable with those of previous years due to changes in the sampling procedure.

² Data only collected every two years.

Group | Recipient customer index

2013 to 2016 Index 100 = maximum	2014	2015	2016
Overall delivery quality (recipient customer index)	91	91	91

The results have remained very high for several years. At 80 out of a possible 100 points, this year's Group-wide customer satisfaction index confirms the record for the third time. Customers indicate that they particularly appreciate the quality of services and personal advice provided. Figures above 80 are considered to reflect very high levels of satisfaction, whereas figures below 65 are seen as critical.

Private customers

The 15,000 private customers questioned in the customer satisfaction survey rated individual Group units very highly, as they did last year. The highest number of points (86) was achieved by the Post Offices & Sales unit. Private customers generally award the individual Swiss Post units good marks, with ratings between 74 and 86 points.

The quality of letter deliveries was rated by 13,000 private recipient customers in a separate survey – the recipient customer index – once again achieving a very high 91 points on a scale of 0 to 100. For many years now, the highest values have been for the professional and friendly manner of delivery staff. This survey has been carried out and evaluated by an independent institute since 2004.

The customer satisfaction index and recipient customer index are produced using different criteria, which means they are not directly comparable to one another.

Business customers

The 8,000 or so business customers questioned once more assigned high scores of between 78 and 83 to individual units, with the post offices and Swiss Post Solutions receiving very good grades of 83 out of a possible 100 points. For the third year running, business customers rated national letter mail with a high 79 points, while the score assigned to international letter mail increased by two points to 79 points in terms of overall satisfaction. With 78 points, the Logistics division of Swiss Post was rated slightly higher than the previous year.

On the basis of the survey results, Swiss Post implements various initiatives and measures in order to strengthen customer proximity and to meet the needs of different customer groups more effectively. Customers continue to regard problem-solving as the area with the most potential for improvement. By finding out what is important to its customers, Swiss Post can optimize and constantly adapt the entire customer experience chain.

Simply closer to the customer

Swiss Post is in contact with a large number of very different private and business customers who all have their own individual requirements. The results of the customer satisfaction survey indicate how good Swiss Post is at providing individual guidance from the customer's perspective. In e-commerce it offers tailored solutions that meet customer requirements and make their everyday lives easier. Swiss Post also wants to achieve this in other areas. To ensure customer proximity, Swiss Post has introduced central customer experience management and expanded its online services. Customers can now legally identify themselves via a video ID check instead of having to do so in person at a post office counter, for example. With the "My consignments" online service, parcel consignments can now be managed online – fully in line with each customer's requirements. Swiss Post is also expanding the network of My Post 24 terminals to offer a range of access points that meet the different needs of individual customers.

Human resources

Employee commitment

Employees regard Swiss Post as an attractive employer. In the employee survey 2016, they confirmed that they are committed to their work and to the company's success. This is reflected in the result in a high positive rating, with 82 out of 100 points for personal commitment. The commitment index is the central element of the survey and consists of three components: identification, staff turnover and motivation.

Work situation affected by the more challenging competitive environment

The results remained stable year-on-year at a high level, with a medium to high positive rating across the Group. With 76 points, the work situation, defined in terms of the factors goal orientation, direct line managers, involvement and personal responsibility, work processes, work content, workload, working conditions, team interaction and employment conditions, was given the same rating as in 2015. In their everyday work, employees are again particularly positive with respect to cooperation and mutual support within and between teams, their perceived ability to contribute to the company, and work-life balance. The new collective employment contracts (CEC) did however result in a lower

High level of motivation in difficult market environment.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

score being awarded to employment conditions. With 74 points, employee satisfaction was also affected, losing one point in comparison with the previous year.

Further development and customer focus in the spotlight

Employees see Swiss Post as an innovative company. However, the strategy to reduce pressure on the core business was given a lower rating than the previous year. Employees continue to appreciate the transparent flow of information and have confidence in the management. The unit fitness score derived from this remained stable at 73 points. This encompasses the factors strategy, management, information and communication, change and innovation, cooperation, and development. The rating for customer focus from an internal perspective remained at a stable high level with 79 points. However, staff also saw potential for improvement here, and various measures have been taken to address the relevant issues together.

Measurement categories unchanged over eight years

For the survey in May 2016, Swiss Post used the same measurement model for the eighth year running. Values from 60 to 74 points are considered an "average positive" rating, while values between 75 and 84 points are rated "high positive". The questionnaire was distributed to around 48,000 employees in 15 countries in seven different languages. The response rate was around 79.2 percent (previous year: 78.1 percent).

Group | Employee survey

2014 to 2016 Index 100 = maximum	2014	2015	2016
Commitment	82	82	82
Identification	81	81	81
Staff turnover	80	80	80
Motivation	86	86	86
Work situation ¹	75	76	76
Unit fitness ²	72	73	73
Customer focus	79	79	79
Employee satisfaction	75	75	74

¹ The work situation comprises the factors goal orientation, direct line managers, involvement and personal responsibility, work processes, work content, workload, working conditions, team interaction and employment conditions.

² Unit fitness encompasses the factors strategy, management, information and communication, change and innovation, cooperation, and development.

Promote the performance and development of employees.

Investment in staff

Swiss Post is successful when its employees put the corporate strategy to practical use in their daily work with high motivation and professionalism. To achieve this, Swiss Post relies on exemplary employment conditions and provides employees at every level and of every age with opportunities for development. By doing so, Swiss Post aims to improve the performance of its employees and to promote market-oriented action.

Support for apprentices and young talent

2,207 apprentices received training in 15 professions at Swiss Post in 2016. This represents 5.8 percent of its headcount in Switzerland. This makes Swiss Post one of the largest training companies in Switzerland. The success rate in final apprenticeship examinations stood at 98.9 percent in 2016. Two out of every three newly-qualified professionals continued to work for Swiss Post. Furthermore, Swiss Post enabled 24 university graduates to enter the working world as part of its in-house trainee programme.

Internal advanced training measures

The skills and competencies required in the company are enhanced by means of appropriate specialist training courses. Around 520 internal specialist and management courses in the form of face-to-face training in German, French and Italian are registered in the central system. Swiss Post is increasingly organizing short learning sequences that employees can complete in the course of their work (on-the-job learning). 2,600 of these learning sequences are available.

More than 1,800 attendance-based courses were held, enabling a good 23,000 employees to attend training events lasting an average of one to one and a half days. In addition, Swiss Post employees have access to 820 e-learning courses in German, French, Italian and English which have been completed just under 100,000 times. The decline in attendance-based courses is due to the strategic decision to concentrate on strategically relevant topics specific to Swiss Post in its range of internal training courses. A greater emphasis is also being placed on on-the-job learning.

One key aspect of internal basic and advanced training at Swiss Post is the militia principle which enables in-depth expert knowledge and the strong practical relevance of the input from specialists to benefit the different Group units. In future, the main focus of internal training courses will be to promote the development of skills specific to Swiss Post.

The leadership programme is now designed as a three-year programme based on the leadership compass. Together with top and senior management, Executive Management is currently preparing a new executive organization that will meet the demands of future leadership challenges and ensure the optimal implementation of the vision and strategy. The cross-unit programme for HR and organizational development has been enhanced and is now being implemented in order to provide efficient support for the achievement of the strategic goals.

External individual basic and advanced training

Last year, Swiss Post provided almost 5.5 million francs of financial support for external basic and advanced training requested by its employees. Over 1,100 members of staff were able to benefit from the necessary time and/or funding. This generous contribution reflects the company's interest in keeping employee training at a persistently high level.

Social counselling service, Job Center

Helping employees, managers and HR advisors in difficult situations, pointing out prospects, and encouraging personal responsibility and motivation: These are the responsibilities of Swiss Post's social counselling service and Job Center. The core tasks carried out by the social counselling service involve offering professional advice and support to employees experiencing difficult situations in their lives or conflict in the workplace. 2,590 people benefited from advisory services in 2016; 1,483 managers and employees attended prevention seminars (addiction, bullying and sexual harassment) and 413 employees received financial support from the Swiss Post Personnel Fund or were granted a loan. Swiss Post's internal Job Center is a point of contact where staff can assess their professional situation and ask questions about their personal advancement. 594 career counselling sessions were held and 114 consultations given on professional re-orientation, making the Job Center a vital part of Swiss Post's socially responsible human resources policy. 1,097 diagnostic tests were carried out during counselling sessions.

Employment conditions

Collective employment contract

Negotiations on new collective employment contracts (CEC) for the employees of the subsidiaries Post Real Estate Management and Services Ltd, SecurePost Ltd and Swiss Post Solutions Ltd/SwissSign AG were successfully completed. The focus was on salary issues, working hours regulations and other subjects such as the company's social plan, and paternity and maternity leave. The new employment conditions will come into force in the course of 2017. The new CEC establishes the necessary organizational framework for Swiss Post to remain an attractive employer on the labour market. Swiss Post will also continue to be a socially responsible employer that offers fair working conditions in the future.

Equal pay

Swiss Post employees are entitled to receive equal pay for work of equivalent value. This is guaranteed for CEC staff by means of function levels based on a non-discriminatory functional evaluation system. The danger of wage inequality is thereby minimized. Swiss Post sets great store by equal pay and was one of the pioneering companies to take part in equal pay dialogue. The good results from a study on equal pay confirm the effectiveness of the Swiss Post salary system.

Swiss Post will remain a socially responsible employer in the future.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Diversity at Swiss Post

Swiss Post creates an operating framework which empowers staff members to combine the different aspects of their lives. This includes flexible working models. Around 23,000 employees work part-time and around 11,500 take advantage of teleworking on average each year. Opportunities for job sharing are also used. Swiss Post also contributes around one million francs towards external child-care, helping employees to achieve a good work-life balance.

Stability at the Swiss Post pension fund.

Retirement planning, social security

The Group's own employee benefits institution, the Swiss Post pension fund, with total assets of around 16 billion francs, insures 43,600 Swiss Post employees in Switzerland and pays 740 million francs in pensions to 29,600 pensioners each year. The level of cover stood just over 100 percent at the end of 2016. The foundation board, formed jointly by employer and employee representatives, is responsible for the management of the foundation. The Swiss Post pension fund exceeds the statutory minimum requirements (Federal Law on the Occupational Old-age, Survivors' and Disability Benefit Plan, BVG). Swiss Post employer contributions represent 268 million francs per year. Since 2016, the conversion rate that determines the pension amount has been 5.35 percent at the age of 65.

More information on employees can be found in the Annual Report on pages 49–52.

Sustainability

Sustainability contributes to economic value added for Swiss Post.

Commitment to sustainability is part of Swiss Post's vital corporate culture. That is why Swiss Post operates according to a clear set of principles and takes its social, environmental and economic responsibilities seriously. For Swiss Post, entrepreneurial responsibility means promoting economic growth and boosting competitiveness while acting in an environmentally sustainable and socially responsible manner. It provides its services in the most environmentally friendly way possible. It achieves this with energy-efficient buildings and vehicles, optimized logistics processes, innovative alternative technologies and the use of renewable energy. Swiss Post also enables its customers to act sustainably by offering products such as the carbon-neutral "pro clima" – Shipment service.

Swiss Post is aware of its social responsibility as the third-largest employer in Switzerland, and takes its role as a progressive employer seriously. It encourages its employees to participate in basic and advanced training and helps its staff remain healthy. Each year, it offers around 750 apprentices the chance to start a career. It also does its bit for society by proposing jobs in rural areas and taking responsibility for its supply chain.

Extended sustainability objectives

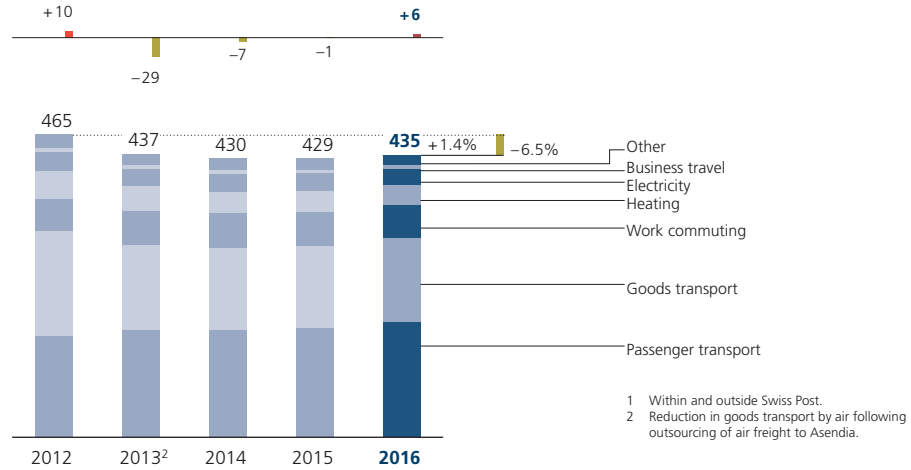
With its sustainability strategy for 2014–2016, Swiss Post was aiming to achieve a CO₂ efficiency increase of at least 10 percent by the end of 2016 (base year: 2010). This Group goal is defined in relation to the core services of the units: Swiss Post is looking to reduce greenhouse gas emissions for every consignment transported, every passenger carried, every transaction, and every heated square metre in its buildings.

The current social commitment is now being integrated into the sustainability strategy in the form of objectives in the fields of education, health and procurement. In the interests of employees and their safety, Swiss Post has defined the quantitative goals of maintaining the proportion of trainees at 5 percent and reducing occupational accidents by 3 percent by 2016 (base year: 2013). With respect to procurement, Swiss Post is examining the issues more closely and introducing new sustainability criteria.

Swiss Post's greenhouse gas emissions remain stable, despite an increase in parcel volumes and business growth at PostBus. Heat requirements have been continually reduced.

Swiss Post's greenhouse gas performance is stable.

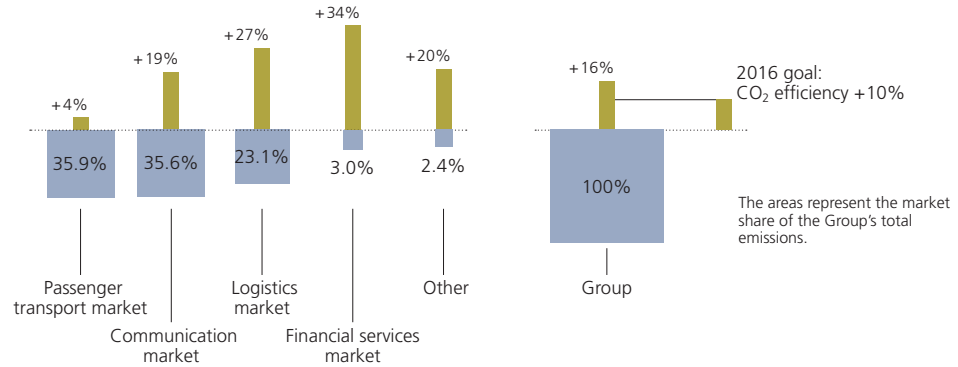
Group | Greenhouse gas emissions by process¹ in 1,000 t of CO₂ equivalents
2012 to 2016
2012 = 100%



At the end of 2016, Swiss Post had increased CO₂ efficiency by 16 percent and significantly exceeded its target to increase CO₂ efficiency by 10 percent by 2016 (base year 2010).

Goal to increase CO₂ efficiency achieved

Group | CO₂ efficiency and proportion of CO₂ emissions by market
2016
CO₂ efficiency index¹ 2010 = 100%



¹ The CO₂ efficiency index is measured as the change in CO₂ equivalents per core service unit in the financial year in comparison with the base year 2010. The core service is defined differently according to unit (item, transaction, passenger kilometres, kilometres, full-time equivalent, etc.).

In order to reduce its CO₂ emissions, Swiss Post has implemented a comprehensive package of measures.

- As a transport-intensive company, it is constantly testing alternative drive systems and fuels, and utilizing them wherever possible. Biodiesel, eco-electricity and biogas have already become standard fuels for Swiss Post's vehicle fleet. PostBus operates 37 diesel hybrid buses on Swiss roads. 14 Mobility Solutions Ltd petrol stations offer diesel containing 7 percent biodiesel made from residues from edible oil production. Following the replacement of the last petrol scooter by an electric scooter, around 6,300 vehicles powered by eco-electricity are now in circulation. There are just under 30 gas vans fuelled with 100 percent Swiss biogas. In addition, the use of vehicle capacities and routes are continually being optimized.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

- Potential energy savings in building services and in post offices have been systematically identified and measures introduced. It is also replacing heating oil completely with low-sulphur eco-oil. It dispenses with the use of fossil fuels in all new buildings and replacement heating systems. The MINERGIE®-compliant Swiss Post headquarters in Berne's Wankdorf City district was the first office building in Switzerland to receive the international DGNB certificate in platinum.
- Swiss Post covers 100 percent of its electricity requirements with "naturemade basic" certified renewable energy from Switzerland, which contains 10 percent of "naturemade star" certified green electricity. Swiss Post operates ten photovoltaic systems on its roofs, feeding approximately 5 GWh of solar electricity into the grid each year.
- With "pro clima" – Shipment, all domestic letters have been carbon neutral since 2012 at no extra charge for customers. Swiss Post is funding the construction of the first gold standard Swiss Post climate protection project in Switzerland: it consists of 30 biogas plants and farms that reuse manure and other organic waste to generate electricity.
- Raising employees' awareness of sustainability is a recurring theme of internal communication and is explored in depth at workshops and other events.

The constant increase in CO₂ efficiency is achieved by implementing a range of measures to reduce greenhouse gas emissions and to improve the efficiency of the core services it provides.

The number of occupational accidents has been reduced thanks to the consistent introduction and implementation of operating group solutions in each individual unit. The Group target of reducing occupational accidents by 3 percent between 2013 and 2016 was exceeded significantly by 6 percent from as early as 2015. The proportion of trainees stands at over 5 percent.

In procurement, sustainability criteria have been defined for each product group, and the purchasers trained accordingly. In turn, Swiss Post advocates socially acceptable working conditions and environmental measures at its suppliers across the entire supply chain. Swiss Post has been a member of the Fair Wear Foundation (FWF) since 2012 to ensure the socially responsible production of its work clothing. Swiss Post also completes the clothing cycle by sorting old Swiss Post uniforms according to their condition, and either recycling them or having them transformed into industrial materials.

Swiss Post supports foundations and charitable organizations, and is particularly committed to helping children and young people. Swiss Post answers children's letters in the Santa Claus campaign, enables people in need in Switzerland and Eastern Europe to receive Christmas gifts with the 2 x Christmas campaign, and also supports Pro Patria and Pro Juventute.

2017–2020 corporate responsibility strategy outlook.

With the 2017–2020 corporate responsibility strategy, Swiss Post is aiming to achieve a CO₂ efficiency increase of at least 25 percent by the end of 2020 (base year 2010). This means that for every consignment or passenger transported, for every transaction and for every heated square metre of the Swiss Post buildings, we will consume less energy and release less greenhouse gases. Swiss Post's climate goal is geared to the long term and is in line with the objective of stabilizing global warming to well below 2°C by 2100 compared to pre-industrial levels, as decided by the international community as part of the Paris Climate Agreement.

The areas of action have also been expanded. The focus is on topics that have been classified as highly relevant by external stakeholders and that strongly influence Swiss Post's entrepreneurial freedom. Responsible procurement, climate and energy, circular economy and corporate citizenship are defined as areas of action with goals and strategic measures.

More information on sustainability can be found in the Annual Report on pages 43–48 and in the GRI report, available at www.swisspost.ch/gri16.

Swiss Post's core services are determined by statutory mandates.

Universal service

The universal postal service defined in the Postal Services Act encompasses the transport of letters (up to one kilogram), parcels (up to 20 kilograms), newspapers and magazines. These services must be reasonably accessible via Swiss Post's access points, and deliveries must be made to permanently inhabited areas on at least five working days a week. Swiss Post also has a mandate to provide a universal service for payment transactions (more information about the statutory framework can be found on page 16).

Swiss Post aims to fulfil its statutory mandate by systematically focusing on its customers and providing high quality services. Swiss Post finances the universal service from its own revenue; it does not receive any financial compensation in return. Each year, external auditors carry out checks for PostCom to ensure compliance with the statutory requirements for financing the universal service. The last available audit certificate from March 2016 concerns the 2015 financial year.

Swiss Post's core products and services are determined by the statutory mandates for the universal service. In addition to its universal service obligations, Swiss Post must also meet the strategic goals of the Federal Council. Swiss Post regards both as opportunities to prove that the trust placed in it is justified. It exceeds the requirements, both in terms of the quality and the scope of services it provides, and finances the universal service from its own funds. Swiss Post's success should not be taken for granted. The regulatory framework must remain balanced in the future to enable Swiss Post to take account of complex political, regulatory and commercial demands.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Risk report

Risk management principles

Today's business environment is constantly changing. The success of a company greatly depends on the early recognition and control of opportunities and threats (risk awareness), and taking account of capital and yield considerations (risk-bearing capacity and risk appetite). Risk management can thereby make an important contribution to the quality of decisions and help increase the company's value.

Risk management system

The Board of Directors sets out the primary guidelines and principles for the risk management system and defines risk policy at Swiss Post Ltd. Risk management at Group level is in charge of the risk management process and ensures that risks are identified and recorded in the reporting system twice a year. Executive Management carries out a risk analysis on the basis of this overview. The results are presented to the Board of Directors' Audit, Risk & Compliance Committee and the Board of Directors.

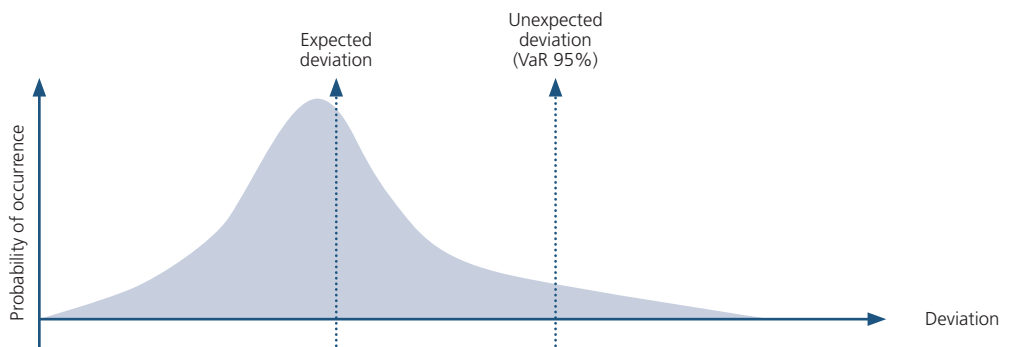
Risk simulation

Monte Carlo simulation techniques are used in risk management to calculate risk indicators that are aggregated on the basis of correlations. The extent of loss or profit that could result from each risk is identified by means of risk simulation. Risks are assessed according to scenario analyses and historic event data.

Risk indicators

A picture of the risk situation of a company or of individual units is obtained by simulating individual risks and groups of risks to obtain risk indicators. Expected value and value-at-risk (VaR) are also calculated. Expected value shows the expected EBIT deviation for the next twelve months, while value-at-risk (95 percent) is used for unexpected EBIT deviations. In addition, the expected EBIT deviation for 2024 is simulated and aggregated to identify the strategic risk situation.

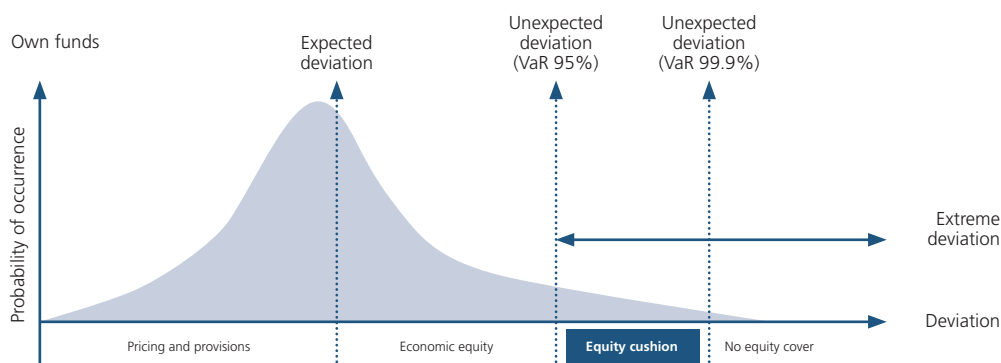
Risk indicators



Risk appetite and risk-bearing capacity

Risk appetite and risk-bearing capacity are illustrated and checked using indicators across all aggregation levels. Risk appetite corresponds to the expected value obtained from the risk simulation, and represents the deviation that is to be expected. Risk appetite should not exceed envisaged operating income. Risk-bearing capacity is achieved if unexpected deviations are covered by economic equity.

Risk appetite and risk-bearing capacity



The expected deviation obtained from the simulation should for instance be factored into the planning when setting prices or by means of a provision. While unexpected deviations (VaR 95 percent) are covered by the allocation of economic equity, an equity cushion should be made available to cover extreme deviations. This equity cushion has an impact on the Group’s rating. An extreme deviation has an extremely low probability of occurrence, but could entail very high potential losses. Covering extreme events with equity is uneconomical and therefore only partially guaranteed.

Risk management process

The risk management process at Swiss Post comprises the following five stages:

Risk management process



- Risk identification
Risks and opportunities are defined as potential deviations from planned earnings before tax. Group strategy and a company-wide basic catalogue of risks form the basis for risk identification.
- Risk assessment
Every six months, managers and technical specialists measure the risks that have been identified. Risks are assessed on the basis of scenario analyses (best case, realistic case and worst case scenarios) and/or by means of event data. Risk indicators for individual risks are measured via Monte Carlo simulation techniques.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

– Definition of measures

As part of the risk management process, the Group units define appropriate measures in order to take advantage of opportunities whilst avoiding, reducing, or passing on risks to third parties. At Group level, Group risks are controlled mainly via strategic measures that are often combined with further precautions individually tailored to specific risks.

– Control of measures

Comprehensive checks are carried out to ensure that risks are being controlled efficiently by the measures in place. Additional measures are defined if necessary.

– Reporting

Reports are submitted to the Management Board, Executive Board, Group Executive Management, Board of Directors' Audit, Risk & Compliance Committee and Board of Directors.

Networking of risk management

Swiss Post aims to take an integral approach to risk management. Risk management is therefore combined with the Strategy, Accounting, Controlling and Crisis Management units as well as with Group Audit and Compliance. The different organizational units coordinate their processes, integrate their reporting documents and pool their analysis findings.

Risk situation

Successful entrepreneurial action is based on adequately controlling or avoiding material risks and taking advantage of opportunities that arise in a value-enhancing way. At Swiss Post, risks and opportunities are assessed as part of operational planning for a one-year planning period (risks and opportunities with a short-term impact), while the strategic risk situation is established over the planning horizon until 2024.

Risks and opportunities with a short-term impact

Swiss Post understands risks with a short-term impact to be any event which can have a negative influence on the achievement of its goals within the next twelve months. Short-term opportunities refer to potential results which go beyond the goals defined for the financial year. The individual risks and opportunities for all the units identified using the Monte Carlo simulation procedure are combined to establish the overall risk position of the Group. As well as calculating the average expected loss/gain potential, the maximum annual loss potential is determined with a confidence interval of 95 percent.

Based on the latest calculations, the Group has an expected loss potential of –17.4 million francs in relation to the financial year 2017. Average expected losses compared to the prior-year period have therefore increased by 10.7 million francs (expected loss in 2016: –6.7 million francs). This change is principally due to adjustments to the parameters for calculating employee benefit expenses. The unexpected annual loss potential (VaR 95 percent) for the Group totals –98.3 million francs for 2017. Risks have therefore increased year-on-year (unexpected loss in 2016: –76.7 million francs). Overall, the results show that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group's risk-bearing capacity is thereby guaranteed.

The largest loss potential with a short-term impact is due to shortfalls in the provision of services and legal risks. The profit trend at PostFinance is also volatile. Cost efficiency programmes, growth in parcel volumes and low fuel prices have the highest profit potential with a short-term impact.

Risks and opportunities with a long-term impact

As well as assessing the short-term risk situation, Swiss Post also identifies and evaluates strategic risks and opportunities. Any developments or events that could result in deviations in relation to the planned pre-tax profit (EBIT) in 2024 are regarded as strategic risks and opportunities.

The most significant strategic risks include declining volume trends. Changes in the regulatory framework could also have an effect on the company. The growth programmes and cost-cutting measures which have been initiated offer promising long-term opportunities. PostFinance's result is greatly dependent on market interest rate changes.

Overall assessment of risks and opportunities

A general picture of the risk situation is obtained by combining the individual risks and opportunities of all the units. The key challenges and opportunities have been described above. According to current estimates and taking into account the present circumstances, no risks have been identified that could jeopardize the future of the Group either on their own or in combination with other risks. The possibility cannot be ruled out that additional risks that are not yet known or that have currently been classed as immaterial could have a negative influence on the achievement of the desired results. In addition, new opportunities could arise that have not yet been identified, or current opportunities could become irrelevant.

Swiss Post is convinced that important risks and opportunities have been recognized and that the risk situation can be successfully addressed and potential opportunities successfully exploited thanks to its well established risk management system.

For more information on risk management at Swiss Post, see page 130.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

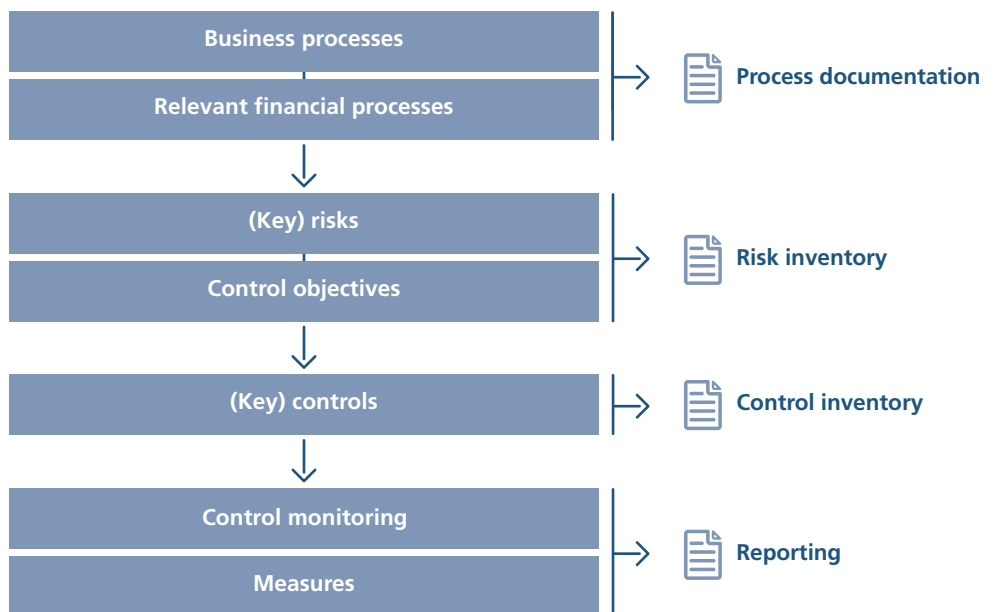
Internal control system

The Board of Directors and Executive Management are responsible for establishing and maintaining appropriate internal controls. The internal control system (ICS) at Swiss Post Ltd should provide reasonable assurance that the financial reporting is in accordance with the relevant accounting regulations and corresponding internal guidelines. It therefore encompasses principles, procedures and measures to ensure proper bookkeeping and rendering of accounts. In accordance with Article 728 a, paragraph 1, section 3 of the Swiss Code of Obligations, the external auditors check that an ICS is in place in conducting their regular audit each year.

Design of the internal control system

The Swiss Post ICS is established in line with the internationally recognized framework for internal control systems of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ICS-relevant financial processes across the Group are identified each year by means of materiality-based scoping before being documented in a comprehensible and straightforward manner for third party experts. For each activity, the potential risks are determined from the process documentation, assessed, and assigned financial control objectives. Key risks must be given priority treatment by the ICS and appropriate controls carried out. Controls are concepts, procedures, practices and organizational structures that create a degree of certainty that the control targets can be met and that unwanted events can be prevented or detected and corrected.

ICS



Monitoring and effectiveness of the internal control system

By taking a systematic approach to ICS monitoring, Swiss Post guarantees the relevance, appropriateness and efficiency of the system. Checks are made during the year to ensure that controls are implemented in accordance with the documentation and that risks are minimized as a result. At the end of the reporting period, an additional assessment of the maturity level of processes and controls is carried out on the basis of a self-assessment. A standard method is applied throughout the Group.

If potential for improvement or control deficits are identified in the course of ICS monitoring, measures are taken accordingly. The results of the self-assessment are validated and summarized in an overall report on the accounting-related internal control system at Swiss Post Ltd. This report is submitted to the Board of Directors' Audit, Risk & Compliance Committee and the Board of Directors.

Assessment of the internal control system as at 31 December 2016

In the year under review 2016, a total of 208 processes were documented as ICS-relevant. The number of relevant processes decreased slightly year-on-year (-6.3 percent). This is principally due to a summary of financial processes in the ICS framework. Of these relevant processes, 419 material risks – referred to as key risks – were identified before being covered and managed by means of 547 key controls.

All ICS-relevant financial processes and controls were formally assessed at the end of the financial year as part of the control monitoring procedure. A significant weakness in control procedures was identified within Post CH Ltd, which is being remedied with appropriate measures. The reliability of the figures reported for 2016 is not affected. Overall, Swiss Post judges the internal control system for financial reporting as at 31 December 2016 to be appropriate and effective. As a result of inherent limitations, the internal control system may however not completely prevent or detect misstatements.

KPMG AG, the independent auditors for Swiss Post, verified and unreservedly confirmed that an internal control system is in place for financial reporting as at 31 December 2016.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Outlook

As far as international economic trends are concerned, the Swiss National Bank (SNB) expects that moderate growth will continue in 2017. In the medium term, the global recovery is expected to translate into ongoing positive demand for Swiss goods and services. Moreover, the dampening effect of past Swiss franc appreciation on export growth looks as if it might gradually have run its course. On a real trade-weighted basis, the Swiss franc has been stable since the beginning of the year. New orders in the mechanical and electrical engineering industries and existing orders in the manufacturing sector have recently risen again. Greater sales volumes are likely to improve capacity utilization, which in turn will boost companies' margins. Equipment investment is therefore likely to pick up somewhat next year, with the labour market also profiting from the recovery.

The outlook for 2017 is subject to considerable risks. Structural problems in a number of advanced economies – such as a fragile financial system, high public debt and low growth potential – could negatively affect the outlook. Added to this are a multitude of political uncertainties. First, it is unclear what direction economic policy in the US will take following the presidential and congressional elections. Second, several countries in the euro area have important elections coming up in 2017. And third, exit negotiations between the UK and the EU are likely to be complex and arduous.

Given these economic prospects as well as increased competition, the sustained substitution effects, the optimization of business customer shipping operations and the need to maintain the equity base, Swiss Post is convinced that it should continue to pursue the defined strategy.

CORPORATE GOVERNANCE

Swiss Post attaches great importance to corporate governance. For years, it has based its actions on the Swiss Code of Best Practice for Corporate Governance drawn up by *economiesuisse*. Swiss Post structures its reporting in line with the SIX guidelines for listed companies.

Group structure and shareholders	62
Regulatory accounting	62
Capital structure	63
Board of Directors	63
Executive Management	67
Remuneration	70
Auditor	73
Information policy	73

Group structure and shareholders

Legal form and ownership

Swiss Post has been structured as a holding company since 26 June 2013. Swiss Post Ltd as the overall holding company is a company limited by shares subject to a special statutory regime solely owned by the Confederation. The organization chart on page 11 shows the Group's organizational units. The "Consolidated Group" section on page 147 of the Financial Report outlines the investments.

Control by the Confederation

The Confederation controls Swiss Post by setting strategic goals and checking that these are being met, using for this purpose Swiss Post's annual reporting to its owner and a report on staff (Public Officials Act/Ordinance on Executive Pay). See also the information policy section on page 73.

Regulatory accounting

Net costs arising from the universal service obligation

In accordance with article 19, section 2 of the Postal Services Act of 17 December 2010, Swiss Post must present its accounts in such a way that costs and revenue can be identified for individual services. The Postal Ordinance of 29 August 2012 substantiates these requirements and regulates the calculation of net costs for the universal service obligation.

The net costs result from a comparison of a hypothetical result recorded by Swiss Post excluding the universal service obligation with the actual result achieved. They represent the difference between the avoided costs and lost revenue. Swiss Post specifically calculated the net costs arising from the universal service obligation for the first time in 2013. They stood at around 371 million francs for 2015. The calculation was approved by the regulatory authority PostCom in May 2016. Following the approval of the net costs for 2016 by PostCom in the second quarter of 2017, the figures will be published at www.swisspost.ch/annualreport in a supplement to the Financial Report.

Swiss Post can offset the net costs from the previous year between different segments and Swiss Post subsidiaries. This net cost compensation enables Swiss Post to spread the universal service burden over the services and segments that are best able to support it. Net cost compensation does not influence the Group's financial result in any way, but does influence the segment results for PostFinance, PostLogistics, PostMail and Post Offices & Sales.

Each year, the auditing firm KPMG AG checks for PostCom the calculation of net costs and net cost compensation, regulatory accounting and compliance with the ban on cross-subsidies.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Reduction in the delivery prices of newspapers and magazines eligible for subsidies

Contributions from the Confederation of 50 million francs towards the reduction in the delivery prices of newspapers and magazines eligible for subsidies in accordance with article 16 of the Postal Services Act ceased to be credited to Swiss Post's newspaper account on 1 January 2013, and are now passed on in full to the eligible titles through a price reduction per copy. In the PostMail segment, a transitory account is kept on the balance sheet from which press subsidies are continually debited, and are credited to the publishers concerned as a price reduction on their Swiss Post invoice.

Capital structure

Swiss Post has Group equity comprising 1.3 billion francs of fully paid-in share capital plus capital and retained earnings of 3.6 billion francs. External debt amounted to almost 1.6 billion francs on the reference date.

The General Meeting decided to pay 200 million francs of profit from the 2016 financial year to the Confederation as a dividend in 2017 (resolution in 2015: 200 million francs as a dividend in 2016). The remaining amount is retained for the purpose of accumulating equity; on the reference date this equity stood at 4.9 billion (previous year: 4.4 billion) francs.

Board of Directors

Composition

The Federal Council elects Swiss Post Ltd's Board of Directors every two years. On the reference date (31 December 2016), it had nine members. The Board of Directors is responsible for implementing the strategic goals, for submitting reports to the Federal Council on their attainment and for providing the latter with the information it needs for verification purposes. The Board of Directors is also governed by the rights and duties set out in the provisions of the Swiss Code of Obligations on the subject of corporate law.

Members do not have any business relationships with Swiss Post or its subsidiaries, nor have they been involved in an executive capacity in Swiss Post Group in the past four years. In accordance with the Postal Organization Act, employees have the right to appropriate representation on the Board of Directors. In 2016, this representation was once again provided by Susanne Blank and Michel Gobet.

After the Chairman and two Vice-Chairmen of the Board of Directors, members are listed in the order in which they took office.

Urs Schwaller

Chairman of the Board of Directors, member since 2016, Switzerland, 1952, Dr. jur.

Committees: Organization, Nomination & Remuneration; Audit, Risk & Compliance; Investment, Mergers & Acquisitions

Professional background: self-employed lawyer; Council of Europe (permanent member); Council of States for the Canton of Fribourg (President of CVP-EVP; Cantonal Government of Fribourg (State Councillor – Director of Internal Affairs and of Finance); Senior Civil Servant of the Sense District; Director of the Cantonal Police Department; member of various federal commissions and foundations

Key posts: Groupe E Ltd (Member of the Board of Directors); Groupe Mutuel Assurances SA (Member of the Board of Directors); JPF Holding SA (Member of the Board of Directors); Liebherr Machines Bulle SA (Member of the Board of Directors); St-Paul Holding SA (Member of the Board of Directors); UCB Farchim Ltd (Member of the Board of Directors)

Andreas Schlöpfer

Vice-Chairman of the Board of Directors, member since 2009, Switzerland, 1947, lic. oec. Univ. of St. Gallen

Committees: Investment, Mergers & Acquisitions (Chair)

Professional background: Nestlé (General Manager in France, Russia, Thailand/Indochina, Zimbabwe, and Global Business Head/Senior Vice-President for Children's Food); International Trade Centre UNCTAD/GATT (Marketing Consultant)

Key posts: none

Adriano P. Vassalli

Vice-Chairman of the Board of Directors, member since 2010, Switzerland, 1954, federal diploma in auditing

Committees: Audit, Risk & Compliance (Chair)

Professional background: Studio di consulenza e di revisione (founder and owner); Arthur Andersen (founder and head of the Lugano and Berne branches, worldwide partner); Revisuisse AG (auditor and management consultant in Berne and founder of the Lugano branch)

Key posts: PostFinance Ltd (Member of the Board of Directors, Audit & Compliance Committee [Chair]); Swiss Red Cross, Berne (member of the Red Cross Council and member of the Executive Committee of the Conference of Red Cross Cantonal Associations); Swiss Red Cross, Lugano (Chairman of the Ticino Cantonal Association and Chairman of the Sottoceneri Section)

Susanne Blank

Member of the Board of Directors, Human Resources representative, member since 2008, Switzerland, 1972, lic. rer. pol.

Committees: Organization, Nomination & Remuneration

Professional background: State Secretariat for Economic Affairs SECO (Chief Editor for "Die Volkswirtschaft"); Travail.Suisse umbrella organization for employees (Head of Economic Policy and Member of the Executive Board); Federal Statistical Office (Sub-Project Manager, Audits of Swiss Consumer Price Index)

Key posts: ewb – Energie Wasser Bern (Member of the Board of Directors)

Marco Durrer

Member of the Board of Directors, member since 2009, Switzerland, 1952, Dr. ès. sc. pol., MALD

Committees: Organization, Nomination & Remuneration (Chair)

Professional background: Valiant Privatbank AG (CEO and Member of Executive Management, Valiant Holding AG); Lombard, Odier, Darier, Hentsch & Cie (Group Management, Branch Manager Zurich); Deutsche Bank (Suisse) SA (Head of Sales and Trading); Credit Suisse (Investment Banking)

Key posts: PostFinance Ltd (Vice-Chairman of the Board of Directors, Organization, Nomination & Remuneration Committee (Chair)); Picard Angst Ltd (Member of the Board of Directors); Piguet Galland & Cie SA (Member of the Board of Directors); DGM Immobilien AG (Chairman of the Board of Directors); Comunus SICAV (Vice-Chairman of the Board of Directors)

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Philippe Milliet



Member of the Board of Directors, member since 2010, Switzerland, 1963, degree in pharmacy, MBA

Committees: Audit, Risk & Compliance

Professional background: Bobst Group (Member of Group Executive Committee, Head of Business Unit Sheet-Fed); Galenica Ltd (Head of Health Division, Member of the Corporate Executive Committee); Unicable (CEO); Galenica Ltd (responsible for distribution centers, responsible for operations and CEO of Galexis Ltd); Pharmatic Ltd (analyst/programmer and project manager); McKinsey (associate, engagement manager); Galenica Holding AG (analyst/programmer and Assistant to the Chairman of the Corporate Executive Committee)

Key posts: none

Michel Gobet



Member of the Board of Directors, Human Resources representative, member since 2010, Switzerland, 1954, lic. phil. hist.

Committees: Investment, Mergers & Acquisitions

Professional background: syndicom, media and communications trade union (Central Secretary); PTT-Union (Central Secretary and Vice-Secretary General); Archaeological Service of the Canton of Fribourg (Head of Archaeological Sites)

Key posts: Swisscom Ltd (Member of the Board of Directors until 6 April 2016); UNI Global Union (Treasurer, Member of World Executive Committee, Member of European ICTS Steering Committee); gdz (Member of the Board of Directors)

Nadja Lang



Member of the Board of Directors, member since 2014, Switzerland, 1973, degree in business economics UAS

Committees: Organization, Nomination & Remuneration

Professional background: Max Havelaar Foundation Switzerland (Managing Director); Fairtrade International (Chair of the Global Account Management Steering Committee, Member of the Finance Committee), Max Havelaar Foundation Switzerland (Commercial Director and Deputy Managing Director); General Mills Europe Sarl (European Marketing Manager); The Coca Cola Company (various (management) positions in brand management and the Innovation department)

Key posts: Metron AG (Vice-Chair of the Board of Directors); Energie 360° (Member of the Board of Directors); University of St. Gallen (Member of the Management Committee, Chair for Logistics Management)

Myriam Meyer



Member of the Board of Directors, member since 2014, Switzerland, 1962, Dr. sc. techn.

Committees: Audit, Risk & Compliance

Professional background: mmtec (Owner and Managing Director); WIFAG-Polytype Holding AG (Group CEO); RUAG Aerospace (CEO); Roche (member of the Roche Consumer Health Executive Committee); Swissair (member of the Flight Operations Management Board); SR Technics (Vice President, Engineering)

Key posts: Wienerberger AG (Member of the Board of Directors); Bedag Informatik AG (Member of the Board of Directors); Commission for Technology & Innovation – CTI (Vice President); Swisscontact (Member of the Foundation Board); Industrial Advisory Board of the Department of Mechanical and Process Engineering, ETH Zurich (Member)

Kerstin Büchel



General Secretary, member since 2009, Switzerland/Germany/Sweden, 1970, lic. rer. pol.

Professional background: Valiant Privatbank AG (Head of Market Development and Sales Services); UBS AG Switzerland and UBS AG Italy (Junior Key People, product management, client advisory services, events, business development and strategic marketing, asset and liability management, international client reporting)

Key posts: none

Changes in the year under review

At the end of April, Chairman of the Board of Directors Peter Hasler resigned from his position on reaching the age limit of 70 years. On 26 April 2016, the General Meeting of Swiss Post Ltd elected Urs Schwaller as new Chairman of the Board of Directors at Swiss Post.

Uniform management

The Board of Directors has a responsibility to the Federal Council to guarantee the uniform management of Swiss Post and its subsidiaries. The holding company represents the entire Group to the owner and is responsible for ensuring that Swiss Post fulfils the universal service obligation. It is entitled to enlist the help of subsidiaries to do so.

Role and working method

As part of the Federal Council's strategic goals, the Board of Directors is responsible for the overall management and supervision of the persons entrusted with management. It defines company and business policy, medium and long-term Group objectives, and the means required to achieve those objectives. It approves the basic structure of the Group and mandates the members of the Board of Directors for PostFinance Ltd. It also authorizes the pricing system with respect to the Federal Council, accounting standards, the budget, reports to the owner and to OFCOM and PostCom, as well as large and strategic projects. In addition, the Board of Directors appoints the members of Executive Management and approves the collective employment contracts and remuneration for the members of Executive Management. In the year under review, the Board of Directors met a total of ten times. The CEO and Head of Finance attend Board meetings in an advisory capacity.

All members of the Board are subject to an age limit of 70 years. There is also a twelve-year limit for terms of office. There are three standing committees, which have an advisory and, to a limited extent, a decision-making role. The Board of Directors appoints the members of these committees independently. In addition, the Board of Directors may appoint non-standing committees for an individual transaction at any time. There is no contractually agreed reciprocal occupation of seats on boards between Swiss Post and any other commercial company.

The Chairman maintains good relations with the owner and coordinates matters of major importance, particularly with regard to exchanges with the Chairman of the Board of PostFinance Ltd. The Chairman chairs the meetings of the Board of Directors and represents the body externally.

Audit, Risk & Compliance Committee

The committee assists the Board in, among other things, the supervision of the accounts, financial reporting operations and risk management. It is responsible for the creation and development of appropriate internal supervisory structures and ensures compliance with legal provisions. As well as assessing Swiss Post's risk control at regular intervals, it also approves the Interim Report. The committee checks the findings and recommendations of Group Audit and the external audit teams and submits corresponding proposals to the Board as appropriate. Eight meetings were held during the last financial year. The CEO, the Head of Finance and the Head of Group Audit attend the meetings. In addition to the above items, the following main topic was covered by the committee in 2016: appointment of an auditing firm to carry out checks for PostCom.

Organization, Nomination & Remuneration Committee

The committee met six times during the last financial year. It has an advisory role vis-à-vis the Board of Directors as a whole with regard to the appointment and removal of the members of Executive Management and deciding their remuneration. It also submits a recommendation for setting the negotiating mandate for the annual round of pay negotiations with the employee associations. It ultimately prepares all the strategic organizational decisions for the Board of Directors. In addition to the above items, the following main topics were covered by the committee in 2016: Swiss Post pension fund, structural development and HR strategy.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Investment, Mergers & Acquisitions Committee

This committee deals with M&A strategy and individual strategic alliances. It identifies and assesses opportunities for participations, mergers and acquisitions, as well as for investments and alliances. In addition, it oversees the formation, liquidation and sale of subsidiaries, associates and participations. The committee met five times during the year under review. In 2016, the committee addressed various innovative, long-term projects on forward-looking topics within the above framework, such as the digital prospects for Swiss Post.

Information and supervisory tools

Reporting

The Board of Directors receives monthly reports from Controlling setting out the financial situation of the Group and its individual operating units as compared with the previous year. Budgeted and expected figures are provided, as are key data relating to markets, human resources and innovation.

The Board of Directors also receives quarterly financial and project controlling reports, and is informed by the Audit, Risk & Compliance Committee about planning compliance, strategic financial planning and the Federal Council's strategic goals. In addition, it receives Executive Management meeting minutes and interim reports from Risk Management (see page 130), Treasury, Communication and Group Audit. At each meeting of the Board of Directors, the CEO and the Head of Finance provide information on the company's current business situation.

Internal control system for financial processes

Swiss Post has an internal control system (ICS) which uses appropriate key controls to promptly identify and evaluate the financial processes and bookkeeping and accounting risks. The Board of Directors receives a report on the progress of the ICS once a year.

Group Audit

Group Audit submits ongoing reports to the Audit, Risk & Compliance Committee and an annual report to the whole Board of Directors. The members of the Audit, Risk & Compliance Committee and the external auditors receive a copy of all audit reports. Group Audit works in accordance with international standards and, in particular, adheres to principles relating to integrity, objectivity, confidentiality, technical expertise and quality assurance. Group Audit reports to the Chairman of the Board of Directors and is thus independent of operational Executive Management.

Executive Management

Composition

The seven members of Executive Management and the CEO are elected by the Board of Directors. Each is responsible for the operational management of the unit assigned to them. The CEO represents Executive Management to the Board of Directors.

The Chief Executive Officer of PostFinance Ltd participates in Executive Management meetings as an observer.

There are no management contracts with companies or individuals outside the Group.

After the CEO and Deputy CEO, members are listed in the order in which they took office.

Susanne Ruoff

CEO, member since 2012, Switzerland, 1958, Master's Degree in Economics from the University of Fribourg, Executive MBA

Professional background: Swiss Post Ltd (CEO); British Telecom Switzerland (CEO BT Switzerland Ltd); IBM Switzerland (Management Board member, Global Technology Services); IBM Switzerland (Head of Public Sector Division); various management positions in services, marketing and sales; previous directorships and positions on Foundation Boards: Geberit, Bedag, IBM pension fund, Industrial Advisory Board of the Computer Science Department of ETH Zurich

Key posts: PostFinance Ltd (Member of the Board of Directors, Organization, Nomination & Remuneration Committee (Member), Core Banking Transformation Committee (Chair)); Post CH Ltd (Chair of the Board of Directors), Post Real Estate Ltd (Chair of the Board of Directors); PostBus Management Ltd (Chair of the Board of Directors); International Post Corporation (IPC) (Member of the Board until May 2016)

Ulrich Hurni

Head of PostMail, Deputy CEO, member since 2009, Switzerland, 1958, commercial employee and business secretary at Swiss Post, EMBA University of Zurich

Professional background: Swiss Post Ltd (PostMail: Deputy Head and Head; Swiss Post International: Managing Director; Telecom PTT: Unit/project controller; PostFinance: IT systems development)

Key posts: Asendia Holding Ltd (Chairman of the Board of Directors); TNT Swiss Post AG (Member of the Board of Directors); Swiss Excellence Forum (Member of the Board)

Daniel Landolf

Head of PostBus, member since 2001, Switzerland, 1959, Bachelor of Science (B.Sc.), business administration

Professional background: Swiss Post Ltd (PostBus: Head and Deputy Head, Head of Business Development); PTT General Management (Swiss Post Marketing: Deputy Head of Strategies & Analyses; Business Administration Department: marketing specialist); Credit Suisse AG (foreign exchange trader)

Key posts: PostBus Switzerland Ltd (Chairman of the Board of Directors); Reka Swiss Travel Fund (Administrative member of the Cooperative Society); Association of Public Transport (Board and committee member); LITRA – public transport information service (Board and committee member); Sensetalbahn AG (Vice-Chairman of the Board of Directors)

Yves-André Jeandupeux

Head of Human Resources, member since 2005, Switzerland, 1958, lic. sc. soc. et pol., ment. psychology, University of Lausanne

Professional background: Swiss Post Ltd (Head of Human Resources); SKYGUIDE (Head of Human Resources); CC&T SA, management consultants (associate partner); Canton Neuchâtel (Head of Human Resources); Posalux SA (Head of Human Resources); GastroSuisse (Head of office for western Switzerland); Careers Advisory Service for Canton Jura (careers advisor)

Key posts: Swiss Post pension fund (Vice-Chairman of the Foundation Board); SAV (Board member)

Dieter Bambauer

Head of PostLogistics, member since 2009, Switzerland/Germany, 1958, Dr. oec. WWU, JLU

Professional background: Swiss Post Ltd (Head of PostLogistics); Hangartner AG (CEO); Schenker Switzerland Ltd (CEO); Deutsche Bahn AG (EVP freight logistics); Kühne + Nagel Management Ltd (Member of the Executive Board); MD Papier (Member of the Executive Board, logistics, IT); RCG (Head of Logistics Unit); Dr. Waldmann & Partner (management consulting)

Key posts: Asendia Holding Ltd (Member of the Board of Directors); TNT Swiss Post AG (Vice-Chairman of the Board of Directors); Member of the Management Committee of the Chair for Logistics Management at the University of St Gallen (HSG)

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Jörg Vollmer



Head of Swiss Post Solutions, member since 2015, Germany, 1967, banker, qualified business economist, Executive MBA

Professional background: Swiss Post Ltd (Head of Swiss Post Solutions); Hewlett-Packard (Vice President BPO EMEA, various management positions in Finance, Management and Operations); Triaton GmbH (Managing Director); Commerzbank (Advisor)

Key posts: none

Alex Glanzmann



Head of Finance, member since 2016, Switzerland, 1970, lic. rer. pol. University of Bern, Executive MBA HSG in Business Engineering

Professional background: Swiss Post Ltd (Head of Finance at PostLogistics, Head of Central Distribution zone, Head of Strategic Projects & Business Controlling for the Goods Logistics unit, Project Portfolio Manager for the Goods Logistics unit); BDO Visura (Head of Management & HRM advisory unit and vice-director, chief management consultant); Office for Information Technology and Organization at the Canton of Solothurn (research assistant)

Key posts: PostFinance Ltd (Member of the Board of Directors, Member of the Audit & Compliance Committee, and Member of the Risk Committee); Post CH Ltd (Member of the Board of Directors); Post Real Estate Ltd (Member of the Board of Directors); PostBus Management Ltd (Member of the Board of Directors); Swiss Post pension fund (Member of the Foundation Board); Swiss Post Insurance AG (Chairman of the Board of Directors)

Thomas Baur



Head of Post Offices & Sales, member since 2016, Switzerland, 1964, MBA ETH in Supply Chain Management

Professional background: Swiss Post Ltd (PostMail: Head of Delivery, Head of Logistics, Head of Business Development for ExpressPost, IT: Construction & Real Estate Project Manager, Head of Quality Assurance, Programmer/Analyst)

Key posts: none

Hansruedi Köng¹



Chief Executive Officer PostFinance Ltd, member since 2012, Switzerland, 1966, lic. rer. pol. (University of Bern), Business Administration and Economics, Swiss Finance Institute Advanced Executive Program

Professional background: PostFinance Ltd (Head of Treasury, Head of Finance; CEO; Member of the Executive Board since 1 March 2003); BVgroup Berne (Deputy Managing Director); PricewaterhouseCoopers Ltd (Senior Manager); Basler Kantonalbank (Member of Executive Management); Schweizerische Volksbank (Head of Asset & Liability Management)

Key posts: TWINT Ltd (Member of the Board of Directors); Swiss Post pension fund (Member of the Foundation Board and Chairman of the Investment Committee)

¹ The Chief Executive Officer of PostFinance Ltd, Hansruedi Köng, is not a member of Executive Management, but attends Executive Management meetings as an observer.

Changes in the year under review

Pascal Koradi, Head of Finance, left Swiss Post at the end of April 2016. He was replaced by Alex Glanzmann. Franz Huber, Head of the Post Offices & Sales unit and of the Real Estate unit, reached retirement age in 2016 and stood down from Executive Management at the end of August 2016. He was succeeded by Thomas Baur.

Remuneration

Policy

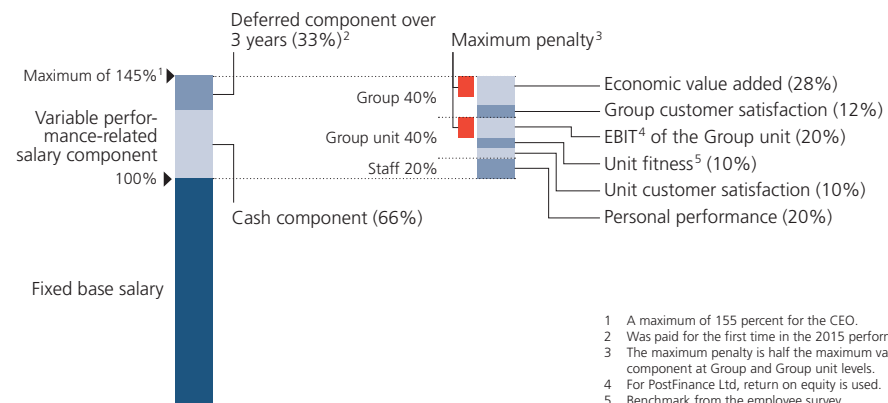
Corporate risk, scope of responsibility and the Ordinance on Executive Pay are taken into account by the Board of Directors when determining the remuneration due to members of Executive Management. The Board of Directors has regulated the remuneration and fringe benefits for its members in the BoD remuneration regulations.

Determination

Remuneration for members of Executive Management is comprised of a fixed base salary and a variable performance-related component. This may be a maximum of 45 percent of the gross annual base salary (a maximum of 55 percent in the case of the CEO). At Group level, the variable component is calculated from economic value added (28 percent) and Group customer satisfaction (12 percent). At Group unit level, a distinction is made between qualitative benchmarks (20 percent) and financial key figures (20 percent) such as EBIT. For PostFinance Ltd, return on equity is used instead of EBIT.

Executive Management | Breakdown of remuneration

2016



A penalty system may also be applied for calculating the variable salary component at Group and unit levels depending on the degree of target achievement. The maximum penalty represents half the maximum variable component.

All three performance levels are taken into account (Group, Group unit and individual performance) to determine whether the threshold for the variable component has been reached. The variable component is only paid on reaching this value. There is a penalty area below the threshold for the variable salary. If a penalty applies, the variable salary component is reduced accordingly. One-third of the variable salary component that is actually awarded is booked to a special account for variable remuneration. One-third of the balance of this account is paid out from the third year. The remaining two-thirds of the variable salary component are paid out directly. If, as a result of the penalty system, a negative variable salary component is awarded, this negative amount is booked to the account for variable remuneration and the account balance is reduced accordingly.

Members of Executive Management also receive a first-class GA travelcard, a company car, a mobile phone, a tablet computer and a monthly expense account. Swiss Post also pays the insurance premiums for a risk insurance policy. Individual bonuses may be paid to reward special personal contributions.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Neither the members of Executive Management nor persons closely linked to them received any additional fees, remuneration, guarantees, advances, credits, loans or benefits in kind during the financial year.

Both the base salary and the performance component are insured for members of Executive Management up to a maximum of 338,400 francs in the Swiss Post pension fund (defined contribution plan); higher income is covered by a management insurance scheme (defined contribution plan). The employer contributes disproportionately to the contributions for employee benefits. Employment contracts are based on the Swiss Code of Obligations. Since 1 July 2010, the notice period for members of Executive Management has been six months. For members appointed before that date, the previous notice period of twelve months applies. No agreements exist regarding possible severance payments.

Level of remuneration

Members of the Board of Directors

In 2016, the ten members of the Board of Directors received remuneration (fees and fringe benefits) totalling 1,031,625 francs. The fringe benefits totalling 246,625 francs are shown in the total remuneration. In 2016, the Chairmen of the Board's fee totalled 225,000 francs. The fringe benefits amounted to 28,025 francs.

Executive Management

The paid members of Executive Management and the CEO received remuneration totalling 5,288,940 francs in 2016. The fringe benefits of 337,168 francs are shown in the total remuneration. The performance-related component effectively payable to members of Executive Management in 2017, which is based on attainment of targets in 2015 and 2016, together with the deferred payments, amounts to 1,347,018 francs.

The base salary of the CEO totalled 610,000 francs. The additional performance-related component amounted to 316,838 francs, of which 104,355 francs were paid from the account for variable remuneration.

Remuneration	
CHF	2016
Chairman of the Board of Directors (2)	
Fees	225,000
Fringe benefits	
Expenses and representation allowances	22,500
First-class GA travelcard	5,525
Total remuneration	253,025
Other members of the Board of Directors (8)	
Fees	560,000
Fringe benefits	
Expenses and representation allowances	72,200
Additional fringe benefits	146,400
Total remuneration	778,600
Entire Board of Directors (10)	
Fees	785,000
Fringe benefits	246,625
Total remuneration	1,031,625
CEO	
Fixed base salary	610,000
Performance-related component (payable 2017)	
Variable salary component	212,483
Outpayment from account for variable remuneration ¹	104,355
Fringe benefits	
Expenses and representation allowances	30,000
Additional fringe benefits ²	17,340
Additional payments ³	–
Total remuneration	974,178
Other members of Executive Management (9)⁴	
Fixed base salary	2,677,916
Performance-related component (payable 2017)	
Variable salary component	893,405
Outpayment from account for variable remuneration ¹	453,613
Fringe benefits	
Expenses and representation allowances	140,800
Additional fringe benefits ²	149,028
Additional payments ³	–
Total remuneration	4,314,762
All members of Executive Management (10)⁵	
Fixed base salary and performance-related component	4,951,772
Fringe benefits	337,168
Total remuneration	5,288,940

1 For the 2016 financial year, the CEO and six of the other Executive Management members receive an outpayment from their account for variable remuneration.

2 Additional fringe benefits include: first-class GA travelcard, company car, mobile phone, tablet computer and premiums for risk insurance policies.

3 No agreements exist regarding possible severance payments.

4 Seven active members and two members who stepped down in 2016.

5 Including the members who stepped down in 2016. Due to these personnel changes, the total remuneration cannot be directly compared with the previous year.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Auditor

The statutory auditors are appointed annually by the General Meeting. KPMG AG, based in Muri bei Bern, has been responsible for auditing at Swiss Post Ltd and the majority of its subsidiaries since 1 January 1998. The appointment of KPMG AG was confirmed in a WTO service tender in 2016. Rolf Hauenstein has been the Head Auditor from KPMG AG in charge of the work since 2016.

The fees agreed upon for the 2016 audit and the fees for services provided in the 2016 financial year total 4.1 million francs.

Information policy

A report on strategic goals and a report on staff are submitted to the owner annually (see page 62). PostCom also receives a regulatory report on the universal service for postal services and OFCOM is issued with a report on the universal service for payment transactions. Finally, Swiss Post submits its Annual Report to the owner for approval. Ongoing discussions on key areas of business are held during regular Postrapport meetings between Confederation representatives and Swiss Post bodies.

GROUP ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements include all of Swiss Post's subsidiaries. They have been produced in accordance with International Financial Reporting Standards (IFRS) and meet the requirements of the Postal Organization Act.

Consolidated income statement	76
Consolidated statement of comprehensive income	77
Consolidated balance sheet	78
Consolidated statement of changes in equity	79
Consolidated cash flow statement	80
Notes	81
1 Business activities	81
2 Basis of accounting	81
3 Consolidation methods and accounting policies	83
4 Estimation uncertainty and management's judgement	90
5 Segment information	92
6 Net income from financial services	96
7 Other operating income	97
8 Personnel expenses	97
9 Staff pension plan	97
10 Resale merchandise and service expenses	103
11 Other operating expenses	104
12 Financial income	104
13 Financial expenses	104
14 Income taxes	105
15 Receivables	107
16 Inventories	109
17 Non-current assets held for sale	110
18 Financial assets	110
19 Financial assets held to maturity	112
20 Financial assets available for sale	113
21 Derivative financial instruments	114
22 Loans	116
23 Investments in associates and joint ventures	117
24 Property, plant and equipment	119
25 Investment property	120
26 Intangible assets	121
27 Financial liabilities	123
28 Provisions	124
29 Equity	126
30 Operating leases	128
31 Contingent liabilities	129
32 Risk management	130
33 Fair value disclosures	142
34 Transfers of financial assets	145
35 Potential offsetting of financial assets and financial liabilities	146
36 Relationships with subsidiaries, associates and joint ventures	147
37 Additions and disposals of subsidiaries	150
38 Transactions with related companies and parties	153
39 Key exchange rates	154
40 Events after the reporting period	154
Auditor's report	155

Consolidated income statement

Group | Income statement

CHF million	Notes	2015	2016
Net sales from logistics services		5,445	5,406
Net sales from resale merchandise		515	508
Income from financial services	6	2,062	2,053
Other operating income	7	202	221
Total operating income	5	8,224	8,188
Personnel expenses	8, 9	-4,022	-4,034
Resale merchandise and service expenses	10	-1,529	-1,589
Expenses for financial services	6	-266	-257
Depreciation and impairment	24-26	-336	-447
Other operating expenses	11	-1,195	-1,157
Total operating expenses		-7,348	-7,484
Operating profit	5	876	704
Financial income	12	22	18
Financial expenses	13	-69	-64
Net income from associates and joint ventures	23	12	7
Group profit before tax		841	665
Income taxes	14	-210	-107
Group profit		631	558
Group profit attributable to			
Swiss Confederation (owner)		631	558
Non-controlling interests		0	0

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Consolidated statement of comprehensive income

Group | Statement of comprehensive income

CHF million	Notes	2015	2016
Group profit		631	558
Other comprehensive income			
Revaluation of employee benefit obligations	9	-1,162	-89
Change in share of other comprehensive income of associates and joint ventures		1	-
Change in deferred income taxes	14	153	45
Items not reclassifiable in the consolidated income statement, after tax	29	-1,008	-44
Change in currency translation reserves		-25	-9
Change in share of other comprehensive income of associates and joint ventures		2	-1
Change in fair value reserves from available-for-sale financial assets, net		-22	270
Change in hedging reserves from cash flow hedges, net		4	-51
Change in deferred income taxes	14	-7	-26
Reclassifiable items in consolidated income statement, after tax	29	-48	183
Total other comprehensive income		-1,056	139
Total comprehensive income		-425	697
Total comprehensive income attributable to			
Swiss Confederation (owner)		-425	697
Non-controlling interests		0	0

Consolidated balance sheet

Group | Balance sheet

CHF million	Notes	31.12.2015	31.12.2016
Assets			
Cash		1,491	2,330
Amounts due from banks	15	38,933	37,570
Interest-bearing amounts due from customers	15	563	405
Trade accounts receivable	15	1,081	1,164
Other receivables	15	948	1,126
Inventories	16	76	78
Non-current assets held for sale	17	0	1
Financial assets	18–22	72,479	79,248
Investments in associates and joint ventures	23	104	144
Property, plant and equipment	24	2,423	2,272
Investment property	25	227	246
Intangible assets	26	436	476
Current income tax assets		0	5
Deferred income tax assets	14	1,566	1,624
Total assets		120,327	126,689
Liabilities			
Customer deposits (PostFinance)	27	107,380	110,533
Other financial liabilities	27	1,665	3,475
Trade accounts payable		678	803
Other liabilities		776	1,263
Provisions	28	427	460
Employee benefit obligations	9	4,847	5,080
Current income tax liabilities		20	8
Deferred income tax liabilities	14	149	186
Total liabilities		115,942	121,808
Share capital		1,300	1,300
Capital reserves		2,279	2,279
Retained earnings		2,950	3,306
Profits and losses recorded directly in other comprehensive income		-2,145	-2,004
Equity attributable to the owner		4,384	4,881
Non-controlling interests		1	0
Total equity	29	4,385	4,881
Total equity and liabilities		120,327	126,689

Management report	
6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

Corporate governance	
62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

Annual financial statements	
75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

Consolidated statement of changes in equity

Group | Statement of changes in equity

CHF million	Notes	Share capital	Capital reserves	Retained earnings	Profits and losses recorded directly in other comprehensive income	Equity attributable to the owner	Non-controlling interests	Total
Balance as at 1.1.2015		1,300	2,279	2,519	-1,089	5,009	1	5,010
Group profit				631		631	0	631
Other comprehensive income	29				-1,056	-1,056	0	-1,056
Total comprehensive income				631	-1,056	-425	0	-425
Dividends	29			-200		-200	-	-200
Total transactions with the owner				-200		-200	-	-200
Balance as at 31.12.2015		1,300	2,279	2,950	-2,145	4,384	1	4,385
Balance as at 1.1.2016		1,300	2,279	2,950	-2,145	4,384	1	4,385
Group profit				558		558	0	558
Other comprehensive income	29				139	139	0	139
Total comprehensive income				558	139	697	0	697
Dividends	29			-200		-200	-	-200
Payments to acquire non-controlling interests	37			0		0	0	-
Adjustments in connection with disposals	37			-2	2	-	-1	-1
Total transactions with the owner				-202	2	-200	-1	-201
Balance as at 31.12.2016		1,300	2,279	3,306	-2,004	4,881	0	4,881

Consolidated cash flow statement

Group | Cash flow statement

CHF million	Notes	2015 ¹	2016
Profit before tax		841	665
Interest expense/(income) (including dividends)		-1,010	-1,079
Depreciation and impairment	24-26	355	486
Net income from associates and joint ventures		-12	-7
Net gain on disposal of property, plant and equipment	7, 11	-40	-35
Net increase in provisions		134	185
Other non-cash expenses/(income)		292	-24
Change in net current assets:			
(Increase) in receivables, inventories and other assets		-37	-318
Increase/(decrease) in accounts payable and other liabilities		-161	609
Change in items from financial services:			
Decrease in receivables due from banks (term of 3 months or more)		376	-
(Increase) in financial assets		-79	-6,744
Change in customer deposits/interest-bearing amounts due from customers		-4,634	3,257
Change in other receivables/liabilities		-68	1,463
Interest and dividends received (financial services)		1,209	1,313
Interest paid (financial services)		-46	-18
Income taxes paid		-110	-107
Cash flow from operating activities		-2,990	-354
Purchases of property, plant and equipment	24	-279	-285
Acquisition of investment property	25	-47	-31
Purchases of intangible assets (excl. goodwill)	26	-95	-120
Purchases of subsidiaries, net of cash and cash equivalents acquired	37	-13	-3
Purchases of associates and joint ventures	23	-3	-11
Purchases of other financial assets		-3	-206
Proceeds from disposal of property, plant and equipment	24	59	67
Proceeds from disposal of investment property	25	0	3
Disposal of subsidiaries, net of cash proceeds	37	0	34
Proceeds from disposal of associates and joint ventures	23	6	0
Proceeds from disposal of other financial assets		31	27
Interest and dividends received (excl. financial services)		19	16
Cash flow from investing activities		-325	-509
Increase/(Decrease) in other financial liabilities		-14	353
Interest paid (excl. financial services)		-12	-13
Payments to acquire non-controlling interests	37	-	0
Dividends paid to the owner	29	-200	-200
Cash flow from financing activities		-226	140
Foreign exchange gains/(losses) on cash and cash equivalents		-15	-1
Change in cash and cash equivalents		-3,556	-724
Cash and cash equivalents at 1 January		43,980	40,424
Cash and cash equivalents at 31 December		40,424	39,700
Cash and cash equivalents include:			
Cash		1,491	2,330
Receivables due from banks with an original term of less than 3 months	15	38,933	37,370

¹ Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Notes

1 | Business activities

Swiss Post Ltd is a company limited by shares subject to a special statutory regime with its head office in Berne and is wholly owned by the Swiss Confederation. Swiss Post Ltd and its subsidiaries (hereinafter referred to as Swiss Post) provide logistics and financial services both in Switzerland and abroad (see Note 5, Segment information).

2 | Basis of accounting

The consolidated annual financial statements comprise the annual financial statements of Swiss Post Ltd and its subsidiaries. They have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as IFRSs) and also comply with the Postal Organization Act.

The consolidated annual financial statements have been prepared under the historical cost convention. Exceptions to this rule are described in the accounting policies set out below. For instance, derivative financial instruments and financial assets held for trading, designated at fair value and classified as “available for sale” are recognized at fair value.

To take account of the characteristics of the financial services and their importance for Swiss Post, the result from financial services is shown separately in Note 6, Net income from financial services. Furthermore, the balance sheet is not broken down into current and non-current items, but structured according to descending liquidity. Financial income and expenses from financial services and the underlying cash flows are shown as operating income, expenses or cash flows. Financial income and expenses from other Group units are disclosed in the non-operating financial result (excluding financial services) and the relevant cash flows as investment or financing transactions.

Revised and new International Financial Reporting Standards (IFRSs)

Since 1 January 2016, Swiss Post has applied various changes to the existing IFRSs and interpretations, which have no material impact on the result or financial situation of the Group.

Standard	Title	Valid from
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1.1.2016
Amendments to IAS 16/IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	1.1.2016
Amendments to IAS 1	Disclosure initiative	1.1.2016
Amendments to IFRS 10/IFRS 12/IAS 28	Investment Entities: Applying the Consolidation Exception	1.1.2016
Miscellaneous	Annual improvements to IFRSs, 2012–2014 Cycle	1.1.2016

Certain new IFRSs or supplements thereto enter into force for financial years beginning on or after 1 January 2017:

Standard	Title	Valid from
Amendments to IAS 7	Disclosure initiative	1.1.2017
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1.1.2017
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	1.1.2018
IFRS 9	Financial Instruments	1.1.2018
IFRS 15	Revenue from Contracts with Customers	1.1.2018
IFRS 16	Leases	1.1.2019

Swiss Post will not be applying the specified standards ahead of schedule. Hence, this consolidated financial reporting does not contain any further effects resulting from these changes. The new standards due to come into force on 1 January 2018 and 1 January 2019 respectively regarding Financial Instruments, Revenue from Contracts with Customers and Leases will have an impact on Swiss Post's financial reporting. The changes are currently being analysed.

Accounting changes

Change in the recognition method for income from the credit card business

PostFinance changed the recognition method for income from the credit card business in the area of processing and service delivery in the second quarter of 2016. Commission income from the credit card business is now split into three components: commission, foreign exchange and interest income. The aim of this change is to take the ordinary course of business into account more closely in future disclosures. The significance of these positions has grown as a result of the encouraging rise in the number of credit cards and in credit volumes in recent years. The following table gives an overview of the impact of the implemented reclassification recognized directly in equity in the comparison period:

Group Cash flow statement			
1.1. to 31.12.2015	Reported	Adjustment	Adjusted
CHF million			
Income from financial services	-1,001	-9	-1,010
Expenses for financial services	1,200	+9	1,209

Adjustment in disclosure

Adjustment in the statement of comprehensive income

The changes in fair value reserves and hedging reserves are now shown on a net basis in the statement of comprehensive income.

Significant events and transactions

Change in estimate

Following the annual verification of useful lives, the depreciation period of tenant fit-outs as part of operating properties within logistics had to be reduced to 10 years. This measure must be viewed in the context of the dynamic market environment which obliges Swiss Post to continuously improve its products and services and tailor them even more closely to customer requirements. This change had a 66 million franc impact (actual depreciation expense: 70 million francs; expected expense: 4 million francs). Over the next few years, depreciation on tenant fit-outs will, as a result, be reduced by 4 million francs per year. Details of the disclosure can be found in Note 24, Property, plant and equipment.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

3 | Consolidation methods and accounting policies

The consolidated annual financial statements of Swiss Post comprise Swiss Post Ltd and all the companies over which Swiss Post has direct or indirect control. Control means that Swiss Post is exposed to variable economic results as a result of its commitment to a company, or has rights in a company and is able to influence the latter's economic results through its decision-making power over it. Swiss Post has decision-making power if, on account of its rights in a company, it currently has the ability to determine the significant activities of the company, i.e. the activities that have a considerable impact on the latter's economic results. This is generally the case if Swiss Post holds over 50 percent of the voting rights or potentially exercisable voting rights, whether directly or indirectly. These companies are fully consolidated. The consolidated financial statements are based on the separate financial statements of Swiss Post Ltd and the subsidiaries, which are prepared in accordance with uniform principles as at a uniform reporting date.

All intra-Group receivables, liabilities, income and expenses from intra-Group transactions and unrealized inter-company profits are eliminated on consolidation. Non-controlling (minority) interests in the equity of consolidated companies are presented as a separate item within equity. Non-controlling interests in Group profit or loss are presented within the consolidated income statement/statement of comprehensive income.

Interests in associates where Swiss Post has 20 to 50 percent of the voting rights and/or significant influence but which it does not control are not consolidated, but accounted for using the equity method and reported under "Interests in associates". Joint ventures with 50 percent of the voting rights which Swiss Post holds together with a third party are recognized and disclosed by the same method. Under the equity method, the interest's value is calculated based on the acquisition cost, subsequently adjusted to take into account any changes in Swiss Post's share of the company's net assets. Material holdings and transactions with these companies are posted separately as items with associates and joint ventures. Interests under 20 percent are presented as available-for-sale financial assets.

Companies acquired during the reporting period are included in the consolidated annual financial statements from the date on which Swiss Post assumed control. Companies that are sold are included until the date on which control is lost, which is usually the date of sale. Proceeds from the disposal of subsidiaries, associates and joint ventures are recorded in the financial result.

Please see Note 36, Relationships with subsidiaries, associates and joint ventures, for an overview of Swiss Post subsidiaries, associates and joint ventures.

Currency translation

The consolidated annual financial statements of Swiss Post are presented in Swiss francs (CHF).

Transactions in foreign currencies are translated at the daily rate ruling at the transaction date. At the end of the reporting period, monetary assets and liabilities in foreign currencies are translated at the closing rate. Non-monetary assets classified as available-for-sale financial assets are measured at fair value, and the unrealized foreign exchange gain or loss is recognized directly in other comprehensive income.

Assets and liabilities in balance sheets of fully consolidated companies that have been prepared in a foreign currency are translated into Swiss francs at the rate applicable on the balance sheet date. The income statement, cash flow statement and other transactions are translated at the average rate for the reporting period. Translation differences arising from the translation of balance sheets and statements of comprehensive income of foreign subsidiaries are recognized directly in other comprehensive income.

Recognition of income

Income is recognized if it is clear that the economic benefits associated with the transaction will flow to Swiss Post and those benefits can be measured reliably.

Income from logistics services is recognized after sales deductions at the time the service is provided. A non-material proportion of this income consists of leasing revenue from the leasing of vehicles. Income from the sale of products is recognized in the income statement if the risks and rewards incidental to ownership of the products have been transferred to the purchaser. Swiss Post receives compensation from the Swiss Confederation and from cantons and municipalities for public passenger transport services. This is assigned to income from logistics services.

Commission and service income from financial services is recognized on an accrual basis. Interest income on financial assets and interest expenses for customer deposits are accounted for using the accrual-based accounting principle. The effective interest method is used for interest earned on held-to-maturity and available-for-sale fixed-interest financial assets.

Cash

Cash includes cash holdings in Swiss francs and foreign currencies as well as asset-side cash in transit (cash payments made at post offices which have not yet been credited to the PostFinance account held at the Swiss National Bank). Cash holdings are measured at face value.

Financial receivables

Amounts due from banks and interest-bearing amounts due from customers (technically overdrawn postal accounts) are measured at amortized cost using the effective interest method, which usually corresponds to the face value. If there are specific doubts as to a debtor's creditworthiness, an appropriate impairment loss is recognized. Individual impairment losses are charged to a separate allowance account. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to individual impairment losses for specifically identified default risks, portfolio impairment losses based on statistical analyses of previous default risk are also recognized following the indication of impairment.

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recognized at amortized cost, which usually corresponds to the face value, minus an impairment loss (provision for default risk) for expected defaults on receivables. Individual impairment losses are charged to a separate allowance account. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to individual impairment losses for specifically identified default risks, portfolio impairment losses based on statistical analyses of previous default risk are also recognized following the indication of impairment.

Inventories

Inventories comprise resale merchandise, work in progress and finished goods, fuel, and operating, working and production materials. They are measured according to the weighted average cost method or at the lower net realizable value. Impairment losses are recognized for inventories that are not easily marketable.

Financial assets

Financial assets acquired primarily with the aim of achieving short-term gains by making targeted use of fluctuations in market prices are recognized as financial assets at fair value. They are classified as "at fair value through profit or loss, held for trading" or "at fair value through profit or loss, designated". Fair value changes in this category are recognized in the income statement. Interest or dividend income from assets "at fair value through profit or loss, held for trading" or "at fair value through profit or loss, designated" is presented as a separate item in the Notes.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Financial assets with a fixed term to maturity, where Swiss Post has the positive intent and ability to hold them to maturity, are classified as “held to maturity” and recognized at amortized cost using the effective interest method. The effective interest method spreads the difference between acquisition cost and the repayment amount (premium/discount) over the term of the asset in question using the present value method. This results in a constant rate of interest until maturity.

Other financial assets which are held for an indefinite period and can be sold at any time for liquidity reasons or in response to new market conditions are classified as “available for sale” and recognized at their fair value. Unrealized gains and losses are recognized directly in other comprehensive income under “Fair value reserves” and are transferred to the income statement only when the financial asset is sold or if an impairment is recognized. Currency translation differences on financial assets classified as available for sale are recognized in the income statement in the case of monetary financial instruments, and are recognized in other comprehensive income in the case of non-monetary financial assets.

Loans granted by Swiss Post are recognized at amortized cost. Financial assets are entered in the balance sheet on the trade date.

Swiss Post checks its current financial assets on a regular basis for any indications of impairment. Here it looks in particular to general market developments and the estimates of rating agencies and banks recognized by FINMA. If there are indications that an asset is impaired, the recoverable amount is calculated. The recoverable amount of interest-bearing assets and loans is the present value of expected future cash flows from interest payments and repayments. The present value of held-to-maturity assets and loans is calculated on the basis of the original effective rate of interest of the financial assets in question. If the recoverable amount is less than the carrying amount of a financial asset, the difference is recognized in profit or loss as an impairment. If an impairment is to be recognized on an available-for-sale financial asset, the cumulative net loss on this asset recognized directly in other comprehensive income is reclassified from other comprehensive income to profit or loss. If the fair value of an interest-bearing asset such as a bond is less than the carrying amount solely due to a change in market interest rates, no impairment charge is recognized provided the issuer’s credit standing is considered to be good. In this case, the change in the fair value of financial assets classified as available for sale is recognized directly in other comprehensive income.

Impairment charges are recognized for equity instruments in the available-for-sale category if a significant (i.e. loss of 20 percent on the original purchase price) or prolonged (i.e. lasting nine months) reduction in fair value is identified. No reversals of impairment losses are recognized in the income statement until the assets’ disposal; in this case, positive changes in value are recognized directly in equity in other comprehensive income.

Individual impairment losses on held-to-maturity financial assets and loans are charged to a separate allowance account. The financial asset is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to the individual impairment losses mentioned above, a portfolio impairment loss based on the statistical analysis of historical loss is measured and recognized for the remaining portfolio.

Derivative financial instruments

Derivative financial instruments are used mainly to hedge currency and interest rate risks and to a small extent for trading.

Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months.

Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged item are recognized in the income statement in the result from trading activities.

Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are recognized in other comprehensive income, while changes in value to the extent a hedge is ineffective are recognized in the income statement in the result from trading activities. As soon as the hedged item has been recognized in the income statement, the cumulated changes in fair value recorded in other comprehensive income are stated in the result from trading activities.

Derivatives which are not accounted for under the hedge accounting rules or which do not meet the conditions to qualify for hedge accounting are treated as instruments held for trading.

Derivative financial instruments acquired for trading purposes are recognized at fair value when the transaction is concluded and are subsequently measured at fair value. Changes in the fair value of instruments held for trading are recognized in the income statement.

Fair value

Fair value is the price that would normally be received for the sale of an asset or that would have to be paid to transfer a debt in a standard transaction between market stakeholders on the measurement date. It is assumed that the transaction takes place on the main market or, if the latter is not available, on the most advantageous market. The fair value of a liability reflects non-performance risk.

The fair values of financial instruments are determined on the basis of stock market prices and valuation techniques (present value method, etc.). In the case of listed financial instruments, the fair values correspond to the market prices. In the case of unlisted monetary financial instruments, the fair values are determined by discounting the cash flows using the current interest rate applicable to comparable instruments with the same maturity.

Repurchase, reverse repurchase and securities lending transactions

Cash outflows arising from reverse repurchase transactions are presented as amounts due from banks. Financial assets obtained from transactions as collateral are not recognized in the balance sheet. Transactions are recognized in the balance sheet at the settlement date. Interest income from reverse repurchase transactions is accounted for using the accrual-based accounting principle.

Financial assets transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under "Financial assets". The cash inflow is reported under "Other financial liabilities". Interest expenses from repurchase transactions are accounted for using the accrual-based accounting principle.

In respect of securities lending and borrowing, Swiss Post engages in securities lending only. The loaned financial instruments continue to be recognized in the balance sheet as financial assets.

Securities cover for repurchase, reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values.

Investment property

Investment property comprises land and buildings, or parts of buildings, or both, held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. This also includes facilities under construction, which are built as investment property for future use.

Investment property is valued at its acquisition or production cost on entry. The transaction costs are included in the initial valuation.

According to the initial approach, investment property in Swiss Post Group is measured and recognized at its acquisition or production cost less the accumulated amortization and accumulated impairment losses.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

The investment property is depreciated on a straight-line basis in accordance with the estimated useful life (unlimited for plots of land and 20 – 60 years for operating properties in line with their useful life). Facilities under construction are not depreciated.

Expenses for the replacement, renovation or refurbishment of an investment property or a component thereof are capitalized as replacement investments. Maintenance costs are not capitalized. Such costs are recognized directly in the income statement.

Transfers to or from the stock of investment property are made if there is a corresponding change of use.

Property, plant and equipment

Property, plant and equipment is recognized in the balance sheet at historical cost less cumulative depreciation. Depreciation is accounted for on a straight-line basis in line with the estimated useful life, as follows:

Estimated useful life of items of property, plant and equipment	
Plots of land	indefinite
Operating property	20–60 years
Equipment	3–20 years
Machinery	3–15 years
IT equipment	3–10 years
Furniture	3–20 years
Railroad rolling stock	10–30 years
Other vehicles	3–15 years

Capitalized tenant fit-outs and installations in rented premises are depreciated over the estimated useful life or the duration of the rental agreement, if shorter. The components of property, plant and equipment that have different useful lives are recognized and depreciated separately. The useful lives of property, plant and equipment are reviewed on an annual basis.

Major renovations and other costs that add value are recognized as part of the cost of the assets and depreciated over their estimated useful lives. Costs for repairs and maintenance are recognized as expenses. Borrowing costs for assets under construction are capitalized.

Leases

Lease agreements for properties, installations, other property, plant and equipment and vehicles where Swiss Post substantially assumes all risks and rewards incidental to ownership are treated as finance leases. At inception of the lease, the asset and liability under a finance lease are recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is broken down into amortization and interest expense components. The amortization component is deducted from the capitalized lease obligation.

The other lease agreements where Swiss Post is either the lessee or the lessor are recognized as operating leases. The lease payments are recognized in the income statement over the term of the lease.

In classifying long-term property leases, land and building elements are assessed separately. Subject to certain conditions, land and buildings must be accounted for as finance leases.

Intangible assets

In the event of a business combination, the identifiable assets, liabilities and any non-controlling interest in the acquiree are recognized and measured at fair value in applying the acquisition method. Any excess over the purchase price is recognized as goodwill at acquisition cost less impairment.

Additions of intangible assets not acquired through business combinations are recognized at acquisition cost and written down on a straight-line basis over the period of their useful life. The estimated useful lives of intangible assets are reviewed on a regular basis and are usually less than ten years.

Impairment losses (property, plant and equipment and intangible assets)

Property, plant and equipment and intangible assets (excluding goodwill) are checked regularly to determine if there are signs of impairment. If this is the case, the carrying amount is compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If the carrying amount of an asset exceeds its recoverable amount, an impairment equal to the difference between the carrying amount and the recoverable amount is recognized in the income statement. The recoverable amount of goodwill is reviewed at least annually.

Customer deposits (PostFinance)

Customer deposits held with PostFinance in postal, savings and investment accounts, medium-term notes and money market investments are measured at amortized cost, which usually corresponds to the face value. No differentiation per depositor (non-banks and banks) is implemented in the existing position.

Other financial liabilities

Other financial liabilities comprise amounts due to banks (excluding amounts due to banks in postal, savings and investment accounts, medium-term notes and money market investments), which are measured at amortized cost, derivative financial instruments measured at fair value and other financial liabilities. Other financial liabilities consist of finance lease obligations, repurchase transactions and other liabilities (private placements). Other liabilities are measured at amortized cost.

Provisions

Provisions are recognized provided that, at the date of their recognition, a past event has resulted in a present obligation and a cash outflow is probable and can be measured reliably.

Restructuring provisions are recognized only upon presentation of a detailed plan and following the necessary communication.

Swiss Post bears a number of risks itself in accordance with the principle of self-insurance. Provisions are recognized for expected expenses arising from claims incurred that are not insured externally.

Employee benefits

Most of the employees are insured with the Swiss Post pension fund, a defined benefit plan in accordance with IAS 19. In line with statutory provisions, the plan covers risks resulting from the economic consequences of old age, disability and death. Service cost and obligations arising from the pension plan are calculated annually using the projected unit credit method. The service years worked by employees as at the end of the reporting period are taken into account, and assumptions, amongst other things, are made as to future wage trends. The amount to be recognized in the balance sheet as an obligation or asset corresponds to the present value of the defined employee benefit obligation (insurance cover as stipulated by IAS 19 for active contributors and pensioners calculated in accordance with the projected unit credit method), less benefit plan assets at fair value (Swiss Post pension fund assets apportioned on the basis of insurance cover for active contributors and pensioners).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Employee benefit entitlements acquired (current service cost), past service cost, gains and losses from plan settlements and net interest income are recognized directly in the income statement. Actuarial gains and losses from employee benefit obligations, income from plan assets (excluding interest income) and changes in the effects of asset ceiling regulations (excluding net interest income) are recognized in other comprehensive income.

For the other pension plans, transferred employer contributions are charged to the income statement in accordance with the rules for defined contribution plans.

Provisions for other long-term employee benefits (loyalty bonuses for long years of service) and staff vouchers for retired employees are determined in the same way as the provisions for sabbaticals taken by senior management and top management using the projected unit credit method. Past service cost, net interest income and remeasurements are recognized directly in the income statement.

Income taxes

In accordance with Article 10 of the Postal Organization Act (POA), Swiss Post Ltd is taxed as a private corporation. Profit earned by Swiss and foreign subsidiaries is subject to tax at the regular rates applicable in the country in question.

Deferred income taxes are determined for Swiss Post and its subsidiaries on the basis of current or expected national tax rates. Deferred income taxes take into account the income tax-related implications of temporary differences between assets and liabilities in the consolidated financial statements and their tax base (balance sheet liability method). Tax loss carryforwards are taken into account in calculating deferred taxes only to the extent that it is probable that sufficient taxable profits will be generated in future, against which these can be offset.

Non-current assets held for sale

Non-current assets (e.g. property, plant and equipment and intangible assets) or groups of assets (e.g. an entire operation) are classified as "held for sale" if their carrying amount is to be realized first and foremost through a sale and not through continued use and Swiss Post intends to dispose of them. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell and no longer depreciated.

4 | Estimation uncertainty and management's judgement

Preparation of the consolidated financial statements requires the use of estimates and assumptions. Although these estimates and assumptions were based on Executive Management's best knowledge of current events and possible future actions on the part of Swiss Post Group, actual results may ultimately differ from these estimates. The assumptions and estimates with the greatest risk of causing a material adjustment to the carrying amount of an asset or liability within the next financial year are explained below.

Those accounting policies that may have a material impact on the consolidated annual financial statements as a result of Executive Management's judgements are also explained.

Estimation uncertainty in applying accounting policies

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment (carrying amount as at 31 December 2016: 2,272 million francs, carrying amount as at 31 December 2015: 2,423 million francs) are defined on the basis of current technical conditions and past experience. However, as a result of technological change and market conditions, actual useful lives may differ from those originally defined. In the event of differences compared with the useful lives originally defined, these are adjusted. In the event of technical obsolescence, the assets are also depreciated or sold.

Employee benefit obligations

Employee benefit expenses and obligations (carrying amount as at 31 December 2016: 5,080 million francs, carrying amount as at 31 December 2015: 4,847 million francs) are calculated annually using the projected unit credit method. The calculations are based on various actuarial assumptions such as expected salary and pension trends or the discount rate for pension benefit obligations.

Fair values of financial instruments

Fair values of financial assets (carrying amount as at 31 December 2016: 79,248 million francs, carrying amount as at 31 December 2015: 72,479 million francs) that are not traded publicly on a stock exchange are measured using recognized estimation methods. This requires making assumptions based on observable market information. The discounted cash flow method is used to determine the fair value of some unlisted available-for-sale financial assets. The discounted cash flows are calculated on the basis of Bloomberg yield curves, taking the relevant parameters (rating, maturity, etc.) into account.

Goodwill

The discounted cash flow method is used annually to determine the recoverable amount of goodwill items (carrying amount as at 31 December 2016: 228 million francs, carrying amount as at 31 December 2015: 238 million francs). The parameters reflect specific assumptions for each country and cash-generating unit. The cash flows used in the calculations are based on the strategic financial planning for the next two to five years and a residual value. This does not include any growth component.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Management's judgement used in applying accounting policies

Financial assets held to maturity

Financial assets with a fixed maturity which Swiss Post intends and is able to hold to maturity are classified as "held to maturity". If Swiss Post does not manage to hold these financial assets to maturity, all financial assets assigned to this category must be reclassified as "available for sale". As a result, they would no longer be measured at amortized cost but at fair value.

Impairment of available-for-sale and held-to-maturity financial assets and loans

In order to determine whether there is evidence of impairment, Swiss Post follows the guidance set out in IAS 39 Financial Instruments: Recognition and Measurement. In measuring impairment, the management takes into account various factors such as maturity, sector, outlook, technological conditions, etc.

5 | Segment information

Basic principles

The operating segments were determined based on the organizational units for which information is reported to the management of the Group. In doing so, no operating segments were aggregated. Transactions between the segments are based on a range of services and a transfer pricing concept. Transfer prices are calculated on the basis of commercial criteria. For information on the composition of segment assets and liabilities, please see the separate section "Composition of segment assets and liabilities".

Note 36, Relationships with subsidiaries, associates and joint ventures, shows the segments to which Swiss Post and its subsidiaries have been assigned.

Segmentation

Segmentation	Description
Communication market	
PostMail	Services relating to addressed letters, newspapers, unaddressed items (domestic, import and export)
Swiss Post Solutions	Document solutions and postal-related business process outsourcing solutions in Switzerland and internationally
Post Offices & Sales	Sales channel for postal products/services and additionally for third-party products for private customers and small and medium-sized enterprises.
Logistics market	
PostLogistics	Parcels, express services and logistics solutions within Switzerland and abroad
Financial services market	
PostFinance	Payments, savings, investments, retirement planning and financing in Switzerland as well as international payment transactions
Passenger transport market	
PostBus	Regional, municipal and urban transport as well as system services in Switzerland and in selected countries abroad
Other	Units that cannot be assigned to the segments such as service (Real Estate, Information Technology) and management units (e.g. Human Resources, Finance and Communication).
Consolidation	Effects of intra-Group elimination

Geographical information

Geographical information is disclosed as follows. Information is presented, firstly, according to the location of the revenue-generating subsidiary (Europe, Americas, Asia) and, secondly, according to the location at which the revenue was generated (Switzerland or "International and cross-border"). The "International and cross-border" segment includes revenue from all foreign subsidiaries.

Statutory mandates

Statutory mandates require Swiss Post to provide a universal service comprising postal services and payment transaction services. Pricing is not at Swiss Post's discretion. The Federal Council sets upper price limits for the reserved service (monopoly). The price regulator can also monitor the prices of most products and services at any time, both within and outside the universal service, owing to Swiss Post's dominant position in the market. The reserved service (monopoly) consists of addressed domestic letters and letters from abroad weighing up to 50 grams. It is provided by the PostMail segment (previous year: PostMail as well as Post Offices & Sales).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Changes in the operating result

As part of a strategy revision, responsibility for postal products for private customers was transferred from Post Offices & Sales to PostMail and PostLogistics. At the same time, Post Offices & Sales took responsibility for My Post 24 and PickPost as part of assuming overall responsibility for customer access points. In addition, the logic behind financial management at Post Offices & Sales has been improved. From 2016, sales services have been remunerated by means of commission, and other services (such as acceptance) are paid for in line with a new system for greater transparency of results. On balance, the effect on operating profit was negative for Post Offices & Sales, PostLogistics and PostMail, but positive for PostFinance.

State compensation

PostBus received compensation of 209 million francs from the Swiss Confederation (prior year: 176 million francs), 204 million francs from cantons (prior year: 191 million francs) and 6 million francs from municipalities (prior year: 7 million francs) for providing legally required public passenger transport services. This compensation is included in net sales from logistics services.

Composition of segment assets and liabilities

If possible, the assets and liabilities resulting from a segment's operating activities are assigned to the appropriate segments. As the PostFinance segment result includes financial income and expenses relating to operations, the corresponding interest-bearing assets and liabilities are accounted for in the segment's assets and liabilities.

The "Other" column mainly includes the following items in the segment's assets and liabilities:

- the carrying amounts of properties managed centrally by Post CH Ltd and Post Real Estate Ltd
- employee benefit obligations

Unallocated assets and liabilities comprise non-operational assets (principally deferred tax assets and loans to PostBus operators) and non-operational liabilities (mainly other financial liabilities and deferred tax liabilities).

Changes in segment assets and liabilities

In comparison with 31 December 2015, the segment assets of PostFinance increased by 5,049 million francs, particularly with regard to financial assets. The increase in segment assets is due to higher customer deposits on the liabilities side, with the segment liabilities of PostFinance increasing by 4,563 million francs in relation to 31 December 2015. In comparison with 31 December 2015, the segment assets of PostLogistics rose by 651 million francs, particularly with regard to cash holdings and receivables. This increase is linked to the expansion of banknote processing resulting from the takeover of this activity from UBS AG in 2015. Liabilities in the "Other" segment were up 655 million francs compared with 31 December 2015, mainly as a result of higher employee benefit obligations.

More information

Non-cash income and expenses primarily include those incurred in recognizing and reversing provisions without affecting cash.

Results by business segment and region

Result by business segment

Up to or as at 31.12.2015 CHF million	Notes	PostMail	Swiss Post Solutions	Post Offices & Sales	Post- Logistics	Post- Finance ²	PostBus ³	Other ⁴	Conso- lidation	Group
Operating income from customers		2,446	546	982	1,158	2,103	846	143		8,224
Operating income from other segments		374	63	619	394	40	3	798	-2,291	-
Total operating income¹		2,820	609	1,601	1,552	2,143	849	941	-2,291	8,224
Operating profit¹		383	16	-100	152	463	33	-71		876
Net financial income	12, 13									-47
Net income from associates and joint ventures	23	6	0	-	5	5	0	-4		12
Income taxes	14									-210
Group profit										631
Segment assets		640	332	539	608	113,991	555	2,768	-878	118,555
Associates and joint ventures		55	0	-	13	33	2	1		104
Unallocated assets ⁵										1,668
Total assets										120,327
Segment liabilities		774	162	546	597	109,198	504	3,600	-878	114,503
Unallocated liabilities ⁵										1,439
Total liabilities										115,942
Investment in property, plant and equipment, intangible assets and investment property	24-26	29	12	15	81	167	62	55		421
Depreciation and amortization	24-26	50	16	12	63	49	44	96		330
Impairment	18, 24-26	-	5	-	-	19	2	-		26
Reversal of impairment	18, 24-26	-	-	-	-	25	0	0		25
Other non-cash (expenses)/income		-20	-12	-13	-21	-56	-40	-308		-470
Headcount ⁶		16,494	7,177	6,299	5,219	3,594	2,939	2,409		44,131

1 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.

2 PostFinance Ltd also applies the Swiss accounting standards for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.

3 Within regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.

4 Includes service units (Real Estate and Information Technology) and management units (e.g. Human Resources, Finance and Communication).

5 Unallocated assets and liabilities comprise those that essentially contribute to net financial income/expenses rather than to operating profit and are therefore not assigned to segment assets or segment liabilities. Unallocated assets and liabilities are eliminated in intra-Group transactions.

6 The average is expressed in terms of full-time equivalents (excluding trainees).

Result by region

Up to or as at 31.12.2015 CHF million	Notes	Europe	Americas	Asia	Conso- lidation	Group	Switzer- land	Interna- tional and cross- border	Conso- lidation	Group
Operating income from customers		8,139	84	1		8,224	7,075	1,149		8,224
Operating profit ¹		871	3	2		876	819	57		876
Segment assets		118,497	59	4	-5	118,555	117,974	605	-24	118,555
Investment in property, plant and equipment, intangible assets and investment property	24-26	420	1	0		421	402	19		421

1 Operating profit by segment is reported before management, licence fees and net cost compensation.

Management report

6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

Corporate governance

62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

Annual financial statements

75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

Result by business segment

Up to or as at 31.12.2016 CHF million	Notes	PostMail	Swiss Post Solutions	Post Offices & Sales	Post- Logistics	Post- Finance ²	PostBus ³	Other ⁴	Conso- lidation	Group
Operating income from customers		2,746	518	485	1,282	2,112	918	127		8,188
Operating income from other segments		160	40	711	290	43	5	792	-2,041	-
Total operating income¹		2,906	558	1,196	1,572	2,155	923	919	-2,041	8,188
Operating profit¹		317	20	-193	117	542	36	-135		704
Net financial income	12, 13									-46
Net income from associates and joint ventures	23	4	0	-	4	-1	0	0		7
Income taxes	14									-107
Group profit										558
Segment assets		644	323	550	1,259	119,040	575	3,699	-1,250	124,840
Associates and joint ventures		56	1	-	11	73	2	1		144
Unallocated assets ⁵										1,705
Total assets										126,689
Segment liabilities		727	171	606	1,208	113,761	508	4,255	-1,250	119,986
Unallocated liabilities ⁵										1,822
Total liabilities										121,808
Investment in property, plant and equipment, intangible assets and investment property	24-26	17	17	12	83	179	47	81		436
Depreciation and amortization	24-26	48	14	16	67	70	49	175		439
Impairment	18, 24-26	-	1	-	-	45	1	7		54
Reversal of impairment	18, 24-26	-	0	-	-	13	1	-		14
Other non-cash (expenses)/income		-26	-12	-10	-9	-70	-42	-369		-538
Headcount ⁶		16,241	6,803	6,006	5,151	3,614	3,210	2,460		43,485

1 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.

2 PostFinance Ltd also applies the Swiss accounting standards for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.

3 Within regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.

4 Includes service units (Real Estate and Information Technology) and management units (e.g. Human Resources, Finance and Communication).

5 Unallocated assets and liabilities comprise those that essentially contribute to net financial income/expenses rather than to operating profit and are therefore not assigned to segment assets or segment liabilities. Unallocated assets and liabilities are eliminated in intra-Group transactions.

6 The average is expressed in terms of full-time equivalents (excluding trainees).

Result by region

Up to or as at 31.12.2016 CHF million	Notes	Europe	Americas	Asia	Conso- lidation	Group	Switzer- land	Internati- onal and cross- border	Conso- lidation	Group
Operating income from customers		8,099	88	1		8,188	7,064	1,124		8,188
Operating profit ¹		699	5	0		704	640	64		704
Segment assets		124,781	56	4	-1	124,840	124,212	655	-27	124,840
Investments in property, plant and equipment, intangible assets and investment property	24-26	436	0	0		436	421	15		436

1 Operating profit by segment is reported before management, licence fees and net cost compensation.

6 | Net income from financial services

By presenting the result from financial services in the following format, Swiss Post takes account of the character of these financial services. The result is broken down into individual items in line with banking practice.

PostFinance is affected by the SNB's measures and has paid negative interest on part of its sight deposit balance at the SNB since 22 January 2015. PostFinance has defined individual customer thresholds for major business customers and banks, based on their usual behaviour in relation to payment transactions. The proportion of credit that exceeds this threshold has been subject to a fee since 1 February 2015. The situation has intensified for PostFinance in the past few months. Due to a further increase in customer deposits, the sight deposit balance at the SNB now exceeds the exemption limit virtually without interruption. The expenses resulting from these measures amount to 24 million francs for the 2016 financial year, while income stands at 12 million francs. Both are recognized in net commission income. In the 2015 financial year, the impact of the negative interest rates was not material. Since 1 February 2017, PostFinance has therefore also charged a 1 percent fee on the credit balance of private customers that exceeds the threshold value of one million francs.

Net income from financial services		
CHF million	2015	2016
Interest income on amounts due from banks	2	1
Interest income on securities lending and reverse repurchase transactions	1	1
Interest income on interest-bearing amounts due from customers	17 ¹	18
Interest income on financial assets, incl. effects from hedging transactions	1,063	938
Dividend income on financial assets	47	74
Interest income	1,130¹	1,032
Interest expense for customer deposits (PostFinance)	-115	-62
Interest expense for amounts due to banks	0	-
Interest expense on repurchase transactions	0	-
Interest expense	-115	-62
Net interest income	1,015¹	970
Impairment/reversal of impairment on amounts due from banks, interest-bearing amounts due from customers and financial assets	4	-25
Net interest income, net of impairment/reversal of impairment	1,019¹	945
Commission income on lending business	8	12
Commission income on securities and investment business	52	52
Commission income on other services	60 ¹	66
Commission expenses	-67	-81
Net income from services	501	505
Net services and commission income	554¹	554
Net trading income	199 ¹	200
Net income from the disposal of available-for-sale financial assets	39	105
Losses on payment transactions	-10	-9
Other net financial income/finance costs	-5	1
Net income from financial services	1,796	1,796
Shown in the consolidated income statement under:		
Income from financial services	2,062	2,053
Expenses for financial services	-266	-257

¹ Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

7 | Other operating income

Other operating income

CHF million	2015	2016
Rental income	71	81
Profits on the sale of property, plant and equipment	41	44
Other income	90	96
Total other operating income	202	221

Other income mainly consists of fees for management services in public transport, sale of advertising space, military mail and charges for the collection of VAT and customs duties.

8 | Personnel expenses

Composition

Breakdown

CHF million	Notes	2015	2016
Wages and salaries		3,148	3,184
Social security benefits		338	343
Employee benefit expenses	9	434	397
Other personnel expenses		102	110
Total personnel expenses		4,022	4,034

Headcount

Headcount

Number of employees ¹	2015	2016
Employees at Swiss Post Group (excluding trainees)	44,131	43,485
Trainees at Swiss Post Group	2,108	2,139

¹ Average expressed in terms of full-time equivalents.

9 | Staff pension plan

Swiss Post insures its employees with various pension plans in Switzerland. Plan assets are either kept separate in autonomous foundations or in collective foundations. The foundation board of the autonomous foundations is made up of an equal number of employee and employer representatives. In accordance with the law and employee benefit regulations, foundation boards have an obligation to act exclusively in the interests of the foundation and of beneficiaries (active contributors and pensioners). The employer is therefore not permitted to make decisions about benefits and financing on its own. Resolutions must be made jointly. Foundation boards are responsible for determining investment strategy, for making changes to employee benefit regulations (and insured benefits in particular) and for securing pension benefit funding.

Pension benefits are based on the insured salary and retirement assets. On taking retirement, insureds can choose between drawing a lifetime pension, which includes a reversionary spouse's pension, or withdrawing a lump-sum capital payment. In addition to retirement benefits, employee benefits also include disability and survivors' benefits, which are calculated as a percentage of the insured salary. Insureds also have the option of buying back pension benefits to improve their retirement situation, up to the regulatory maximum amount, or of withdrawing money early to purchase their home.

When determining benefits, the minimum legal requirements regarding the Occupational Old-age, Survivors' and Disability Benefit Plan (BVG) and its regulations of execution must be taken into account. The BVG establishes the minimum salary to be insured as well as minimum retirement assets. The minimum interest rate to be applied to the minimum retirement assets is set by the Federal Council at least once every two years. In 2017, the rate is 1.00 percent (previous year: 1.25 percent).

Due to plan arrangements and the legal provisions of the BVG, the employer is exposed to actuarial risks. The principal risks are the investment risk, the inflation risk in the event of salary changes, the interest rate risk, the disability risk and the risk of longevity. Employer and employee contributions are determined by the foundation boards. The employer pays at least 50 percent of the contributions required. In the event of a shortfall, both the employer and the employee may be required to pay restructuring contributions to fill gaps in cover.

Companies in Germany (SPS Group) have corporate retirement provision based on various regulations and works agreements. There are also individual retirement solutions for senior staff. In principle, employees are entitled to receive insurance benefits on occurrence of the insured event, i.e. retirement age, disability or death. Depending on the applicable insurance regulations, lifelong pension benefits may be received or lump-sum capital payments withdrawn. Most pension benefits are financed by the employer. If an employee leaves the company before the maturity date of an insurance benefit, contingent rights to the insurance benefits are maintained in accordance with the statutory regulations.

Due to plan arrangements and the legal provisions (Occupational Pensions Act), the employer is exposed to actuarial risks. The principal risks are the risk of longevity, the risk of salary changes and the risk of inflationary adjustments to pensions.

Actuarial assumptions

The following parameters were applied in performing the calculations (weighted average):

Actuarial assumptions made in calculating annual employee benefit expenses		
Percent	2015	2016
Discount rate	1.25	0.75

Actuarial assumptions at 31 December		
Percent	2015	2016
Discount rate	0.75	0.50
Expected change in salaries	1.00	1.00
Pension indexation	0.00	0.00
Interest on retirement assets	1.25	1.00
Staff turnover	3.56	3.52
Current average life expectancy for a man/woman aged 65	21/24 years	22/24 years

Long-term employee benefits are shown and described under Note 28, Provisions.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Employee benefit expenses

Employee benefit expenses	2015	2016
CHF million		
Current service cost	601	625
Service cost to be recognized	33	-2
(Gains)/losses from plan settlements	-	-1
Employee contributions	-207	-227
Administrative costs	10	10
Pension payments by the employer	1	1
Other plans, reclassifications	-4	-9
Total employee benefit expenses recognized in personnel expenses	434	397
Interest expense arising from employee benefit obligations	239	151
Interest income on assets	-198	-116
Other plans, reclassifications	-2	-2
Total net interest expense recognized in financial expenses	39	33
Total employee benefit expenses recognized in the income statement	473	430

New assessment elements entered in the statement of comprehensive income

CHF million	2015	2016
Actuarial losses		
due to the adjustment of demographic assumptions	-	64
due to the adjustment of economic assumptions	990	650
due to experience adjustments	-49	-226
Income from plan assets (excluding interest income)	221	-399
Total revaluation gains recorded in other comprehensive income (OCI)	1,162	89
Total employee benefit expenses	1,635	519

In its meeting on 10 June 2015, the Foundation Board of the Swiss Post pension fund decided to decrease the technical interest rate, to reduce conversion rates and to provide funding, in particular for compensation measures for active contributors. The compensation measures as a result of the adjustment mentioned above led to an increase in employee benefit expenses (33 million francs) being recognized in the income statement for 2015. The changes were implemented on 1 January 2016. No such effect took place during the 2016 year under review.

Transactions between the Swiss Post pension fund foundation and Swiss Post are subject to standard market terms and conditions.

Cover status

Statement of recognized employee benefit obligations arising from material defined benefit plans, mainly from the Swiss Post pension fund foundation in Switzerland and SPS Group in Germany:

Summary of cover status

CHF million	31.12.2015	31.12.2016
Present value of employee benefit obligations including assets set aside	20,492	20,929
Benefit plan assets at fair value	-15,657	-15,856
Shortfall	4,835	5,073
Employee benefit obligations excluding assets set aside	9	5
Total recognized employee benefit obligations arising from defined benefit plans	4,844	5,078
Employee benefit obligations arising from other benefit plans	3	2
Total recognized employee benefit obligations	4,847	5,080

Performance of recognized employee benefit obligations from defined benefit plans

Performance of recognized benefit obligations
from defined benefit plans (excluding other plans)

CHF million	2015	2016
Balance at 1 January	3,488	4,844
Employee benefit expenses arising from defined benefit plans	478	435
Revaluation gains recognized in other comprehensive income	1,162	89
Employer contributions	-284	-290
Pension payments by the employer	-1	-1
Translation differences	-1	-1
Company acquisitions, disposals or transfers	2	2
Balance at 31 December	4,844	5,078
of which:		
current, i.e. payments falling due within the next twelve months	278	283
non-current	4,566	4,795

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Change in employee benefit obligations

Change in employee benefit obligations		
CHF million	2015	2016
Balance at 1 January	19,444	20,501
Current service cost	601	625
Interest expense arising from employee benefit obligations	239	150
Actuarial (gains)/losses	941	487
Plan settlements	–	–4
Company acquisitions, disposals or transfers	6	3
Restructuring	1	1
Benefits paid from plan assets	–761	–826
Pension payments by the employer	–1	–1
Plan amendments ¹	33	–2
Translation differences	–2	0
Balance at 31 December	20,501	20,934
Employee benefit obligations including assets set aside	20,492	20,929
Employee benefit obligations excluding assets set aside	9	5
Total employee benefit obligations	20,501	20,934

¹ Plan amendment costs incurred in 2015 (see employee benefit expenses).

Change in plan assets

Change in fair value of plan assets		
CHF million	2015	2016
Balance at 1 January	15,956	15,657
Interest income on assets	198	116
Income from plan assets (excluding interest income)	–221	399
Employee contributions	207	227
Employer contributions	284	290
Plan settlements	–	–2
Benefits paid from plan assets	–761	–826
Administrative costs	–10	–10
Company acquisitions, disposals or transfers	4	5
Translation differences	0	0
Balance at 31 December	15,657	15,856

Asset classes

Asset allocation CHF million	31 December 2015			31 December 2016		
	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds	5,256	1,985	7,241	4,860	2,184	7,044
Shares	4,303	–	4,303	4,494	–	4,494
Real estate	–	1,566	1,566	1,704	–	1,704
Alternative investments	328	1,335	1,663	351	1,414	1,765
Qualified insurance paper	–	28	28	–	38	38
Other financial assets	–	14	14	–	15	15
Cash and cash equivalents	–	842	842	–	796	796
Total	9,887	5,770	15,657	11,409	4,447	15,856

The foundation board of an employee benefits institution issues investment guidelines for the investment of plan assets that include tactical asset allocation and benchmarks for comparing the results with a general investment universe. The foundation board forms an investment committee to implement the investment strategy. This committee appoints asset managers and the global custodian. Assets in pension plans are well diversified. BVG legal provisions apply regarding the diversification and security of pension plans. Real estate is not owned directly.

The Foundation Board carries out regular checks to ensure that the chosen investment strategy is appropriate for meeting pension benefits and that the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment results of the investment advisor are regularly checked by the relevant employees of the Swiss Post pension fund and by an external investment controller. The efficiency and appropriateness of the investment strategy are also regularly verified by an external consulting firm.

The assets of the Swiss Post pension fund do not include any Swiss Post assets or real estate leased by Swiss Post.

Sensitivity

The effect of a 0.25 percentage point rise or fall in the underlying material actuarial assumptions on the present value of pension obligations as at 31 December 2015 and 2016:

Sensitivity of pension obligations to changes in actuarial assumptions CHF million		Resulting change in present value		Resulting change in present value		
		31.12.2015	31.12.2016	31.12.2015	31.12.2016	
Discount rate	+ 0.25 percentage point	– 727	– 760	– 0.25 percentage point	780	816
	– 0.25 percentage point					
Expected change in salaries	+ 0.25 percentage point	66	64	– 0.25 percentage point	– 64	– 62
	– 0.25 percentage point					
Interest on retirement assets	+ 0.25 percentage point	111	110	– 0.25 percentage point	– 108	– 108
	– 0.25 percentage point					
Pension indexation	+ 0.25 percentage point	610	641	– 0.25 percentage point	–	–
	– 0.25 percentage point					
Life expectancy at age 65	+ 1 year	668	722	– 1 year	– 675	– 726
	– 1 year					

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Information on employer contributions

The following table shows the employer contributions for the previous financial year, as well as the expected contributions for 2017.

Employer contributions		
CHF million	Effective	Expected
2016	290	278
2017		283

Maturity profile of the defined employee benefit obligation

The weighted average term of the defined employee benefit obligation is 16.8 years as at 31 December 2016 (previous year: 16.7 years).

Expected future pension payments

The following table summarizes the expected cash flows for pension payments based on the maturity profile for the next ten years.

Cash flows resulting from employee benefits		Nominal payment of benefits (estimation)
CHF million		
2017		904
2018		904
2019		904
2020		900
2021		893
2022–2026		4,350

10 | Resale merchandise and service expenses

Resale merchandise and service expenses		
CHF million	2015	2016
Working materials, semi-finished and finished goods	45	41
Resale merchandise expenses	434	427
Service expenses	151	163
Compensation paid to PostBus operators	304	330
Compensation paid to forwarding companies	338	342
Compensation paid for international postal traffic	121	148
Temporary employees	136	138
Total resale merchandise and service expenses	1,529	1,589

11 | Other operating expenses

Other operating expenses			
CHF million		2015	2016
Premises		225	215
Maintenance and repairs of property, plant and equipment		268	245
Energy and fuel		53	59
Operating materials		85	72
Consulting, office and administrative expenses		225	230
Marketing and communications		107	105
Loss on disposal of property, plant and equipment		6	5
Other expenses		226	226
Total other operating expenses		1,195	1,157

12 | Financial income

Financial income			
CHF million	Notes	2015	2016
Interest income on other loans	22	8	7
Foreign currency gains		6	8
Other financial income		8	3
Total financial income		22	18

Income from the financial services business is posted as "Income from financial services".

13 | Financial expenses

Financial expenses			
CHF million	Notes	2015	2016
Interest expense on other financial liabilities		12	13
Interest expense for employee benefit obligations	9	39	33
Foreign currency losses		12	9
Other financial expenses		6	9
Total financial expenses		69	64

Expenses arising from the financial services business are recorded as "Expenses for financial services".

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

14 | Income taxes

Income taxes recorded in the income statement

CHF million	2015	2016
(Expense) for current income taxes	-94	-118
Income/(expense) for deferred income taxes	-116	11
Total (expense) for income taxes recorded in the income statement	-210	-107

Income taxes are recorded in other comprehensive income, comprised as follows:

Income taxes recognized in other comprehensive income

CHF million	2015	2016
Revaluation of employee benefit obligations	153	45
Fair value reserves	-6	-36
Hedging reserves	-1	10
Other profits and losses recorded directly in other comprehensive income	0	-
Total income taxes recognized in other comprehensive income	146	19

Deferred taxes relating to balance sheet items

Deferred taxes relating to balance sheet items	31 December 2015			31 December 2016		
	Deferred tax assets	Deferred tax liabilities	Net assets/ (liabilities)	Deferred tax assets	Deferred tax liabilities	Net assets/ (liabilities)
CHF million						
Financial assets	15	-48	-33	16	-85	-69
Investments in subsidiaries, associates and joint ventures	0	-83	-83	0	-86	-86
Property, plant and equipment	229	-2	227	223	-2	221
Intangible assets	346	-3	343	299	-1	298
Other liabilities	3	0	3	1	0	1
Provisions	55	-12	43	56	-10	46
Employee benefit obligations	904	-	904	1,004	-	1,004
Other balance sheet items	1	-1	0	1	-2	-1
Deferred taxes arising from temporary differences	1,553	-149	1,404	1,600	-186	1,414
Tax assets recognized for loss carryforwards	13	-	13	24	-	24
Deferred tax assets / liabilities, gross	1,566	-149	1,417	1,624	-186	1,438
Deferred tax assets/liabilities, prior year	-1,536	149	-1,387	-1,566	149	-1,417
Changes in the composition of the Group	-1	1	0	9	0	9
Deferred taxes taken to other comprehensive income	-153	7	-146	-45	26	-19
Deferred taxes recognized in the income statement	-124	8	-116	22	-11	11

Deferred tax assets of 1,624 million francs (previous year: 1,566 million francs) are comprised mainly of temporary differences on financial assets, property, plant and equipment and intangible assets, employee benefit provisions in accordance with IAS 19 that are not accepted for tax purposes as well as other provisions and tax loss carryforwards. Deferred tax assets are recognized only for deductible temporary differences and tax loss carryforwards to the extent that it is probable that the tax income will be realized.

Deferred tax liabilities of 186 million francs (previous year: 149 million francs) are mainly the result of temporary differences between the valuations of Group assets and the tax base of financial assets and interests as well as temporary differences arising on provisions.

As at 31 December 2016, temporary differences in relation to interests amounted to 73 million francs (previous year: 71 million francs) for which no deferred tax liabilities were recognized, given that Swiss Post is able to control the reversal of temporary differences and that it is unlikely that the temporary differences will be reversed in the foreseeable future.

Unused loss carryforwards

Unused loss carryforwards CHF million	31 December 2015			31 December 2016		
	Recognized	Not recognized	Total	Recognized	Not recognized	Total
Maturing within 1 year	5	0	5	12	1	13
Maturing in 2 to 6 years	2	23	25	33	8	41
Maturing in more than 6 years	39	83	122	42	4	46
Total unused loss carryforwards	46	106	152	87	13	100

Tax loss carryforwards of 13 million francs (previous year: 106 million francs) were not capitalized within Swiss Post Group, as it seems uncertain that they will be utilized in the future.

Analysis of the expense for income taxes

The following breakdown shows the reconciliation from Group profit before tax with the income tax expense accounted for. The weighted average tax rate to be applied is 10.2 percent (previous year: 13.2 percent). The 3 percent decrease in the Group tax rate is due to the effect of higher dividends distributed within the Group.

Reconciliation from Group profit before tax to provision for income taxes accounted for		
CHF million	2015	2016
Group profit before tax	841	665
Weighted average tax rate	13.2%	10.2%
Tax expense at weighted average tax rate	111	68
Reconciliation with expenses for income taxes accounted for:		
Effect of change in tax status/tax rates	68	-28
Effect of investments/impairment of goodwill	76	124
Effect of back taxes and tax refunds from previous years	-6	-1
Effect of change in impairment for deferred income tax assets	1	-1
Effect of fiscally non-relevant income/expenses	-39	-51
Effect of loss carryforwards	6	-24
Other effects	-7	20
Expenses for income taxes accounted for	210	107

6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

15 | Receivables

Receivables by type CHF million	31 December 2015			31 December 2016		
	Gross	Impairment	Net	Gross	Impairment	Net
Receivables due from banks ¹	39,032	-99	38,933	37,639	-69	37,570
Interest-bearing amounts due from customers ¹	567	-4	563	410	-5	405
Trade accounts receivable	1,091	-10	1,081	1,176	-12	1,164
Other receivables	949	-1	948	1,127	-1	1,126
Total receivables	41,639	-114	41,525	40,352	-87	40,265
¹ of which receivables from reverse repurchase transaction			311			84
and covered by securities with a market value of			311			84

Information on fair values can be found in Note 33, Fair value disclosures.

Amounts due from banks comprise current account balances, money market instruments and reverse repurchase transactions (31 December 2016: 84 million francs; previous year: 61 million francs). The current accounts mainly relate to Swiss Post's international payment transactions. The money market instruments and reverse repurchase transactions arise from the management of customer deposits. Securities cover for reverse repurchase transactions is recognized on a daily basis at current fair values. In amounts due from banks, cash reserves remain high, and are mostly invested at the SNB.

Interest-bearing amounts due from customers comprise technical overdrafts on postal accounts and receivables from reverse repo transactions with insurance companies (31 December 2016: none; previous year: 250 million francs).

A receivable is entered during a reverse repurchase transaction. This reflects the right of Swiss Post to recover the cash deposit. Securities received as part of reverse repurchase transactions are recognized in the balance sheet only if risks and opportunities are entered into. The fair values of the securities received are monitored to provide or reclaim additional collateral, where required. See also Note 34, Transfers of financial assets.

No assets have been pledged (as collateral) for loans.

Due dates of receivables

Receivables by due date CHF million	31 December 2015			31 December 2016		
	Total	Due in up to 3 months	Due in over 3 months	Total	Due in up to 3 months	Due in over 3 months
Receivables due from banks	38,933	38,933	0	37,570	37,370	200
Interest-bearing amounts due from customers	563	563	-	405	405	-
Trade accounts receivable	1,081	1,080	1	1,164	1,137	27
Other receivables	948	607	341	1,126	819	307
Total receivables	41,525	41,183	342	40,265	39,731	534

In the reporting period, interest income calculated in accordance with the effective interest method stood at one million francs (previous year: 2 million francs) on amounts due from banks and 18 million francs on interest-bearing amounts due from customers (previous year: 17 million francs; figures have been adjusted, see Note 2, Basis of accounting, Accounting changes).

Trade accounts receivable and other receivables are of a short-term nature and therefore are not discounted.

Overdue receivables for which individual impairment losses are not recognized

Swiss Post writes down receivables if it expects a loss in respect of those receivables because the debtor is likely to be unable to fulfil its contractual obligations. Overdue receivables for which there are no clear indications of impairment are placed on a watchlist and monitored.

Overdue receivables for which individual impairment losses are not recognized

CHF million	31 December 2015				31 December 2016			
	1–90 days	91–180 days	181–365 days	> 1 year	1–90 days	91–180 days	181–365 days	> 1 year
Receivables due from banks	12	–	–	–	–	–	–	–
Interest-bearing amounts due from customers	296	4	5	10	395	4	5	5
Trade accounts receivable	61	3	3	6	73	7	4	4
Other receivables	13	0	0	1	1	0	0	1
Total receivables	382	7	8	17	469	11	9	10

Receivables for which impairment losses are recognized

Outstanding receivables are checked on a regular basis by means of a risk analysis specified by the Group. Individual impairment losses on receivables are determined based on the difference between the nominal amount of the receivables and the estimated net amount recoverable.

Items that are not subject to individual impairment losses are additionally subject to a portfolio impairment loss based on statistical analyses from previous years.

Receivables for which impairment losses are recognized

CHF million	31 December 2015			31 December 2016		
	Gross	Impairment charges	Net	Gross	Impairment charges	Net
Individual impairment losses						
Receivables due from banks	100	–99	1	69	–69	–
Interest-bearing amounts due from customers	1	–1	–	1	–1	–
Trade accounts receivable	39	–6	33	9	–9	0
Other receivables	1	–1	0	1	–1	–
Total receivables for which individual impairment losses are recognized	141	–107	34	80	–80	0
Portfolio impairment losses						
Interest-bearing amounts due from customers	316	–3	313	409	–4	405
Trade accounts receivable	39	–4	35	38	–3	35
Other receivables	5	0	5	3	0	3
Total receivables for which portfolio impairment losses are recognized	360	–7	353	450	–7	443

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Changes in impairment losses on receivables

Change in impairment of receivables	Receivables due from banks		Interest-bearing amounts due from customers		Trade accounts receivable		Other receivables	
	Individual impairment charges	Portfolio impairment charges	Individual impairment charges	Portfolio impairment charges	Individual impairment charges	Portfolio impairment charges	Individual impairment charges	Portfolio impairment charges
CHF million								
As at 1 January 2015	96	-	1	4	6	6	1	0
Impairment	3	-	0	-	2	-	-	0
Reversal of impairment	-	-	-	-1	-1	-2	0	-
Reclassifications	-	-	-	-	0	0	-	-
Disposals	-	-	-	-	-1	-	-	-
Currency translation differences	-	-	-	-	0	0	-	-
As at 31 December 2015	99	-	1	3	6	4	1	0
As at 1 January 2016	99	-	1	3	6	4	1	0
Impairment	-	-	-	1	6	-	0	0
Reversal of impairment	-8	-	0	-	-2	-1	-	-
Reclassifications	-	-	-	-	0	0	-	-
Disposals	-22	-	-	-	-1	-	-	-
Currency translation differences	-	-	-	-	0	0	0	0
As at 31 December 2016	69	-	1	4	9	3	1	0

16 | Inventories

Inventories	31.12.2015	31.12.2016
CHF million		
Resale merchandise	46	39
Fuel and operating materials	22	24
Production materials	7	15
Work in progress and finished goods	1	0
Impairment loss for inventories which are not easily marketable	0	0
Total inventories	76	78

17 | Non-current assets held for sale

“Non-current assets held for sale” are no longer systematically amortized and will probably be sold within one year.

Non-current assets held for sale		Other property, plant and equipment		Total
CHF million	Operating property			
As at 1 January 2015	–	1		1
Additions arising from reclassifications in accordance with IFRS 5	–	12		12
Disposals	–	–13		–13
As at 31 December 2015	–	0		0
As at 1 January 2016	–	0		0
Additions arising from reclassifications in accordance with IFRS 5	–	14		14
Disposals	–	–13		–13
As at 31 December 2016	–	1		1

Information on fair values can be found in Note 33, Fair value disclosures.

18 | Financial assets

Financial assets					
CHF million	Held to maturity	Available for sale	Derivative financial instruments	Loans	Total
Notes	19	20	21	22	
As at 1 January 2015	54,542	4,588	5	13,698	72,833
Additions	1,008	5,571	–	14,274	20,853
Change in value recognized in profit or loss	–297	12	–	19	–266
Change in value recognized directly in equity	–	–34	–	–	–34
Change in value of derivatives	–	–	56	–	56
Reversal of impairment/impairment, net	16	–12	–	2	6
Disposals	–7,582	–233	–	–13,154	–20,969
As at 31 December 2015	47,687	9,892	61	14,839	72,479
As at 1 January 2016	47,687	9,892	61	14,839	72,479
Additions	6,918	8,585	–	14,956	30,459
Change in value recognized in profit or loss	–58	53	–	–7	–12
Change in value recognized directly in equity	–	224	–	–	224
Change in value of derivatives	–	–	4	–	4
Reversal of impairment/impairment, net	13	–39	–	–6	–32
Disposals	–7,345	–3,755	–	–12,774	–23,874
As at 31 December 2016	47,215	14,960	65	17,008	79,248

Financial assets classified as held to maturity and loans are measured at amortized cost.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Available-for-sale financial assets and derivative financial instruments are presented at fair value if the latter can be directly derived from prices on publicly organized or standardized markets. Items for which there are no official price quotations are measured on the basis of yield curves, risk premiums and derivatives quotations (credit default swaps).

Of the positive replacement values, 61 million francs (previous year: 57 million francs) are managed in accordance with hedge accounting requirements (see Note 21, Derivative financial instruments).

Information on fair values can be found in Note 33, Fair value disclosures.

The recoverable amount of the bonds is systematically reviewed. Investments with one of the following characteristics undergo a closer assessment:

- non-investment-grade rating (< BBB–)
- quoted market price of less than 60 percent
- a price cannot be reliably determined
- previously mentioned in the context of impairment

The assessment was carried out in preparing the annual financial statements.

The impairment losses (net) recognized on financial assets in 2016 totalled 32 million francs (previous year: reversal of 6 million francs). In the case of fixed rate assets of the held-to-maturity category, portfolio impairment losses totalling 13 million francs were released (previous year: recognition of 7 million francs of individual impairment losses and reversal of 23 million francs of portfolio impairment losses). Due to negative trends in share and fund prices, impairment losses of 39 million francs on equity and fund holdings were created (previous year: 12 million francs). For loans to public-sector entities in Switzerland, portfolio impairment losses totalling 6 million francs were created (previous year: reversal of 2 million francs). For other loans (excluding PostFinance Ltd) no impairment losses or reversals of impairment took place in 2016 or in the previous year.

19 | Financial assets held to maturity

Financial assets held to maturity CHF million	Term to maturity			
	Total	Up to 1 year	1–5 years	Over 5 years
31 December 2015				
Bonds	47,687	7,344	29,990	10,353
Total held to maturity	47,687	7,344	29,990	10,353
31 December 2016				
Bonds	47,215	7,532	26,422	13,261
Total held to maturity	47,215	7,532	26,422	13,261

Information on fair values can be found in Note 33, Fair value disclosures.

In the reporting period, interest income calculated in accordance with the effective interest method stood at 772 million francs (previous year: 891 million francs).

Held-to-maturity financial assets for which impairment losses are created

Held-to-maturity financial assets for which impairment losses are recognized CHF million	31 December 2015			31 December 2016		
	Gross	Impairment charges	Net	Gross	Impairment charges	Net
Individual impairment losses						
Bonds	10	-7	3	-	-	-
Total held-to-maturity financial assets for which individual impairment losses are recognized	10	-7	3	-	-	-
Portfolio impairment losses						
Bonds	47,802	-118	47,684	47,320	-105	47,215
Total held-to-maturity financial assets for which portfolio impairment losses are recognized	47,802	-118	47,684	47,320	-105	47,215

Changes in impairment losses on held-to-maturity financial assets

Changes in impairment losses of held-to-maturity investments CHF million	Individual impairment charges	Portfolio impairment charges	Total
As at 1 January 2015	-	141	141
Reversal of impairment/impairment	7	-23	-16
As at 31 December 2015	7	118	125
As at 1 January 2016	7	118	125
Impairment	-	-13	-13
Disposals	-7	-	-7
As at 31 December 2016	-	105	105

In 2016, interest expense of under one million francs was recognized from held-to-maturity financial assets for which impairment losses are created (previous year: income of under one million francs).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

20 | Financial assets available for sale

Financial assets available for sale		Term to maturity			
CHF million	Total	Up to 1 year	1–5 years	Over 5 years	None
31 December 2015					
Bonds	8,140	665	2,295	5,180	–
Shares	605	–	–	–	605
Other	1,147	0	–	–	1,147
Total available for sale	9,892	665	2,295	5,180	1,752
31 December 2016					
Bonds	13,206	766	3,360	9,080	–
Shares	508	–	–	–	508
Other	1,246	0	–	–	1,246
Total available for sale	14,960	766	3,360	9,080	1,754

Information on fair values can be found in Note 33, Fair value disclosures.

Gains and losses on the disposal and early repayment of available-for-sale financial assets are presented as net income from the disposal of available-for-sale financial assets (income from financial services). In the reporting period, they amounted to a gain of 105 million francs (previous year: 39 million francs). The gain in the current year is primarily due to the sale of shares in Visa Europe Ltd. to Visa Inc. See also Note 6, Net income from financial services.

In the reporting period, interest income calculated in accordance with the effective interest method amounted to 102 million francs (previous year: 46 million francs). Dividend income stood at 74 million francs (previous year: 47 million francs).

21 | Derivative financial instruments

Derivative financial instruments	31 December 2015				31 December 2016			
	Positive fair values	Contract volume	Negative fair values	Contract volume	Positive fair values	Contract volume	Negative fair values	Contract volume
CHF million								
Notes	18		27		18		27	
Cash flow hedges								
Currency	46	785	34	1,225	58	2,214	79	3,490
Interest rates	0	3	–	–	1	114	–	–
Fair value hedges								
Currency	11	687	10	696	2	169	51	1,236
Interest rates	–	–	160	3,607	–	–	133	3,055
Derivatives for hedging, excluding hedge accounting								
Currency	0	2	0	3	0	10	1	14
Derivatives for trading purposes								
Currency	4	256	6	319	4	373	5	407
Total derivative financial instruments	61	1,733	210	5,850	65	2,880	269	8,202

Information on fair values can be found in Note 33, Fair value disclosures.

Gains and losses recognized in income from sales and from the measurement at fair value of derivative financial assets are stated in the result from trading activities. During the period under review, a net loss of 0.2 million francs was generated with derivative financial assets in the result from trading activities (previous year: net loss of 23 million francs).

Derivatives due dates

Due dates of derivative financial instruments	31 December 2015				31 December 2016			
	Positive fair values	Contract volume	Negative fair values	Contract volume	Positive fair values	Contract volume	Negative fair values	Contract volume
CHF million								
Notes	18		27		18		27	
Cash flow hedges								
Less than 1 year	0	3	–	–	0	114	–	–
1 to 5 years	–	–	14	300	17	442	25	576
Over 5 years	46	785	20	925	42	1,772	54	2,914
Fair value hedges								
Less than 1 year	–	–	–	–	2	169	58	2,166
1 to 5 years	11	687	79	3,398	–	–	60	1,495
Over 5 years	–	–	91	905	–	–	66	630
Derivatives for hedging, excluding hedge accounting								
Less than 1 year	0	2	0	3	0	10	1	14
Derivatives for trading purposes								
Less than 1 year	–	–	–	–	4	372	5	404
1 to 5 years	4	256	6	319	0	1	0	3
Total derivative financial instruments	61	1,733	210	5,850	65	2,880	269	8,202

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Replacement value

The replacement value corresponds to the fair value of a derivative financial instrument, i.e. the price that would have to be paid for the conclusion of a substitute transaction if the counterparty defaults. Positive replacement values are exposed to the credit risk and represent the maximum loss that Swiss Post would suffer on the due date if the counterparty were to default. Negative replacement values result if the substitute transactions were possible on more favourable terms.

Contract volume

Corresponds to the receivables side of the derivative financial instruments' underlying value.

Swiss Post acquires derivative financial instruments predominantly for hedging purposes. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in replacement value or cash flows attributable to the hedged items. Derivatives for which hedge accounting is not applied are classified as trading instruments.

Cash flow hedges

Swiss Post is exposed both to currency fluctuations and interest rate changes. The risks associated with foreign-currency bond investments as a result of currency fluctuations are hedged using currency swaps. Fluctuations of the future interest cash flows on financial assets are hedged by interest rate swaps with various maturities.

On 31 December 2016, the hedging reserve stood at 56 million francs before tax (previous year: 5 million francs). The overall fair value changes of the hedging instruments are included in the hedging reserves directly in equity. Subsequently, the net interest accrued and paid/received (17 million francs; previous year: 5 million francs) and the foreign currency share (18 million francs of expenses; previous year: 28 million francs of income) are transferred to the income statement (recycled in the result from trading activities, see also Note 6, Net income from financial services). Thus the residual fair value change of the hedging instruments remains in the cash flow hedge reserve.

This cash flow is expected to have an effect on the income statement in the following periods:

Cash flows (not discounted)	Term to maturity		
	Up to 1 year	1–5 years	Over 5 years
CHF million			
31 December 2015			
Inflows of funds	14	54	33
Outflows of funds	–31	–121	–77
31 December 2016			
Inflows of funds	32	128	76
Outflows of funds	–94	–368	–217

Fair value hedges

Fluctuations in fair value as a result of changes in market interest rates (LIBOR) are partly hedged using interest rate swaps. The risks associated with foreign currency bond and equity funds as a result of currency fluctuations are hedged using foreign exchange transactions. In both the reporting period and the previous year, the amount recognized in the income statement was less than one million francs.

See also Note 32, Risk management, Risk management at PostFinance.

22 | Loans

Loans CHF million	Term to maturity			
	Total	Up to 1 year	1–5 years	Over 5 years
31 December 2015				
State-owned enterprises	725	525	–	200
Cantons, cities and municipalities ¹	9,556	1,362	3,775	4,419
Banks	4,036	565	1,921	1,550
PostBus operators	82	18	52	12
Other ²	440	75	67	298
Total loans	14,839	2,545	5,815	6,479
31 December 2016				
State-owned enterprises	555	205	200	150
Cantons, cities and municipalities ¹	11,820	2,679	3,649	5,492
Banks	4,175	715	1,364	2,096
PostBus operators	63	16	42	5
Other ²	395	15	75	305
Total loans	17,008	3,630	5,330	8,048

¹ Loans to cantons, cities and municipalities as well as borrower's note loans to public entities.

² Loans and borrower's note loans to "Other institutions" and mortgages previously granted by the Swiss Post pension fund (less than one million francs; previous year: less than one million francs) which were assumed by PostFinance.

Information on fair values can be found in Note 33, Fair value disclosures.

In the reporting period, interest income calculated in accordance with the effective interest method stood at 180 million francs (previous year: 194 million francs).

Loans with impairment losses

Impairment losses on loans to cantons, cities, municipalities, banks and other entities CHF million	31 December 2015			31 December 2016		
	Gross	Impairment charges	Net	Gross	Impairment charges	Net
Portfolio impairment losses						
Loans to cantons, cities and local authorities	9,585	–29	9,556	11,855	–35	11,820
Loans to banks	4,036	–1	4,035	4,176	–1	4,175
Total loans for which portfolio impairment losses are recognized	13,621	–30	13,591	16,031	–36	15,995

Change in impairment losses on loans

Change in impairment losses on loans to cantons, cities, municipalities, banks and other entities CHF million	Individual	Portfolio	Total
	impairment charges	impairment charges	
As at 1 January 2015	12	32	44
Reversal of impairment	0	–2	–2
Disposals	–12	–	–12
As at 31 December 2015	–	30	30
As at 1 January 2016	–	30	30
Impairment	–	6	6
As at 31 December 2016	–	36	36

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

23 | Investments in associates and joint ventures

No substantial investments in associates or joint ventures exist. In addition, there were no material transactions between the Group and any associates and joint ventures (see also Note 38, Transactions with related companies and parties). Further details on associates and joint ventures can be found in Note 36, Relationships with subsidiaries, associates and joint ventures.

Investments in associates and joint ventures

CHF million	2015	2016
Balance at 1 January	104	104
Additions	3	42
Disposals	-4	0
Dividends received	-8	-8
Share of net profit (after taxes) recognized in the income statement	12	7
Share of net profit (after taxes) recognized in other comprehensive income	3	-1
Currency translation differences	-6	0
Balance at 31 December	104	144

Comprehensive income from associates and joint ventures

Net income from associates and joint ventures

CHF million	2015	2016
Share of net profit (after taxes) recognized in the income statement	12	7
Share of net profit (after taxes) recognized in other comprehensive income	3	-1
Comprehensive income from associates and joint ventures	15	6

Additions and disposals of associates and joint ventures

2015

Swiss Post Solutions Holding GmbH, based in Bamberg (Germany) sold its interest (35 percent) in MEILLERGHP GmbH, based in Schwandorf (Germany), on 20 February 2015.

Post CH Ltd, based in Berne, sold its interest (25 percent) in search.ch AG, based in Zurich, on 8 May 2015.

Swiss Post Solutions GmbH, based in Bamberg (Germany) sold 2 percent of its interest in CF Card Factory GmbH, based in Hessisch Lichtenau (Germany), on 17 June 2015. Following the loss of control, CF Card Factory GmbH is disclosed as an associate.

Post CH Ltd, based in Berne, acquired 20 percent in Energy Logistics Schweiz (ELS) Ltd, based in Berne, on 19 October 2015.

2016

PostFinance Ltd, based in Berne, acquired a 20.39 percent interest in moneymeets GmbH and moneymeets community GmbH, both based in Cologne (Germany), on 23 June 2016.

Finform Ltd, based in Berne, was founded on 27 June 2016 (Swiss Post share: 50 percent).

PostFinance Ltd, based in Berne, acquired 24.445 percent in Lendico Schweiz AG, based in Zurich, on 8 July 2016.

PostFinance Ltd, SIX Ltd and partner banks have agreed to introduce a joint mobile payment system for Switzerland. The development and operation of the joint platform was assigned to TWINT Ltd on 30 September 2016. PostFinance Ltd holds a one-third interest in TWINT Ltd after the transaction. This means that TWINT Ltd, based in Zurich, has no longer been considered a fully consolidated subsidiary since 30 September 2016 (100 percent), but is accounted for using the equity method (33.333 percent) in the consolidated financial statements.

Swiss Post Solutions GmbH, based in Bamberg (Germany) sold its interest (49.85 percent) in eSourceONE GmbH, based in Bamberg (Germany), on 20 December 2016.

6	Management report	62	Corporate governance	75	Annual financial statements
11	Business activities	62	Group structure and shareholders	159	Group
12	Organization	62	Regulatory accounting	169	Swiss Post Ltd
12	Developments	63	Capital structure		PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

24 | Property, plant and equipment

Investment commitments for property, plant and equipment amount to 55 million francs (previous year: 74 million francs).

As at 31 December 2016, as in the previous year, no property, plant and equipment had been pledged in relation to mortgages.

As in the previous year, no borrowing costs were capitalized in 2016.

Property, plant and equipment						
2015 CHF million	Operating property	Assets under construction: operating property	Equipment, machinery and IT systems	Furniture, vehicles and other assets	Assets under construction: other asset classes	Total
Acquisition cost						
As at 1.1.2015	5,245	132	1,104	780	20	7,281
Additions to the consolidated Group	1	–	1	5	–	7
Additions	0 ¹	58	66	115	42	281
Disposals	–197	–2	–42	–40	0	–281
Reclassifications	126	–126	52	1	–53	0
Disposals arising from reclassifications (IFRS 5)	–	–	–	–53	–	–53
Currency translation differences	–3	–	–5	–10	0	–18
As at 31.12.2015	5,172	62	1,176	798	9	7,217
Cumulative amortization						
As at 1.1.2015	3,778	–	638	388	–	4,804
Depreciation	110	–	100	82	–	292
Impairment	0	–	2	2	–	4
Disposals	–185	–	–34	–35	–	–254
Reclassifications	0	–	0	0	–	0
Disposals arising from reclassifications (IFRS 5)	–	–	–	–41	–	–41
Currency translation differences	–2	–	–4	–5	–	–11
As at 31.12.2015	3,701	–	702	391	–	4,794
Carrying amount as at 1.1.2015	1,467	132	466	392	20	2,477
Carrying amount as at 31.12.2015	1,471	62	474	407	9	2,423
of which assets in leasing	0	–	0	13	–	13

¹ Includes around one million francs from subsidies for railway track installations for 2015.

Property, plant and equipment

2016 CHF million	Operating property	Assets under construction: operating property	Equipment, machinery and IT systems	Furniture, vehicles and other assets	Assets under construction: other asset classes	Total
Acquisition cost						
As at 1.1.2016	5,172	62	1,176	798	9	7,217
Additions to the consolidated Group	1	–	–	–	–	1
Additions	–1 ¹	104	58	92	34	287
Disposals	–168	–2	–96	–44	–2	–312
Reclassifications	70	–75	28	1	–32	–8
Disposals arising from reclassifications (IFRS 5)	–	–	–	–57	0	–57
Currency translation differences	0	–	–2	–1	0	–3
As at 31.12.2016	5,074	89	1,164	789	9	7,125
Cumulative amortization						
As at 1.1.2016	3,701	–	702	391	–	4,794
Depreciation	194	–	104	89	–	387
Impairment	3	–	0	0	–	3
Disposals	–156	–	–87	–36	–	–279
Reclassifications	–5	–	–1	0	–	–6
Disposals arising from reclassifications (IFRS 5)	–	–	–	–43	–	–43
Currency translation differences	–1	–	–2	0	–	–3
As at 31.12.2016	3,736	–	716	401	–	4,853
Carrying amount as at 1.1.2016	1,471	62	474	407	9	2,423
Carrying amount as at 31.12.2016	1,338	89	448	388	9	2,272
of which assets in leasing	0	–	0	12	–	12

¹ Includes less than one million francs from subsidies for railway track installations for 2016.

25 | Investment property

Investment property CHF million	2015			2016		
	Investment property	Investment property under construction	Total	Investment property	Investment property under construction	Total
Acquisition cost						
Balance at 1 January	8	172	180	8	219	227
Additions	–	47	47	–	31	31
Disposals	–	0	0	0	–3	–3
Reclassifications	0	0	0	240	–240	–
Balance at 31 December	8	219	227	248	7	255
Cumulative amortization						
Balance at 1 January	0	–	0	0	–	0
Depreciation	0	–	0	9	–	9
Disposals	–	–	–	0	–	0
Reclassifications	–	–	–	–	–	–
Balance at 31 December	0	–	0	9	–	9
Carrying amount as at 1 January	8	172	180	8	219	227
Carrying amount as at 31 December	8	219	227	239	7	246

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

The following amounts from investment property were recognized in the result:

- Rental income: 14.7 million francs (previous year: 1.2 million francs)
- Direct operating expenses (incl. depreciation) that generated rental income during the reporting period: 14.8 million francs (previous year: 2.0 million francs)

On 31 December 2016, there were no restrictions on the saleability or transfer of earnings and proceeds from any sale.

There are investment commitments for investment property of 61 million francs (previous year: 88 million francs).

Information on fair values can be found in Note 33, Fair value disclosures.

26 | Intangible assets

Intangible assets	2015				2016			
	Goodwill ¹	Other intangible assets	Other intangible assets under construction	Total	Goodwill ¹	Other intangible assets	Other intangible assets under construction	Total
CHF million								
Acquisition cost								
Balance at 1 January	256	264	35	555	261	302	78	641
Additions to the consolidated Group	13	4	–	17	1	–	–	1
Additions	–	21	74	95	–	14	106	120
Disposals	–2	–12	–	–14	–5	–41	–2	–48
Reclassifications	–	31	–31	0	–	45	–43	2
Currency translation differences	–6	–6	0	–12	–1	–3	0	–4
Balance at 31 December	261	302	78	641	256	317	139	712
Cumulative amortization								
Balance at 1 January	25	159	0	184	23	182	0	205
Depreciation	–	37	–	37	–	43	–	43
Impairment	– ²	3	–	3	4 ²	1	–	5
Disposals	–2	–12	–	–14	–	–16	–	–16
Reclassifications	–	0	–	0	–	0	0	0
Currency translation differences	0	–5	0	–5	1	–2	0	–1
Balance at 31 December	23	182	0	205	28	208	0	236
Carrying amount as at 1 January	231	105	35	371	238	120	78	436
Carrying amount as at 31 December	238	120	78	436	228	109	139	476

¹ Goodwill relating to fully consolidated companies. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of these equity interests (see Note 23, Investments in associates and joint ventures).

² See information below under "Reviewing the recoverable amount of goodwill".

Other intangible assets essentially comprise purchased standard software.

Investment commitments for intangible assets amount to 2 million francs (previous year: 4 million francs).

Reviewing the recoverable amount of goodwill

In the event of a new acquisition, goodwill is allocated to identifiable groups of units known as cash-generating units (CGUs) and tested annually for impairment. A CGU is usually a company.

A CGU's recoverable amount is based on a calculation of its value in use, in turn based on the strategic financial planning. The calculation of a CGU's value in use reflects the future cash flows for the next two to five years, discounted to present value at the weighted cost of capital, and an estimated residual value. This does not include any growth component.

The goodwill refers to the following segments or subsidiaries:

Goodwill by segment CHF million	31 December 2015						31 December 2016					
	Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other	Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other
SPS Group	30	–	–	30	–	–	25	–	–	25	–	–
Swiss Post Solutions AG	29	–	–	29	–	–	29	–	–	29	–	–
Swiss Post Solutions Inc.	35	–	–	35	–	–	37	–	–	37	–	–
Swiss Post Solutions Ltd	26	–	–	26	–	–	22	–	–	22	–	–
Swiss Post Solutions SAS Group	0	–	–	0	–	–	1	–	–	1	–	–
Presto Presse-Vertriebs AG	41	41	–	–	–	–	41	41	–	–	–	–
Direct Mail Company AG ¹	24	24	–	–	–	–	26	26	–	–	–	–
PostLogistics Ltd	27	–	27	–	–	–	27	–	27	–	–	–
Swiss Post SAT Holding SA	9	–	9	–	–	–	9	–	9	–	–	–
Société d'Affrètement et de Transit S.A.T. SA	2	–	2	–	–	–	2	–	2	–	–	–
health care research institute AG (hcri) ²	6	–	–	–	–	6	2	–	–	–	–	2
Other ²	9	2	4	–	3	–	7	–	5	–	2	–
Total	238	67	42	120	3	6	228	67	43	114	2	2

- 1 Transfer of goodwill due to the merger of APZ Direct AG and IWARE SA into Direct Mail Company AG.
2 Goodwill of 4 million francs was impaired.

To determine the recoverable amount of goodwill for subsidiaries on 31 December 2016 based on the discounted cash flow method, the following parameters were set per country. In addition, a market risk premium of 6 percent (Switzerland and abroad) and depending on the risks a small cap premium of between 0 and 4 percent as well as a debt premium of 2 to 6 percent were applied for the calculation, as in the previous year.

Parameters for the determination of the recoverable amount of goodwill by country

Percent	2015			2016		
	Interest rate ¹	Tax rate ²	WACC ³	Interest rate ¹	Tax rate ²	WACC ³
Switzerland	0.7	20.7–25.9	6.3–13.2	0.0	20.8–25.9	5.6–9.5
Belgium	1.9	34.0	12.4	1.1	34.0	12.4
Germany	1.3	29.0	8.7	0.4	29.0	7.9
France	1.9	33.3–34.0	8.8–11.4	1.0	33.3–34.0	8.8–10.0
United Kingdom	2.5	21.0	9.1	1.5	21.0	8.4
US	2.9	45.0	13.6	2.3	45.0	15.1

- 1 Yield on 30-year bonds of the relevant country.
2 Tax rate of the acquired company.
3 Weighted average cost of capital.

Management report

6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

Corporate governance

62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

Annual financial statements

75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

27 | Financial liabilities

Financial liabilities	On demand	Callable ¹	Up to 1 year	1–5 years	Over 5 years	Total
CHF million						
31 December 2015						
Postal accounts	64,421	–	–	–	–	64,421
Deposito and investment accounts	–	42,826	–	–	–	42,826
Medium-term notes for customers	–	–	18	102	13	133
Total customer deposits (PostFinance)	64,421	42,826	18	102	13	107,380
Due to banks	60	–	–	–	–	60
Derivative financial instruments	–	–	0	99	111	210
Other financial liabilities						
Finance leases	–	–	2	5	1	8
Repurchase transactions	–	–	108	–	–	108
Other	0	0	3	4	1,272	1,279
Total other financial liabilities	60	0	113	108	1,384	1,665
Total financial liabilities	64,481	42,826	131	210	1,397	109,045
31 December 2016						
Postal accounts	67,553	–	–	–	–	67,553
Deposito and investment accounts	–	42,866	–	–	–	42,866
Medium-term notes for customers	–	–	21	85	8	114
Total customer deposits (PostFinance)	67,553	42,866	21	85	8	110,533
Due to banks	2	–	848	–	–	850
Derivative financial instruments	–	–	64	85	120	269
Other financial liabilities						
Finance leases	0	–	2	4	1	7
Repurchase transactions	–	–	723	–	–	723
Other	3	–	351	595	677	1,626
Total other financial liabilities	5	–	1,988	684	798	3,475
Total financial liabilities	67,558	42,866	2,009	769	806	114,008

¹ Call deposits for which no notice of withdrawal has been given, recallable provided an agreed notice period is observed.

Information on fair values can be found in Note 33, Fair value disclosures.

The fourth quarter of 2012 saw the borrowing of funds by means of a private placement as long-term funds of 1,280 million francs were raised on the capital market from major, predominantly domestic, private and institutional investors. Several tranches were issued with an average maturity of around 11 years. The average interest rate applicable to these private placements is 0.83 percent. A 10 million franc portion of a tranche was repurchased before term and destroyed at the beginning of May 2015. The average remaining maturity of the outstanding tranches was approximately eight years at the end of 2016.

As part of liquidity management, market opportunities were used in a targeted manner to optimize the cash position in the fourth quarter of 2016; these are presented under "Other" in other financial liabilities.

In accordance with hedge accounting requirements, 263 million francs (previous year: 204 million francs) were posted to derivative financial instruments (negative fair values).

Interest expense for customer deposits (PostFinance) amounted to 62 million francs in the reporting period (previous year: 115 million francs).

Present value of the commitments from finance leases

Cash value of the commitments from finance leases	31 December 2015			31 December 2016		
	Nominal	Discount	Present value	Nominal	Discount	Present value
CHF million						
Due within 1 year	2	0	2	2	0	2
Due within 1 to 5 years	5	0	5	4	0	4
Due date longer than 5 years	1	0	1	1	0	1
Total	8	0	8	7	0	7

28 | Provisions

Provisions	Other long-term employee benefits	Restructuring	Claims incurred	Litigation risks	Other	Total
CHF million						
As at 1 January 2015	380	7	23	11	67	488
Additions to the consolidated Group	0	–	–	–	0	0
Recognition	31	21	14	3	28	97
Present value adjustment	3	0	–	–	0	3
Use	–27	–3	–9	–1	–10	–50
Reversal	–97	–2	–3	–2	–6	–110
Reclassifications	–	–	–	–	–	–
Currency translation differences	–	0	–	0	–1	–1
As at 31 December 2015	290	23	25	11	78	427
of which short term	27	16	10	4	19	76
As at 1 January 2016	290	23	25	11	78	427
Recognition	25	17	11	2	60	115
Present value adjustment	2	–	–	–	0	2
Use	–31	–10	–9	–1	–11	–62
Reversal	–1	–1	–4	–2	–14	–22
Reclassifications	–	0	–	–	0	0
Currency translation differences	–	0	–	0	0	0
As at 31 December 2016	285	29	23	10	113	460
of which short term	31	6	17	5	3	62

In the year under review, other provisions of around 23 million francs were recognized for the removal of asbestos from the real estate portfolio and for outstanding obligations arising from business activities.

Other long-term employee benefits

Other long-term employee benefits essentially comprise bonuses for anniversaries for numbers of years of service (loyalty bonuses including sabbaticals for management employees) and staff vouchers (predominantly for retired employees). The performance can be found in the following breakdown.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

The following parameters were applied:

Assumptions for the calculation	Loyalty bonuses		Staff vouchers	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016
as at				
Discount rate	0.50%	0.25%	0.75%	0.50%
Annual change in salaries	1.00%	1.00%	–	–
Percentage rate of staff voucher use	–	–	95.00%	95.00%
Leave share	55.80%	55.80%	–	–
Voluntary turnover	7.67%	7.48%	3.63%	3.56%
Average remaining service in years	9.31	9.56	10.93	11.38

Change in other long-term employee benefits

Other long-term employee benefits	Loyalty bonuses		Staff vouchers	
	2015	2016	2015	2016
CHF million				
Balance at 1 January	233	131	146	156
Accrued claims	16	9	4	4
Benefits paid	–21	–26	–6	–5
Interest on employee benefit obligations	1	1	2	1
Income from plan amendments	–86	–1	–	–
(Gains)/losses resulting from changes in assumptions	–3	3	12	8
Actuarial (gains)/losses	–9	1	–2	0
Balance at 31 December	131	118	156	164

In addition to loyalty bonuses, sabbaticals and staff vouchers, other benefits amounting to 3 million francs are also included in provisions for other long-term employee benefits (previous year: 3 million francs).

Other long-term employee benefits recognized in the income statement

Expenses recognized in the income statement	Loyalty bonuses		Staff vouchers	
	2015	2016	2015	2016
CHF million				
Accrued claims	16	9	4	4
Interest on employee benefit obligations	1	1	2	1
Income from plan amendments	–86	–1	–	–
Actuarial (gains)/losses	–12	4	10	8
Total expenses for other long-term employee benefits	–81	13	16	13

The social partners approved the new collective employment contracts in April 2015. The new collective employment contract for Post CH Ltd, PostFinance Ltd and PostBus Ltd came into force on 1 January 2016. The new agreements included adjustments to loyalty bonuses. The resulting one-off adjustment of loyalty bonus liabilities in the income statement was recognized in the first half of 2015. This book gain was not related in any way to a reduction in personnel.

29 | Equity

Share capital

On 1 January 1998, the Swiss Confederation provided Swiss Post with interest-free endowment capital of 1,300 million francs. Swiss Post was converted from an institution under public law into a company limited by shares subject to a special statutory regime with share capital of 1,300 million francs in accordance with the Postal Organization Act on 26 June 2013 with retroactive effect to 1 January 2013. Swiss Post remains wholly owned by the Swiss Confederation.

The share capital comprises 1,300,000 registered shares, each with a face value of 1,000 francs. All shares are fully paid up.

Profits and losses recorded directly in other comprehensive income

Revaluation of employee benefit obligations

Changes in revaluation gains from employee benefit obligations in accordance with IAS 19 that occurred during the year and that were recorded in other comprehensive income (OCI) as equity are shown in the following table. Revaluation gains are the result of differences between assumed (estimated) amounts and their actual realizations.

Fair value reserves

Fair value reserves comprise fluctuations in the value of financial assets available for sale, which are caused mainly by fluctuations in capital market interest rates. When financial assets are sold, the relevant fair value reserve is recognized in the income statement.

Hedging reserves

Hedging reserves include net gains and losses resulting from fair value changes attributable to the effective portion of cash flow hedges. The hedging reserves are reclassified in the income statement when the hedged item is closed out.

Currency translation reserves

Currency translation reserves contain the cumulative differences resulting from the translation of the financial statements of subsidiaries, associates and joint ventures from their functional currency into Swiss francs.

Other gains and losses

These reserves comprise any other gains and losses recorded in other comprehensive income, such as those arising from associates and joint ventures.

Appropriation of profit

The General Meeting of Swiss Post Ltd held on 26 April 2016 decided to pay a dividend totalling 200 million francs (previous year: 200 million francs). The dividend was paid on 27 April 2016.

According to the proposal submitted by the Board of Directors to the General Meeting of Swiss Post Ltd, a total of 200 million francs will be distributed as a dividend for the 2016 financial year. This corresponds to a dividend of 153.85 francs per share. The amount available for dividends is based on the statutory equity of the parent company Swiss Post Ltd. Further details can be found in the Swiss Post Ltd annual financial statements.

Management report
6 Business activities
11 Organization
12 Developments
16 Group strategy
23 Financial controlling
25 Business performance
53 Risk report
59 Outlook

Corporate governance
62 Group structure and shareholders
62 Regulatory accounting
63 Capital structure
63 Board of Directors
67 Executive Management
70 Remuneration
73 Auditor
73 Information policy

Annual financial statements
75 Group
159 Swiss Post Ltd
169 PostFinance Ltd

Other comprehensive income includes the following:

Group Profits and losses recorded directly in other comprehensive income		Revaluation of employee benefit obligations	Fair value reserves	Hedging reserves	Currency translation reserves	Other profits and losses	Equity attributable to the owner	Non-controlling interests	Total
CHF million	Notes								
Balance as at 1 January 2015		-1,205	158	-6	-42	6	-1,089	0	-1,089
Revaluation of employee benefit obligations	9	-1,162	-	-	-	-	-1,162	-	-1,162
Change in share of other comprehensive income from associates and joint ventures		-	-	-	-	1	1	-	1
Change in deferred income taxes	14	153	-	-	-	0	153	-	153
Items not reclassifiable in the consolidated income statement, after tax		-1,009	-	-	-	1	-1,008	-	-1,008
Change in currency translation reserves		-	-	-	-25	-	-25	0	-25
Change in share of other comprehensive income from associates and joint ventures		-	-	-	-	2	2	-	2
Change in fair value reserves from available-for-sale financial assets, net		-	-22	-	-	-	-22	-	-22
Change in hedging reserves from cash flow hedges, net		-	-	4	-	-	4	-	4
Change in deferred income taxes	14	-	-6	-1	-	0	-7	-	-7
Reclassifiable items in income statement, after tax		-	-28	3	-25	2	-48	0	-48
Other comprehensive income		-1,009	-28	3	-25	3	-1,056	0	-1,056
Balance as at 31 December 2015		-2,214	130	-3	-67	9	-2,145	0	-2,145
Balance as at 1 January 2016		-2,214	130	-3	-67	9	-2,145	0	-2,145
Revaluation of employee benefit obligations	9	-89	-	-	-	-	-89	-	-89
Change in share of other comprehensive income from associates and joint ventures		-	-	-	-	-	-	-	-
Change in deferred income taxes	14	45	-	-	-	-	45	-	45
Items not reclassifiable in the income statement, after tax		-44	-	-	-	-	-44	-	-44
Change in currency translation reserves		-	-	-	-9	-	-9	0	-9
Change in share of other comprehensive income from associates and joint ventures		-	-	-	-	-1	-1	-	-1
Change in fair value reserves from available-for-sale financial assets, net		-	270	-	-	-	270	-	270
Change in hedging reserves from cash flow hedges, net		-	-	-51	-	-	-51	-	-51
Change in deferred income taxes	14	-	-36	10	-	-	-26	-	-26
Reclassifiable items in consolidated income statement, after tax		-	234	-41	-9	-1	183	0	183
Other comprehensive income		-44	234	-41	-9	-1	139	0	139
Adjustments in connection with disposals	37	2	-	-	-	-	2	-	2
Balance as at 31 December 2016		-2,256	364	-44	-76	8	-2,004	0	-2,004

30 | Operating leases

Swiss Post as lessee

Minimum commitments under non-cancellable lease and rental agreements break down as follows:

Commitments under operating leases		
CHF million	31.12.2015	31.12.2016
Future commitments under operating leases due in		
Less than 1 year	77	75
1 to 5 years	164	181
Over 5 years	77	85
Future payment commitments under operating leases	318	341
Minimum lease payments	116	138
Conditional lease payments	7	8
Lease expenses for the period	123	146
Income from sub-letting in the past financial year	20	23
Future income from sub-letting	36	39

Payments arising from operating leases relate mainly to rent for the post office network's real estate (with an average remaining term of two years), rent for business premises and ground rent agreements at the Real Estate unit. Income from sub-letting relates to the post office network's real estate which, for the purposes of optimization, has been sub-let to third parties until the lease expires.

Conditional lease payments occur if the lease is index-linked.

Swiss Post as lessor

Income from the rental of Swiss Post's own properties to third parties amounted to 39 million francs in the reporting period (previous year: 32 million francs). As at the end of the reporting period, Swiss Post had not entered into any other significant lease agreements as lessor.

Income from lease agreements		
CHF million	31.12.2015	31.12.2016
Future minimum lease payments due under agreements in		
Less than 1 year	64	74
1 to 5 years	168	195
Over 5 years	46	60
Total	278	329

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

31 | Contingent liabilities

Contingent liabilities were as follows as at 31 December 2016:

Guarantees and guarantee obligations

There were no guarantees or guarantee obligations at the end of 2016.

Legal cases

As regards claims or legal cases for which no reliable estimate of the amount of the obligation can be made, no provision is recognized. Executive Management believes either that they can be refuted or that they will not have a material impact on the Group's financial position or operating profit. In the reporting period, the resulting contingent liabilities amounted to 47 million francs (previous year: 7 million francs).

32 | Risk management

Risk management (corporate risk management)

Organization

Swiss Post operates a comprehensive risk management system, applicable to all units and subsidiaries. Risk policy is defined by Executive Management and the Board of Directors. The implementation of risk management lies with line management. The Executive and Management Board members of the different Group units are responsible for their own risk portfolio. Risks are freshly assessed every six months, and the control measures updated.

The Group risk managers run the process, develop Group-wide risk management methods and submit reports to Executive Management and the Board of Directors. The unit risk managers implement the directives and coordinate independent risk controls by the Risk Officer. Reporting documents are prepared for the relevant Management Board or Executive Board and for Group risk managers. The risk managers monitor the necessary controls, measures and limits as well as the potential risks. Risk management ensures that all detectable risks are identified and recorded in full in the risk analysis and reporting systems. The areas considered include strategy, operation, finance and legal aspects.

Swiss Post aims to take an integral approach to risk management. Risk management is therefore combined with the Strategy, Accounting, Controlling, Crisis Management and Group Audit units, as well as Compliance. The different organizational units coordinate their processes, integrate their reporting documents and pool their analysis findings.

Risk situation

Successful entrepreneurial action is based on adequately controlling or avoiding material risks and taking advantage of opportunities that arise in a value-enhancing way. At Swiss Post, risks and opportunities are assessed as part of operational planning for a one-year planning period (risks and opportunities with a short-term impact), while the strategic risk situation is established over the planning horizon until 2024.

Risks and opportunities with a short-term impact

Swiss Post understands risks with a short-term impact to be any event which can have a negative influence on the achievement of its goals within the next 12 months. Short-term opportunities refer to potential results which go beyond the goals defined for the financial year. The individual risks and opportunities for all the units identified using the Monte Carlo simulation procedure are combined to establish the overall risk position of the Group. As well as calculating the average expected loss/gain potential, the maximum annual loss potential is determined with a confidence interval of 95 percent.

Based on the latest calculations, the Group has an expected loss potential of –17.4 million francs in relation to the financial year 2017. Average expected losses compared to the prior-year period have therefore increased by 10.7 million francs (expected loss in 2016: –6.7 million francs). This change is principally due to adjustments to the parameters for calculating employee benefit expenses. The unexpected annual loss potential (VaR 95 percent) for the Group totals –98.3 million francs for 2017. Risks have therefore increased year-on-year (unexpected loss in 2016: –76.7 million francs). Overall, an analysis of the results shows that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group's risk-bearing capacity is thereby guaranteed.

The largest loss potential with a short-term impact is due to shortfalls in the provision of services and legal risks. The profit trend at PostFinance is also volatile. Cost efficiency programmes, growth in parcel volumes and low fuel prices have the highest profit potential with a short-term impact.

Risks and opportunities with a long-term impact

As well as assessing the short-term risk situation, Swiss Post also identifies and evaluates strategic risks and opportunities. Any developments or events that could result in deviations in relation to the planned pre-tax profit (EBIT) in 2024 are regarded as strategic risks and opportunities.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

The most significant strategic risks include declining volume trends. Changes in the regulatory framework could also have an effect on the company. The growth programmes and cost-cutting measures which have been initiated offer promising long-term opportunities. PostFinance's result is greatly dependent on market interest rate changes.

Internal control system

Swiss Post Ltd operates an internal control system (ICS) that promptly identifies and assesses the relevant financial processes and risks related to bookkeeping and the rendering of accounts and incorporates appropriate key controls to cover those processes and risks. The ICS encompasses those procedures and measures that ensure proper bookkeeping and rendering of accounts and accordingly form the basis of all financial reporting. It thus ensures that financial reporting is of a high quality. Swiss Post sees the ICS as an activity aimed at the continuous improvement of processes.

In accordance with Article 728 a, paragraph 1, section 3 of the Swiss Code of Obligations, the external auditors check that an ICS is in place in conducting their regular audit.

Risk management at PostFinance

PostFinance operates an appropriate risk management system in accordance with banking regulation requirements. The specific business risks faced by PostFinance, namely interest rate, liquidity, credit and market risks, as well as strategic and operational risks, are managed using industry-standard tools and methods.

Organization

PostFinance's Board of Directors conducts an annual risk assessment. Supported by the Board of Directors' Audit & Compliance and Risk committees, it sets out the primary guidelines and basic principles on managing financial, strategic and operational risks, approves the risk policy, and sets conditions which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of "equity needed to meet regulatory requirements". Maximum risk exposure is determined by the risk-bearing capacity of PostFinance and the risk appetite of the Board of Directors.

The PostFinance Executive Board is responsible for the active management of financial, strategic and operational risks within the framework defined by the Board of Directors and ensures that the risk management infrastructure meets requirements in organizational, human resources, technical and methodology terms.

Its duties and responsibilities include implementing risk control and risk monitoring by establishing limits in individual risk categories and by defining requirements for risk monitoring reports.

The Executive Board is informed of the risk measurement results and the extent to which limits are used in weekly and monthly reports. This enables it to decide on the necessary control measures, if any.

The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee mandated for this purpose in managing financial risks in the overall balance sheet. It identifies and measures the financial risks entered into by PostFinance and proposes control measures. It also monitors and reports on the effectiveness of the control decided upon.

The Risk Control department defines appropriate instruments to identify, measure, evaluate and control the risks entered into by PostFinance in the non-financial area. It also provides support to risk managers in applying these instruments. As an independent control body, it monitors the established risk profile across all risk categories and provides a central overview of the entire risk situation of PostFinance Ltd.

Financial risk measurement methods

The methods of measuring and monitoring risks are applied at the level of both the individual PostFinance portfolio and the overall PostFinance balance sheet. Risks are limited and monitored by means of a multi-level limit system.

A variety of methods of differing degrees of complexity are used to measure financial risks. The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

The methods applied at PostFinance to measure risks include measurement methods based on scenario analyses (e.g. to measure the earnings effects of interest rate risks or the full utilization of credit risk limits), sensitivity analyses (e.g. to measure the present value effects arising from interest rate risks) and value-at-risk methods (e.g. to measure fair value risks resulting from equity investments).

Financial risk management at PostFinance

The following financial risks are constantly taken, measured, controlled and monitored at PostFinance:

– Interest rate risk and balance sheet structure risk

The term “interest rate risk” refers to the potential impact of a change in market interest rates on the present value of assets and liabilities in the balance sheet, resulting mainly from maturity mismatches, as well as the possible effect on net interest income in the income statement.

PostFinance’s interest-earning operations are a key earnings driver for Swiss Post. As changes in interest rates have a direct impact on net interest income, management of the risks associated with such changes is considered a priority.

The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest or require capital commitment. The interest rate and capital commitment of these deposits are therefore estimated using a replication method which aims to map the most closely matching maturities of similar customer products while minimizing the interest margin volatility of each product. The Executive Board notifies the Treasury department of the maturities of money and capital market investments on the basis of the target present value sensitivity, and defines the maturity transformation strategy as a result. The resulting imbalance between the liability and asset interest rates corresponds to the maturity transformation, which is controlled from a present value and income perspective.

The present value perspective covers the net effect of a change in interest rates on the equity of PostFinance in the event of modifications to the yield curve. Future cash flow accruals are discounted according to the risk-adjusted present value formula. Sensitivity to a parallel shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other.

As at 31 December 2016, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –158 million francs (previous year: –410 million francs with a shift in interest of –100 basis points). Unlike in the previous year, PostFinance currently uses a positive maturity transformation. The switch from a negative to a positive maturity transformation is principally due to higher interest sensitivity on the asset side.

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance’s future net interest income. In addition, dynamic income simulations are carried out according to several deterministic scenarios. These scenarios describe future market interest trends and the resulting changes in customer interest and customer volumes for each replica, as well as different maturity transformation strategies where applicable.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

– Credit risk

The term “credit risk” refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the other party to incur a financial loss. Credit risks increase as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the solvency of an entire group of otherwise unrelated counterparties.

PostFinance Ltd was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance Ltd is not permitted to issue direct loans and mortgages due to postal legislation provisions. Interest-bearing customer deposits therefore do not go towards granting mortgages, but are invested on the money and capital markets. PostFinance continues to pursue a conservative investment strategy. Liquidity and creditworthiness are the main criteria for its investment decisions. The cluster risk is deliberately limited by holding financial assets that are broadly diversified in terms of the sectors, countries and counterparties. A large proportion of customer deposits are invested as a sight deposit balance at the SNB. As at 31 December 2016, this sight deposit balance stood at 35,596 million francs (previous year: 37,505 million francs).

The credit risks associated with the Treasury department’s investments in the money and capital markets are limited through investment regulations and prescribed limits. Limits apply at counterparty and rating structure level as well as for controlling country risks. Investments are only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

Specifications and investment restrictions are based on publicly accessible ratings by recognized rating agencies and qualified banks, and are constantly updated to reflect changes in a counterparty’s creditworthiness. Compliance with prescribed limits is monitored on an ongoing basis and is verified before the closing of each transaction.

The conservative investment strategy pursued by PostFinance is reflected in the figures for financial assets according to rating as at 31 December 2015 and 31 December 2016:

Rating structure of financial assets¹

Rating category in percent	31.12.2015	31.12.2016
AAA (incl. SIC)	67	60
AA	20	22
A	10	13
< A	3	5

¹ Includes cash and capital contributions; based on nominal values.

The cluster risk is deliberately limited by holding financial assets that are broadly diversified in terms of the counterparties. An overview of major counterparties as at 31 December 2015 and 31 December 2016 is given below:

Breakdown of the largest counterparties¹

CHF million	31.12.2015	31.12.2016
Pfandbriefbank schweizerischer Hypothekarinstitute AG, Zurich	12,183	10,660
Pfandbriefzentrale der schweizerischen Kantonalbanken AG, Zurich	7,002	7,347
Swiss Confederation, Berne	2,769	3,034

¹ Includes amounts due from banks (excluding secured loans) and financial assets; based on nominal values.

Country risks are controlled by establishing country portfolio limits which encourages a broad diversification of international financial assets. An overview of the three largest country exposures as at 31 December 2015 and 31 December 2016 is given below:

Breakdown of the three main country exposures¹

CHF million	31.12.2015
Switzerland	44,053
France	5,104
Germany	3,193
	31.12.2016
Switzerland	47,401
France	4,869
USA	4,061

¹ Includes amounts due from banks (excluding secured loans) and financial assets; based on nominal values.

Note on the maximum default risk at PostFinance Ltd:

in the case of cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and other receivables (excluding accrued income and prepaid expenses), the maximum default risk corresponds to the carrying amount. The maximum default risk for financial assets exposed to the credit risk is also equal to the carrying amount, and totals 77,413 million francs (previous year: 70,634 million francs). Collateral is not taken into account in the figures shown.

Note on collateral concentration risks:

Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk as it can be realized by PostFinance in the event of default by the counterparty. High concentrations of collateral are measured, monitored and restricted, as considerable losses in collateral value can lead to the insolvency of counterparties (the issuers of the collateral).

Note on credit risks arising from mortgage lending and SME financing:

The mortgage lending solutions offered in cooperation with Münchener Hypothekbank eG (MHB) since June 2008 do not result in any credit risks for PostFinance. These are borne entirely by the partner bank. Since autumn 2009, PostFinance has been collaborating with Valiant Bank on financing for SMEs. This cooperation arrangement has enabled PostFinance to expand its range of services in the retail market. Since autumn 2010, PostFinance has also worked with Valiant Bank on mortgage lending to private customers. The credit risks resulting from the two areas of cooperation are assumed by Valiant Bank.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

– Liquidity risks

Liquidity risk refers to the risk that current and future payment obligations cannot be met on time or in full. Liquidity risks are managed in the short, medium and long term. To guarantee liquidity on a daily basis, financial cushions are defined for the settlement of unforeseen payments. These financial cushions should be available for use in stress situations in particular, when it may no longer be possible to turn to the unsecured interbank market for liquidity. The minimum amount for a financial cushion is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity in the short term is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure. As at 31 December 2016, the Liquidity Coverage Ratio stood at 204 percent (previous year: 217 percent).

To ensure liquidity in the medium term, liquidity stress scenarios are defined that last at least three months and must not lead to illiquidity. The long-term structural liquidity situation is reassessed by the Executive Board on an annual basis. There is an emergency plan to resolve any liquidity crises.

The following table shows an analysis of financial assets and financial liabilities in accordance with the contractual maturities remaining as per the balance sheet date.

PostFinance Ltd: Contractual maturities

31 December 2015
CHF million

	0–3 months	4–12 months	1–5 years	over 5 years	Total
Financial assets					
Cash holdings	1,374	–	–	–	1,374
Amounts due from banks	38,070	–	–	–	38,070
Interest-bearing amounts due from customers	317	–	–	–	317
Financial assets (without derivatives)					
Held-to-maturity	1,769	5,450	30,115	10,353	47,687
Available-for-sale	140	525	2,295	5,180	8,140
Loans	1,461	1,113	5,696	6,467	14,737
Total non-derivative financial assets	43,131	7,088	38,106	22,000	110,325
Derivative financial instruments for trading purposes					
Outflow	–182	–67	–5	–	–254
Inflow	184	68	5	–	257
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–484	–8	–44	–36	–572
Inflow	487	4	22	16	529
Total derivative financial assets	5	–3	–22	–20	–40
Financial liabilities					
Postal accounts	65,206	–	–	–	65,206
Deposito and investment accounts	42,826	–	–	–	42,826
Cash bonds for customers	3	15	102	13	133
Total customer deposits	108,035	15	102	13	108,165
Liabilities relating to banks	57	–	–	–	57
Other financial liabilities	27	–	–	–	27
Repurchase transactions	108	–	–	–	108
Total other financial liabilities (excluding derivatives)	192	–	–	–	192
Irrevocable credit commitments	676	–	–	–	676
Total off-balance-sheet positions	676	–	–	–	676
Total non-derivative financial liabilities	108,903	15	102	13	109,033
Derivative financial instruments for trading purposes					
Outflow	–258	–63	–5	–	–326
Inflow	252	62	5	–	319
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–807	–496	–2,362	–1,002	–4,667
Inflow	786	451	2,196	924	4,357
Total derivative financial liabilities	–27	–46	–166	–78	–317

6	Management report
6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

62	Corporate governance
62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

75	Annual financial statements
159	Group
169	Swiss Post Ltd
	PostFinance Ltd

PostFinance Ltd: Contractual maturities

31 December 2016
CHF million

	0–3 months	4–12 months	1–5 years	over 5 years	Total
Financial assets					
Cash holdings	1,845	–	–	–	1,845
Amounts due from banks	35,921	–	–	–	35,921
Interest-bearing amounts due from customers	410	–	–	–	410
Financial assets (without derivatives)					
Held-to-maturity	1,905	5,521	26,528	13,261	47,215
Available-for-sale	100	665	3,360	9,080	13,205
Loans	2,382	1,266	5,237	8,042	16,927
Total non-derivative financial assets	42,563	7,452	35,125	30,383	115,523
Derivative financial instruments for trading purposes					
Outflow	–260	–107	–1	–	–368
Inflow	263	109	1	–	373
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–9	–25	–136	–69	–239
Inflow	4	8	50	27	89
Total derivative financial assets	–2	–15	–86	–42	–145
Financial liabilities					
Postal accounts	68,319	–	–	–	68,319
Deposito and investment accounts	42,865	–	–	–	42,865
Cash bonds for customers	10	11	85	8	114
Total customer deposits	111,194	11	85	8	111,298
Liabilities relating to banks	848	–	–	–	848
Other financial liabilities	22	–	–	–	22
Repurchase transactions	723	–	–	–	723
Total other financial liabilities (excluding derivatives)	1,593	–	–	–	1,593
Irrevocable credit commitments	709	–	–	–	709
Total off-balance sheet positions	709	–	–	–	709
Total non-derivative financial liabilities	113,496	11	85	8	113,600
Derivative financial instruments for trading purposes					
Outflow	–298	–111	–3	–	–412
Inflow	295	109	3	–	407
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–1,364	–911	–1,843	–822	–4,940
Inflow	1,291	851	1,579	679	4,400
Total derivative financial liabilities	–76	–62	–264	–143	–545

– Foreign currency risk

The term “foreign currency risk” refers to the risk that the value of a financial instrument may change as a result of fluctuations in exchange rates. Such risks arise at PostFinance as a result of international payment transactions, products in foreign currencies and foreign currency investments.

Currency swaps and interest rate swaps as well as foreign exchange forward contracts are used to hedge against the impact of changes in foreign currency market interest rates or exchange rate changes on the fair values and earnings of fixed-interest bonds.

Foreign currency risks are measured and limited in the overall balance sheet using the value-at-risk indicator. All asset and liability transactions with an effect on the currency balance are taken into account in the measurement. The historic simulation method is applied with a conservative confidence level of 99 percent and an assumed holding period of one day. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from foreign currency risks stood at 1.4 million francs (previous year: 0.7 million francs).

The following table shows the Group's foreign currency exposure as at 31 December 2015 and 31 December 2016:

Financial instruments by currency (Group) 31 December 2015 CHF million	Functional currency	Foreign currencies					Total
		CHF	EUR	USD	GBP	Other	
Assets							
Cash	1,357	0	134	0	0	0	1,491
Receivables due from banks	38,632	0	164	118	1	18	38,933
Interest-bearing amounts due from customers	562	–	1	0	0	0	563
Trade accounts receivable	812	0	187	3	1	78	1,081
Other receivables excluding prepaid expenses	206	–	1	0	1	1	209
Financial assets	66,738	–	3,939	1,559	53	190	72,479
Held for trading and derivatives	12	–	49	0	0	0	61
Held to maturity	45,538	–	1,998	151	–	–	47,687
Available for sale	6,366	–	1,875	1,408	53	190	9,892
Loans	14,822	–	17	–	–	–	14,839
Liabilities							
Customer deposits (PostFinance)	104,772	–	2,222	320	25	41	107,380
Other financial liabilities	1,520	–	134	10	1	0	1,665
Trade accounts payable	416	0	176	1	1	84	678
Other liabilities excluding deferred income	196	–	1	0	0	–	197

Management report

6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

Corporate governance

62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

Annual financial statements

75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

Financial instruments by currency (Group)31 December 2016
CHF million

	Functional currency	Foreign currencies					Total
		CHF	EUR	USD	GBP	Other	
Assets							
Cash	2,182	0	147	1	0	0	2,330
Receivables due from banks	37,432	0	83	41	2	12	37,570
Interest-bearing amounts due from customers	404	–	1	0	0	0	405
Trade accounts receivable	878	0	202	0	1	83	1,164
Other receivables excluding prepaid expenses	399	–	1	4	1	1	406
Financial assets	69,346	–	6,944	2,757	54	147	79,248
Held for trading and derivatives	4	–	56	5	0	0	65
Held to maturity	44,990	–	1,882	343	–	–	47,215
Available for sale	7,359	–	4,991	2,409	54	147	14,960
Loans	16,993	–	15	–	–	–	17,008
Liabilities							
Customer deposits (PostFinance)	107,603	0	2,444	404	37	45	110,533
Other financial liabilities	3,394	–	55	25	1	0	3,475
Trade accounts payable	525	0	182	0	1	95	803
Other liabilities excluding deferred income	730	–	8	0	0	0	738

– Other market risks

PostFinance invests in shares and fund investments in its banking book in order to tap into additional sources of revenue. To measure the market risks arising from these transactions, the risk factors that have an impact on the present value of the relevant position are assigned to each position. These risk factors include interest, currency, credit spread and share price risks. Index proxies are also used to measure the credit risk of fund investments. To determine other market risks, changes in present value are modelled according to the change in the assigned risk factors before being measured and limited using the value-at-risk indicator. The historic simulation method is applied with a conservative confidence level of 95 percent and an assumed holding period of 250 days. Value-at-risk is calculated for 250 days by scaling the one-day value-at-risk using the root T rule. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from other market risks stood at 487 million francs (previous year: 329 million francs). The increase was mainly due to fixed-interest investments that had been recognized as available-for-sale in order to offer greater flexibility in terms of balance sheet controlling under IFRS, and are therefore also included in the market risk analysis.

A loss reporting threshold is established for measuring and controlling the accounting effects of changes in fair value. This threshold refers to losses in fair value during the calendar year that are recognized in the income statement. Measures must be taken by the Executive Board if the loss in fair value exceeds the reporting threshold.

Operational risk management at PostFinance

Definition

In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The principles on managing operational risk at PostFinance are set out in the risk policy.

Organization

PostFinance operates an operational risk management system that is controlled from a central specialist unit. This defines the risk management process for the entire area and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools and instruments and acts as the interface between line management and the Executive Board Committee for Internal Control (GLA IK), which is responsible for the effective and efficient implementation of the operational risk management policy.

Each department and team functions as its own decentralized operational risk controller, gathering the relevant information in its role as coordinator for its organizational unit, carrying out risk identification and assessment, and assuming responsibility for recording losses.

A decentralized operational risk manager is responsible for each of the largest operational risks at PostFinance (2016: nine top risks; 2017: nine top risks). These risk managers are responsible for the regular assessment and monitoring of the top risk assigned to them and report to the Operational Risk Management Technical Committee (OpRisk) on a quarterly basis.

Tools

PostFinance has various industry-standard tools with which to actively manage operational risk. Firstly, loss data across the entire company is collected together, enabling past operational losses to be analysed, common trends to be identified and measures to be taken based on the findings. Secondly, structured risk assessments (self risk assessments) are used to evaluate potential risk scenarios that may in future pose a threat to PostFinance. The resulting risk inventory allows the Executive Board Committee for Internal Control (GLA IK) to obtain a good overview of the company's entire risk situation.

In addition, the measures decided upon by the Executive Board Committee for Internal Control (GLA IK) to mitigate operational risks are monitored centrally. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Reporting

The Executive Board Committee for Internal Control (GLA IK) receives quarterly reports on the current top risks and, if necessary, introduces measures to mitigate the risks. Based on this information, Swiss Post's Board of Directors is notified of PostFinance's risk situation on a regular basis via the Board of Directors' PostFinance Committee.

Capital management at PostFinance Ltd

According to the decree issued by the Swiss National Bank on 29 June 2015, PostFinance Ltd was designated a systemically important financial group. As a result, the requirements set out in articles 124 to 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) also became relevant to PostFinance Ltd. A capital adequacy disclosure in accordance with the guidelines for systemically important banks can be found in the PostFinance Ltd statutory annual financial statements from page 171.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Capital management at Swiss Post

Swiss Post endeavours to achieve a solid equity base (fully paid-in share capital and reserves), taking into account the objective of the owner to establish a sustainable dividend policy. The continued existence of the company should be ensured at all times, and the resources implemented should result in appropriate income. Constraints such as observing a set level of maximum net debt and increasing the company's value, taking capital costs into consideration, guarantee the company's long-term capacity to act.

Net debt is measured in relation to EBITDA (operating profit before depreciation and amortization) and must not exceed the figure of 1 for long periods. With external debt in the form of outstanding private placements currently totalling 1,270 million francs (31 December 2015: 1,270 million francs), Swiss Post meets this objective and gives the company financial leeway. Customer deposits and financial assets of PostFinance Ltd are not included in the calculation of this indicator.

Economic value added is established on the basis of the earnings generated in relation to the economically accurate cost of invested capital, whereby the basis of capital costs is determined from a comparison with other companies in the sector. Swiss Post constantly achieves positive figures in this respect.

The appropriation of profit is determined by legal provisions and by the requirements of the business. The key issues are an appropriate capital structure and the financing of investments. The aim is also to achieve a sustainable dividend policy.

33 | Fair value disclosures

Carrying amounts and fair values of financial instruments and other assets

The carrying amounts and corresponding fair values of financial assets and liabilities and other assets are as follows on 31 December 2015 and 31 December 2016:

Fair values and carrying amounts of financial instruments and other assets CHF million	31 December 2015		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets				
Available for sale				
Bonds	8,140	8,140	13,206	13,206
Shares	605	605	500	500
Funds	1,147	1,147	1,246	1,246
Positive replacement values	61	61	65	65
Financial assets not measured at fair value				
Financial assets				
Held to maturity	47,687	50,388	47,215	49,249
Loans	14,839	15,262	17,008	17,419
Financial liabilities measured at fair value				
Other financial liabilities				
Negative replacement values	210	210	269	269
Deferred purchase price payments (earn out)	5	5	1	1
Financial liabilities not measured at fair value				
Other financial liabilities				
Private placements	1,270	1,356	1,270	1,362
Other assets not measured at fair value				
Investment property	227	271	246	323

The carrying amounts of cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and payable, other receivables excluding accrued income and prepaid expenses and other liabilities excluding accrued expenses and deferred income, customer deposits (PostFinance) and other financial liabilities (excl. private placements) represent a reasonable estimate of fair value. These financial instruments are therefore not reported above.

Fair value hierarchy

Financial instruments measured at fair value are assigned to one of three levels in the fair value hierarchy at the end of the year. The level to which they are assigned depends on the lowest level parameter, which is used for determining the fair value of the financial instrument. For purposes of disclosure, the same applies to financial instruments that are excluded from fair valuation and to other assets.

Level 1 Quoted prices in an active market: Fair value is determined on the basis of quoted prices in the active market for the specific assets and liabilities. The market price at the balance sheet date is mandatory and may not be adjusted.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Level 2 Valuation method based on observable model inputs: Positions that are not traded on an active market but whose fair values are measured on the basis of similar assets and liabilities traded on active markets or using valuation techniques are classified as level 2. In principle, recognized valuation techniques and directly or indirectly observable market data should be used as model parameters. Possible input parameters for level 2 fair values are prices in active markets for comparable assets and liabilities under normal market conditions. Fair values calculated using the DCF method with model inputs based on observable market data are classified as level 2.

The DCF method involves estimating the present value of the expected cash flows from assets or liabilities. A discount rate is applied, which corresponds to the creditworthiness required on the market for similar instruments with similar risk and liquidity profiles. The discount rates needed for the calculation are determined according to standard market yield curve modelling and models.

Level 3 Valuation method based on unobservable model inputs: Fair value is determined using valuation techniques and significant inputs specific to the company that are not observable in the market.

Fair values are determined as follows:

Fair value of financial instruments and other assets	31 December 2015				31 December 2016			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
CHF million								
Available for sale								
Bonds	8,140	7,190	950	–	13,206	10,708	2,497	1
Shares	605	604	1	–	500	500	–	0
Funds	1,147	0	1,147	–	1,246	0	1,246	–
Positive replacement values	61	–	61	–	65	–	65	–
Held to maturity ¹	50,388	38,394	11,994	–	49,249	38,704	10,545	–
Loans ²	15,262	0	15,244	18	17,419	63	17,338	18
Negative replacement values	210	–	210	–	269	–	269	–
Deferred purchase price payments (earn out)	5	–	–	5	1	–	–	1
Private placements	1,356	–	1,356	–	1,362	–	1,362	–
Investment property ³	271	–	–	271	323	–	–	323

¹ Financial assets held to maturity are recognized at amortized cost using the effective interest method.

² Loans are measured at amortized cost. In the case of the loans to PostBus companies (63 million francs, 31.12.2015: 82 million francs) and "Other" (16 million francs, 31.12.2015: 18 million francs), the fair values on the balance sheet date correspond approximately to the carrying amounts given in the balance sheet.

³ Recognized in the balance sheet at amortized cost.

Interests amounting to around 8 million francs (31 December 2015: around one million francs) are measured at cost in "available-for-sale" shares. The overview above and the table on the previous page (Carrying amounts and fair values of financial instruments and other assets) therefore do not include the values of these interests.

As at 31 December 2016, no financial assets were reclassified within the fair value hierarchy (previous year: none). Reclassifications between the different levels are carried out at the end of each reporting period. For an instrument to be assigned to level 1, it must be traded on an active market (public stock exchange), have a quoted price on the reference date and be available in sufficient quantities to ensure a liquid market.

The fair value measurements of investment properties were carried out exclusively by independent experts with the necessary expertise.

– Property: PostParc (investment property)

As at 31 December 2016, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

The following assumptions were made for determining fair value:

- Letting of the property at market terms
- The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator
- The discounting as at 31 December 2016 is based on a risk-compliant real interest rate of 4.22 per cent, also taken from the database of the evaluator (previous year: 4.5 percent).

As at 31 December 2016, the fair value determined for the PostParc stands at around 313 million francs (previous year: around 261 million francs).

– Property: Bellinzona Autorimessa (investment property)

As at 31 December 2016, the property is measured using the capitalized earnings method. The following rate was applied to capitalize effective rental income. In the capitalization rate used, the operating, maintenance and repair costs were considered. Accrued provisions were deducted from the earnings value calculated.

The following assumptions were made for determining fair value:

- Letting of the property at sustainable tenancy terms
- Average capitalization rate as at 31 December 2016: 7.0 percent (previous year: 7.0 percent)

As at 31 December 2016, the fair value determined for the Autorimessa in Bellinzona stands at around 10 million francs (previous year: around 10 million francs).

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

34 | Transfers of financial assets

Securities received as part of reverse repurchase transactions are recognized in the balance sheet only if risks and opportunities are entered into. Securities transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under "Financial assets". Financial instruments loaned as part of securities lending transactions also continue to be recognized in the balance sheet as financial assets.

Financial assets from reverse repurchase, repurchase and securities lending transactions are pledged as follows:

Reverse repurchase transactions and securities lending and repurchase transactions			
CHF million	Notes	31.12.2015	31.12.2016
Receivables			
Receivables from cash collateral in reverse repurchase transactions	15	311	84
of which recognized in amounts due from banks	15	61	84
of which recognized in interest-bearing amounts due from customers	15	250	–
Commitments			
Commitments from cash collateral in securities lending transactions		–	–
of which recognized in financial liabilities – other financial liabilities		–	–
Commitments from cash collateral in repurchase transactions	27	108	723
of which recognized in financial liabilities – other financial liabilities	27	108	723
Securities cover			
Own lent securities or securities provided as collateral for borrowed securities in repurchase transactions	18	2,107	3,251
of which securities for which an unrestricted right to dispose of or pledge was granted		1,996	2,528
of which recognized in financial assets – held to maturity		1,907	2,459
of which recognized in financial assets – available for sale		57	69
Borrowed securities or securities received as collateral for lent securities as part of securities lending and reverse repurchase transactions		2,434	2,906

35 | Potential offsetting of financial assets and financial liabilities

No offsetting took place. The financial assets and financial liabilities listed below were subject to offsetting agreements, enforceable global offsetting or similar agreements as at 31 December 2015 or 31 December 2016: both the Swiss Master Agreement for Repo Transactions (Multilateral Version) and the Agreement on the Settlement of Repo Transactions (Triparty Service Agreement) apply to repurchase and reverse repurchase transactions. There is also a master agreement applicable to securities lending transactions, as well as agreements for Triparty Collateral Management (TCM) between SIX Ltd, third parties and PostFinance Ltd.

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2015, CHF million	Financial assets with offsetting agreements			Unrecognized offsetting options		Financial assets after consideration of offsetting options
	Financial assets before offsetting (gross)	Offsetting with financial liabilities	Financial assets after offsetting (net)	Financial liabilities	Collateral received	

Item in the balance sheet

Positive fair values	61	–	61	–27	–	34
Reverse repurchase transactions	311	–	311	–	–313	–2

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2015, CHF million	Financial liabilities with offsetting agreements			Unrecognized offsetting options		Financial liabilities after consideration of offsetting options
	Financial liabilities before offsetting (gross)	Offsetting with financial assets	Financial liabilities after offsetting (net)	Financial assets	Collateral issued	

Item in the balance sheet

Negative fair values	210	–	210	–158	–	52
Repurchase transactions	108	–	108	–	–111	–3
Securities lending and similar agreements	1,964	–	1,964	–	–1,996	–32

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2016, CHF million	Financial assets with offsetting agreements			Unrecognized offsetting options		Financial assets after consideration of offsetting options
	Financial assets before offsetting (gross)	Offsetting with financial liabilities	Financial assets after offsetting (net)	Financial liabilities	Collateral received	

Item in the balance sheet

Positive fair values	65	–	65	–	–	65
Reverse repurchase transactions	84	–	84	–	–84	0

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2016, CHF million	Financial liabilities with offsetting agreements			Unrecognized offsetting options		Financial liabilities after consideration of offsetting options
	Financial liabilities before offsetting (gross)	Offsetting with financial assets	Financial liabilities after offsetting (net)	Financial assets	Collateral issued	

Item in the balance sheet

Negative fair values	269	–	269	–210	–	59
Repurchase transactions	723	–	723	–	–723	0
Securities lending and similar agreements	2,528	–	2,528	–	–2,822	–294

Management report

6 Business activities
11 Organization
12 Developments
16 Group strategy
23 Financial controlling
25 Business performance
53 Risk report
59 Outlook

Corporate governance

62 Group structure and shareholders
62 Regulatory accounting
63 Capital structure
63 Board of Directors
67 Executive Management
70 Remuneration
73 Auditor
73 Information policy

Annual financial statements

75 Group
159 Swiss Post Ltd
169 PostFinance Ltd

36 | Relationships with subsidiaries, associates and joint ventures

Subsidiaries (scope of consolidation)

The companies listed below are fully consolidated.

Segment	Company	Domicile	Share capital		Equity interest in percent	
			Currency	in 000s	as at 31.12.2015	as at 31.12.2016
Switzerland						
7	Swiss Post Ltd	Berne	CHF	1,300,000		
1	Presto Presse-Vertriebs AG	Berne	CHF	100	100	100
1	Epsilon SA	Lancy	CHF	100	100	100
1	PostMail Ltd ¹	Berne	CHF	100	100	–
1	Direct Mail Company AG	Basel	CHF	420	100	100
1	Direct Mail Logistik AG	Basel	CHF	100	100	100
1	IN-Media AG ²	Basel	CHF	100	100	–
1	Swiss Post International Holding Ltd	Berne	CHF	63,300	100	100
1	APZ Direct AG ²	Schaffhausen	CHF	150	100	–
1	IWARE SA ²	Morges	CHF	100	100	–
2	Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
2	SwissSign AG	Opfikon	CHF	450	100	100
4	Mobility Solutions Ltd	Berne	CHF	100	100	100
4	Mobility Solutions Management Ltd ³	Berne	CHF	100	85	–
4	PostLogistics Ltd	Dintikon	CHF	20,000	100	100
4	SecurePost Ltd	Oensingen	CHF	4,000	100	100
4	Swiss Post International Logistics Ltd	Basel	CHF	1,000	100	100
4	Swiss Post SAT Holding Ltd	Berne	CHF	2,000	100	100
4	Tele-Trans AG	Basel	CHF	50	100	100
4	Botec Boncourt S.A.	Boncourt	CHF	200	100	100
4	Botec Logistic SA ⁴	Boncourt	CHF	100	100	–
4	Allenbach Verzollungsagentur GmbH ⁵	Münchenstein	CHF	20	100	–
5	PostFinance Ltd	Berne	CHF	2,000,000	100*	100*
5	Debtors Service Ltd ⁶	Urtenen-Schönbühl	CHF	1,000	100	–
5	TWINT Ltd ⁷	Zurich	CHF	10,200	100	–
6	PostBus Switzerland Ltd ⁸	Berne	CHF	1,000	100*	100
6	PubliBike AG	Fribourg	CHF	200	100	100
6	PostBus Management Ltd ⁹	Berne	CHF	1,100	100*	100*
6	PostBus Mobility Solutions Ltd ⁹	Berne	CHF	1,100	100	100
6	PostBus Production Ltd ⁹	Berne	CHF	1,100	100	100
6	PostBus Vehicles Ltd ⁹	Berne	CHF	1,100	100	100
7	Post Real Estate Management and Services Ltd	Berne	CHF	1,000	100	100
7	Post Real Estate Ltd ¹⁰	Berne	CHF	100,000	20*/80	20*/80
7	health care research institute AG (hcri)	Zurich	CHF	100	100	100
1–7	Post CH Ltd	Berne	CHF	500,000	100*	100*

* Equity interest is held by Swiss Post Ltd.

1 Merged with Post CH Ltd.

2 Merged with Direct Mail Company AG.

3 Acquisition of non-controlling interest (15 percent); merged with Mobility Solutions Ltd.

4 Merged with Botec Boncourt S.A.

5 Merged with PostLogistics Ltd.

6 Shares (100 percent) sold.

7 Shares (66.667 percent) sold; share capital increased by CHF 200,000; new head office (previously Berne).

8 Share capital decreased by CHF 71 million.

9 Share capital increased by CHF 1 million.

10 Swiss Post Ltd and Post CH Ltd hold 20 percent and 80 percent respectively of shares in Post Real Estate Ltd.

Segment

- 1 = PostMail
2 = Swiss Post Solutions
3 = Post Offices & Sales
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent as at 31.12.2015	Equity interest in percent as at 31.12.2016
Belgium						
4	Société d'Affrètement et de Transit S.A.T. SA	Brussels	EUR	62	100	100
Germany						
2	Swiss Post Solutions GmbH	Bamberg	EUR	5,000	100	100
2	Swiss Post Solutions Holding GmbH	Bamberg	EUR	25	100*	100*
2	Swiss Post Solutions GmbH	Prien	EUR	1,050	100	100
2	Swiss Post Solutions Card Systems GmbH ¹¹	Bamberg	EUR	25	100	–
4	Trans-Euro GmbH	Weil am Rhein	EUR	25	100	100
4	Zollagentur Imlig GmbH	Rheinfelden Baden	EUR	25	100	100
France						
2	Swiss Post Solutions SAS ¹²	Paris	EUR	50	100	100
4	Société d'Affrètement et de Transit S.A.T. SAS	Bartenheim	EUR	200	100	100
4	Société de Transports Internationaux S.T.I. SARL	Bartenheim	EUR	8	100	100
4	SCI S.A.T.	Bartenheim	EUR	1	100	100
4	Tele-Trans SA	Saint-Louis	EUR	38	100	100
4	Botec Sarl	Fêche-l'Église	EUR	15	100	100
6	CarPostal France SAS ¹³	Saint-Priest	EUR	18,200	100	100
6	CarPostal Bourg-en-Bresse SAS	Bourg-en-Bresse	EUR	190	100	100
6	CarPostal Haguenau SAS	Haguenau	EUR	464	100	100
6	CarPostal Interurbain SAS	Voreppe	EUR	250	100	100
6	CarPostal Mâcon SAS	Mâcon	EUR	300	100	100
6	CarPostal Dole SAS	Dole	EUR	300	100	100
6	CarPostal Foncière SCI	Saint-Priest	EUR	50	100	100
6	CarPostal Villefranche-sur-Saône SAS	Arnas	EUR	150	100	100
6	CarPostal Agde SAS	Agde	EUR	250	100	100
6	CarPostal Bourgogne Franche-Comté SAS	Mâcon	EUR	300	100	100
6	CarPostal Méditerranée SAS	Agde	EUR	420	100	100
6	Holding Rochette Participations SAS	Montverdun	EUR	400	100	100
6	CarPostal Loire SARL	Montverdun	EUR	1,925	100	100
6	CarPostal Riviera SAS	Menton	EUR	200	100	100
6	CarPostal Salon de Provence SAS	Salon-de-Provence	EUR	200	100	100
6	CarPostal Bassin de Thau	Sète	EUR	250	100	100
6	GR4 ¹⁴	Crolles	EUR	200	48	48
6	Autocars et Transports Grindler ¹⁵	Vif	EUR	250	100	100
6	Les Cars du Trièves ¹⁶	Vif	EUR	30	100	–
United Kingdom						
2	Swiss Post Solutions Ltd	Richmond	GBP	7,272	100	100
Italy						
2	Swiss Post Solutions S.p.A.	Milan	EUR	500	100	100
Liechtenstein						
2	SwissSign AG ¹⁷	Vaduz	CHF	500	–	100
6	PostAuto Liechtenstein Anstalt	Vaduz	CHF	1,000	100	100
7	Swiss Post Insurance AG	Triesen	CHF	30,000	100*	100*

* Equity interest is held by Swiss Post Ltd.

11 Shares (100 percent) sold.

12 Share capital decreased by around CHF 9.5 million.

13 Share capital increased by EUR 10 million.

14 Share of voting rights: around 56 percent.

15 Share capital increased by EUR 146,000.

16 Merged with Autocars et Transports Grindler.

17 Established.

Segment

2 = Swiss Post Solutions

4 = PostLogistics

6 = PostBus

7 = Other

Management report
6 Business activities
11 Organization
12 Developments
16 Group strategy
23 Financial controlling
25 Business performance
53 Risk report
59 Outlook

Corporate governance
62 Group structure and shareholders
62 Regulatory accounting
63 Capital structure
63 Board of Directors
67 Executive Management
70 Remuneration
73 Auditor
73 Information policy

Annual financial statements
75 Group
159 Swiss Post Ltd
169 PostFinance Ltd

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent	Equity interest in percent
					as at 31.12.2015	as at 31.12.2016
Slovakia						
2	Swiss Post Solutions s.r.o.	Bratislava	EUR	15	100	100
USA						
2	Swiss Post Solutions Inc.	New York	USD	45	100	100
2	Swiss Post US Holding Inc.	New York	USD	10,100	100	100
Vietnam						
2	Swiss Post Solutions Ltd.	Ho-Chi-Minh City	VND	1,821,446	100	100

Segment
2 = Swiss Post Solutions

Associates and joint ventures

The companies listed below are accounted for using the equity method.

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent	Equity interest in percent
					as at 31.12.2015	as at 31.12.2016
Switzerland						
1	AZ Vertriebs AG	Aarau	CHF	100	25	25
1	SCHAZO AG	Schaffhausen	CHF	300	50	50
1	Somedia Distribution AG	Chur	CHF	100	35	35
1	DMB Direct Mail Biel-Bienne AG	Biel/Bienne	CHF	100	50	50
1	Asendia Holding Ltd	Berne	CHF	100	50	50
4	TNT Swiss Post AG	Buchs (AG)	CHF	1,000	50	50
4	Energy Logistics Schweiz (ELS) Ltd in liquidation	Berne	CHF	125	20	20
5	SIX Interbank Clearing AG	Zurich	CHF	1,000	25	25
5	Finform Ltd ¹	Berne	CHF	100	–	50
5	Lendico Schweiz AG ²	Zurich	CHF	100	–	24
5	TWINT Ltd ³	Zurich	CHF	10,200	–	33
6	Sensetalbahn AG	Berne	CHF	2,888	34	34
Germany						
2	eSourceONE GmbH ⁴	Bamberg	EUR	25	50	–
2	CF Card Factory GmbH	Hessisch Lichtenau	EUR	500	49	49
5	Swiss Euro Clearing Bank GmbH	Frankfurt am Main	EUR	30,000	25	25
5	moneymeets GmbH ⁵	Cologne	EUR	81	–	20
5	moneymeets community GmbH ⁵	Cologne	EUR	81	–	20
Liechtenstein						
7	Liechtensteinische Post AG	Schaan	CHF	5,000	25	25

1 Established.
2 Shares (24.445 percent) acquired.
3 New share 33.333 percent (previously 100 percent and fully consolidated).
4 Shares (49.85 percent) sold.
5 Shares (20.39 percent) acquired.

Segment
1 = PostMail
2 = Swiss Post Solutions
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

37 | Additions and disposals of subsidiaries

Full year 2015

Post CH Ltd, based in Berne, sold Swiss Post Solutions Ireland Limited, based in Cork (Ireland) on 3 February 2015.

PostBus Management Ltd, PostBus Mobility Solutions Ltd and PostBus Production Ltd, all based in Berne, were founded on 19 February 2015.

Post CH Ltd, based in Berne, acquired the company Tele-Trans AG, based in Basel and its subsidiary Tele-Trans SA, based in Saint-Louis (France) on 19 February 2015. This acquisition enables PostLogistics to strengthen its international unit, to expand its current service portfolio and to safeguard its presence in the customs clearance market in the Basel area. Tele-Trans AG and its subsidiary offer services in the field of European transport and customs clearance, and employ seven members of staff.

Swiss Post Solutions GmbH, based in Bamberg (Germany) sold 2 percent of its interest in CF Card Factory GmbH, based in Hessisch Lichtenau (Germany), on 17 June 2015. Following the loss of control, CF Card Factory GmbH is disclosed as an associate.

GR4, based in Crolles (France) was founded with an interest of 48 percent on 1 July 2015.

CarPostal Bassin de Thau, based in Sète (France) was founded on 29 July 2015.

PostBus Vehicles Ltd, based in Berne, was founded on 19 August 2015.

SecurePost Ltd, based in Oensingen, acquired the banknote processing unit from UBS AG, based in Zurich and Basel, on 1 September 2015. SecurePost Ltd becomes the largest banknote processor in Switzerland as a result of the acquisition. The takeover includes operating materials as well as around 40 members of staff.

Dispodrom Ltd in liquidation, based in Berne, was liquidated on 24 September 2015.

Post CH Ltd, based in Berne, acquired APZ Direct AG, based in Schaffhausen, on 1 October 2015. The acquisition enables PostMail to strengthen its position in the growth area of direct marketing. APZ Direct AG specializes in the delivery of unaddressed and addressed mail, and employs around 230 members of staff.

Post CH Ltd, based in Berne, acquired IWARE SA, based in Morges, on 2 October 2015. The acquisition enables PostMail to strengthen its position in the publishing business. IWARE SA operates in fields including subscription management and the issuing of publications, and employs 13 members of staff.

Post CH Ltd, based in Berne, acquired health care research institute AG (hcri), based in Zurich, on 15 October 2015. Thanks to this acquisition, Swiss Post is strengthening its market position, and positioning itself as an innovative, integrated service provider in the healthcare sector. health care research institute AG (hcri) is the market leader in the data-driven quality management of processes and information processing in the healthcare sector, and employs 19 members of staff.

Post CH Ltd, based in Berne, acquired Botec Boncourt S.A. and Botec Logistic SA, both based in Boncourt, and Botec Sàrl, based in Fêche-l'Église (France), on 30 October 2015. Thanks to these acquisitions, PostLogistics is strengthening the freight, express and warehousing international unit, including customs clearance, and increasing its presence in the area of Boncourt, crossing the border into France. As well as customers, the takeover includes the infrastructure, with a customs clearance office in Boncourt, and nine members of staff.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Post CH Ltd, based in Berne, acquired Allenbach Verzollungsagentur GmbH, based in Münchenstein, on 30 November 2015. This acquisition enables PostLogistics to strengthen its international forwarding and customs clearance unit, to expand its current service portfolio and to boost its presence in the customs clearance market. Allenbach Verzollungsagentur GmbH has two sites in Münchenstein and Basel-Weil, and employs three members of staff.

CarPostal France SAS, based in Saint-Priest (France), acquired the two associates Grindler Autocars et Transports Grindler and Les Cars du Trièves, both based in Vif (France), on 1 December 2015. Thanks to the acquisition, PostBus is strengthening its presence in the department of Isère by expanding its vehicle depots to all three valleys around Grenoble. The Grindler family business, which employs 90 people, is one of the most important transport companies in the Grenoble region.

Full year 2016

PostFinance Ltd, based in Berne, sold Debtors Service Ltd, based in Urtenen-Schönbühl, on 1 February 2016.

On 31 May 2016, Swiss Post Solutions GmbH sold Swiss Post Solutions Card Systems GmbH, both based in Bamberg (Germany).

SwissSign AG, based in Vaduz (Liechtenstein), was founded on 10 June 2016.

PostFinance Ltd, SIX Ltd and partner banks agreed to introduce a joint mobile payment system for Switzerland. The development and operation of the joint platform was assigned to TWINT Ltd on 30 September 2016. PostFinance Ltd holds a one-third interest in TWINT Ltd after the transaction. This means that TWINT Ltd, based in Zurich, has no longer been considered a fully consolidated subsidiary since 30 September 2016 (100 percent), but is accounted for using the equity method (33.333 percent) in the consolidated financial statements.

Assets and liabilities arising from acquisitions

The following assets and liabilities were newly consolidated in connection with acquisitions of subsidiaries and parts of companies:

Assets and liabilities arising from acquisitions	Total fair value ¹	
	2015	2016
CHF million		
Cash and cash equivalents	5	–
Trade accounts receivable and other receivables	7	0
Inventories	0	–
Property, plant and equipment, intangible assets and financial assets	13	0
Other financial liabilities	–4	–
Trade accounts payable	–2	–
Provisions and other liabilities	–9	0
Fair value of net assets	10	0
Goodwill	13	1
Cash and cash equivalents acquired ³	–5	–
Purchase price payments falling due at a later date (earn-outs)	–5	0
Payment of liabilities from acquisitions in previous years	–	2
Net cash outflow for acquisitions	13	3

1 Composition: Allenbach Verzollungsagentur GmbH, APZ Direct AG, Autocars et Transports Grindler, Botec Boncourt S.A., Botec Logistic SA, Botec Sàrl, health care research institute AG (hcri), IWARE SA, Les Cars du Trièves, Tele-Trans AG, Tele-Trans SA, section of UBS AG.

2 Composition: Botec Boncourt S.A., Tele-Trans AG.

3 Composition: cash and current receivables due from banks.

Acquisition costs amounted to around one million francs in 2016 as a result of acquisitions from the previous year which had been consolidated based on temporary figures in 2015. The same applies to purchase price payments (earn-outs) due at a later date, which total less than one million francs.

The goodwill arising from these transactions consists of assets that are not separately identifiable or cannot be reliably determined, primarily acquired expertise and synergies expected within the Group. Goodwill is not tax deductible.

Overall, the effect on the consolidated financial statements is not material in nature.

Assets and liabilities arising from disposals

The following assets and liabilities were deconsolidated in connection with disposals of subsidiaries:

Assets and liabilities arising from disposals	Total carrying amount ¹	Total carrying amount ²
CHF million	2015	2016
Cash and cash equivalents	0	3
Trade accounts receivable and other receivables	1	85
Inventories	1	6
Property, plant and equipment, intangible assets and financial investments	1	35
Other financial liabilities	-1	-29
Trade accounts payable	-2	-12
Provisions and other liabilities	0	-15
Carrying amount of net assets disposed of	0	73
Cash and cash equivalents disposed of ³	0	-3
Net loss from disposals ⁴	0	-4
Associate fair value addition	-	-32
Net cash inflow from disposals	0	34

1 Composition: CF Card Factory GmbH, Swiss Post Solutions Ireland Limited.

2 Composition: Debtors Service Ltd, TWINT Ltd, Swiss Post Solutions Card Systems GmbH.

3 Composition: cash and current receivables due from banks.

4 The net loss from disposals was reported in net financial income in the income statement.

Sales proceeds arising from disposals stood at 69 million francs in 2016.

Overall, the effect of these disposals on the consolidated financial statements is not material in nature.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

38 | Transactions with related companies and parties

Within the meaning of the IFRSs, Swiss Post Group has relationships with related companies and parties. As the owner of Swiss Post, the Swiss Confederation is deemed to be a related party.

All transactions between Swiss Post and the related companies and parties are carried out at market conditions. Transactions between Swiss Post and its subsidiaries were eliminated during the consolidation and are no longer included in these notes.

Swiss Post and its subsidiaries carried out the following transactions with related companies and parties that are not part of the Group.

Transactions with related companies and parties	Sale of goods and services		Purchases of goods and services		Receivables and loans with related companies		Liabilities to related companies	
	2015	2016	2015	2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
CHF million								
Swiss Confederation	240 ¹	263 ¹	7	7	162	201	605	528
Swisscom	137	127	49	43	492	233	113	140
Swiss Federal Railways SBB	66	38	54	56	37	110	209	13
RUAG	1	1	0	0	0	0	1	3
SKYGUIDE	3	3	0	0	200	200	0	21
Companies with joint management or significant influence	447	432	110	106	891	744	928	705
Associates and joint ventures	126	138	38	32	40	41	16	53
Other related companies and parties	1	1	3	3	0	1	130²	11²

¹ Includes compensation for public transport of 209 million francs for 2016 (previous year: 176 million francs).

² Primarily includes customer deposits of the Swiss Post pension fund held at PostFinance.

Remuneration paid to members of the management

In the past financial year, remuneration including fringe benefits of 6.0 million francs (previous year: 5.8 million francs) and pension benefits of around 0.87 million francs (previous year: around 0.75 million francs) was paid to members of the management (Board of Directors and Executive Management). The performance-based component paid out to members of Executive Management in 2016 was based on target attainment in 2014 and 2015 and amounted to around 1.2 million francs (previous year: around 1.2 million francs). There are no loan agreements in place with members of the Board of Directors or Executive Management.

39 | Key exchange rates

The following exchange rates were applied in translating the financial statements of foreign subsidiaries into Swiss francs:

Exchange rates		Closing rate as at		Average rate for the period ending	
		31.12.2015	31.12.2016	31.12.2015	31.12.2016
Unit					
1 euro	EUR	1.08	1.08	1.07	1.09
1 US dollar	USD	0.99	1.02	0.96	0.99
1 pound sterling	GBP	1.47	1.26	1.47	1.33

40 | Events after the reporting period

Prior to the approval of the 2016 consolidated annual financial statements by Swiss Post Ltd's Board of Directors on 6 March 2017, no events came to light which either would have resulted in changes to the carrying amounts of the Group's assets and liabilities or would have to be disclosed in this section of the Report.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Statutory Auditor's Report To the General Meeting of Swiss Post Ltd, Berne

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the pages 76 to 154 of the financial report covering the consolidated financial statements of Swiss Post Ltd and its subsidiaries (the Group) – which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes as at 31 December 2016 including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards (PS). Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information in the Financial Report

The Board of Directors is responsible for the other information in the financial report. The other information comprises all information included in the financial report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company Swiss Post Ltd, Postfinance Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the financial report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Stefan Andres
Licensed Audit Expert

Gümligen-Berne, 6 March 2017

SWISS POST LTD

ANNUAL FINANCIAL STATEMENTS

The annual financial statements issued by Swiss Post Ltd as the parent of Swiss Post Group meet the requirements of Swiss law.

Income statement	160
Balance sheet	161
Notes	162
1 Basic principles	162
2 Information on the balance sheet and income statement	163
3 Additional information	165
4 Proposed appropriation of distributable profit	166
Auditor's report	167

Income statement

Swiss Post Ltd | Income statement

CHF million	2015	2016
Operating income		
Trade income	76	54
Income from investments	296	357
Total operating income	372	411
Operating expenses		
Personnel expenses	-4	-5
Other operating expenses	-49	-53
Depreciation of intangible assets	-67	-67
Total operating expenses	-120	-125
Operating profit	252	286
Financial income	143	96
Financial expenses	-87	-31
Total net financial income	56	65
Profit for the year before tax	308	351
Direct taxes	-2	-2
Profit for the year	306	349

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Balance sheet

Swiss Post Ltd | Balance sheet

CHF million	31.12.2015	31.12.2016
Assets		
Current assets		
Amounts due from banks	815	1,264
Amounts due from PostFinance Ltd	18	5
Trade accounts receivable	6	–
Other current receivables	1,322	1,461
Total current assets	2,161	2,730
Fixed assets		
Financial assets	820	816
Interests	7,937	7,920
Intangible assets	800	733
Total fixed assets	9,557	9,469
Total assets	11,718	12,199
Equity and liabilities		
Liabilities		
Trade accounts payable	0	19
Current interest-bearing liabilities	96	411
Other current liabilities	0	1
Deferred income	4	3
Total current liabilities	100	434
Non-current interest-bearing liabilities	1,270	1,270
Provisions	2	0
Total non-current liabilities	1,272	1,270
Total liabilities	1,372	1,704
Equity		
Share capital	1,300	1,300
Statutory capital reserves		
Other capital reserves	8,685	8,685
Distributable profit		
Profit carried forward	55	161
Profit for the year	306	349
Total equity	10,346	10,495
Total equity and liabilities	11,718	12,199

Notes

1 | Basic principles

1.1 General

A description is given below of any significant valuation principles applied that are not specified by law.

1.2 Legal form

Swiss Post Ltd was established as a company limited by shares subject to a special statutory regime. It is domiciled in Berne.

1.3 Financial assets

Financial assets include long-term loans to subsidiaries of Swiss Post Ltd. They are measured at a maximum of acquisition cost less any necessary impairment losses. Loans granted in foreign currencies are measured at the current closing rate. Unrealized losses are recognized, whereas unrealized profits are not disclosed (impairment principle).

1.4 Interests

Swiss Post Ltd controls various subsidiaries. These interests are carried in the balance sheet at acquisition cost less any necessary impairment losses.

1.5 Intangible assets

Any intangible assets acquired are capitalized at acquisition cost, provided that they offer the company economic benefits over several years. Internally generated intangible assets are capitalized if they meet the necessary requirements at the balance sheet date. Intangible assets are depreciated on a straight-line basis. If there are any signs of overvaluation, the carrying amounts are checked and impairment losses recognized if necessary.

1.6 Decision to dispense with additional information in the notes to the annual financial statements, cash flow statement and management report

Swiss Post Ltd, as the parent company within Swiss Post Group, prepares consolidated financial statements in accordance with a recognized financial reporting standard (International Financial Reporting Standards, IFRS). Consequently, and as set out in article 961d, paragraph 1 of the Swiss Code of Obligations, additional information in the notes to the annual financial statements, the cash flow statement and the management report is dispensed with in these financial statements, in accordance with the requirements for financial reporting for larger undertakings.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

2 | Information on the balance sheet and income statement

2.1 Trade accounts receivable

Swiss Post Ltd | Trade accounts receivable

CHF million	31.12.2015	31.12.2016
Amounts due from interests	6	–
Total trade accounts receivable	6	–

2.2 Other current receivables

Swiss Post Ltd | Other current receivables

CHF million	31.12.2015	31.12.2016
Amounts due from third parties	0	125
Amounts due from interests	1,322	1,336
Total other current receivables	1,322	1,461

2.3 Financial assets

Swiss Post Ltd | Financial assets

CHF million	31.12.2015	31.12.2016
Financial assets due from third parties	0	0
Financial assets due from interests	820	816
Total financial assets	820	816

2.4 Interests

Swiss Post Ltd Interests			Share capital	Investment in percent	
Company	Domicile	Currency	in 000s	Balance as at 31.12.2015	Balance as at 31.12.2016
Directly held interests					
Switzerland					
PostFinance Ltd	Berne	CHF	2,000,000	100	100
PostBus Switzerland Ltd ¹	Berne	CHF	1,000	100	–
Post Real Estate Ltd	Berne	CHF	100,000	20 ²	20 ²
Post CH Ltd	Berne	CHF	500,000	100	100
PostBus Management Ltd	Berne	CHF	1,100	100	100
Germany					
Swiss Post Solutions Holding GmbH	Bamberg	EUR	25	100	100
Liechtenstein					
Swiss Post Insurance AG	Triesen	CHF	30,000	100	100
Significant indirectly held interests					
Switzerland					
PostMail Ltd ³	Berne	CHF	100	100	–
Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
Mobility Solutions Ltd	Berne	CHF	100	100	100
PostLogistics Ltd	Dintikon	CHF	20,000	100	100
SecurePost Ltd	Oensingen	CHF	4,000	100	100
PostBus Switzerland Ltd ¹	Berne	CHF	1,000	–	100
PostBus Production Ltd	Berne	CHF	1,100	100	100
PostBus Vehicles Ltd	Berne	CHF	1,100	100	100

1 As at 1 January 2016, PostBus Switzerland Ltd was moved to PostBus Management Ltd.

2 Swiss Post Ltd indirectly holds an additional 80 percent in Post Real Estate Ltd.

3 As at 1 January 2016, PostMail Ltd was merged with Post CH Ltd.

2.5 Intangible assets

The intangible assets disclosed in the balance sheet are capitalized Swiss Post brands.

2.6 Trade accounts payable

Swiss Post Ltd Trade accounts payable	31.12.2015	31.12.2016
CHF million		
Liabilities relating to third parties	0	0
Liabilities relating to interests	0	19
Total trade accounts payable	0	19

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

2.7 Current interest-bearing liabilities

Swiss Post Ltd | Current interest-bearing liabilities

CHF million	31.12.2015	31.12.2016
Liabilities relating to third parties	–	350
Liabilities relating to interests	96	61
Total current interest-bearing liabilities	96	411

2.8 Other current liabilities

Swiss Post Ltd | Other current liabilities

CHF million	31.12.2015	31.12.2016
Liabilities relating to third parties	–	1
Total other current liabilities	0	1

2.9 Non-current interest-bearing liabilities

Swiss Post Ltd | Non-current interest-bearing liabilities

CHF million	31.12.2015	31.12.2016
Liabilities relating to third parties	1,270	1,270
Total non-current interest-bearing liabilities	1,270	1,270

2.10 Share capital

The share capital stands at 1,300,000,000 francs. The 1,300,000 registered shares, each with a face value of 1,000 francs, are owned by the Swiss Confederation.

2.11 Trade income

Trade income principally discloses revenue from licence fees.

2.12 Income from interests

Dividend income from the financial years 2016 and 2015 from the following interests is reported in income from interests: Post CH Ltd, PostFinance Ltd, Swiss Post Insurance AG and Post Real Estate Ltd.

2.13 Financial income

Financial income mainly consists of interest income from loans to interests and repayments received on receivables for which impairment losses were previously recognized.

3 | Additional information

3.1 Full-time equivalents

The average annual number of full-time equivalents did not exceed 50, either in the year under review or in the previous year.

3.2 Bond issues

Swiss Post Ltd has several outstanding private placements totalling 1,270 million francs. 11 tranches overall, expiring between 2018 and 2032, were raised on the capital market from major, predominantly domestic, private and institutional investors. The average interest rate applicable to these private placements is 0.83 percent, and the average remaining maturity of the outstanding tranches was approximately eight years at the end of 2016.

3.3 Liabilities relating to employee benefits schemes

The liabilities relating to the Swiss Post pension fund totalled 53,795 francs at 31 December 2016 (31 December 2015: 48,732 francs), and are reported in other current liabilities. They are classed as liabilities relating to third parties.

3.4 Collateral for third party liabilities

As at 31 December 2016, guarantees and guarantee obligations amounted to 24 million francs (31 December 2015: 18 million francs).

Collateral has been made available to guarantee intra-Group receivables from cash pooling via a time deposit (amounts due from banks) of over 50 million francs (31 December 2015: 50 million francs).

In addition, on 31 December 2016, as in the previous year, Letters of Comfort existed, deposited by Swiss Post Ltd (31 December 2016: 2,025 million francs, 31 December 2015: 14 million francs). The increase is due to higher guarantee obligations towards subsidiaries resulting from stricter regulatory requirements.

Under the system of group taxation for value added tax, liability is as follows: Each person or partnership belonging to a VAT group is jointly and severally liable together with the taxpayer for all taxes owed by the group (VAT).

3.5 Material events after the reporting period

No material events occurred after the reporting period which either would have resulted in changes to the carrying amounts of the assets and liabilities disclosed or would have to be disclosed in this section of the Report.

There is no other information required by law as set out in article 959c, paragraph 1, section 4 of the Swiss Code of Obligations.

4 | Proposed appropriation of distributable profit

At the General Meeting on 25 April 2017, the Board of Directors will propose that the distributable profit of 510 million francs for the financial year ended 31 December 2016 be appropriated as follows:

Swiss Post Ltd | Appropriation of distributable profit proposed by the Board of Directors

CHF million	31.12.2016
Amount carried forward from the previous year	161
Profit for the year	349
Available distributable profit	510
Dividends	-200
Amount carried forward to new account	310

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Report of the Statutory Auditor to the General Meeting of Shareholders of Swiss Post Ltd, Berne

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Swiss Post Ltd, presented on pages 160 to 166 of the financial report, which comprise the income statement, balance sheet and notes for the year ended December 31, 2016.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended December 31, 2016 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Stefan Andres
Licensed Audit Expert

Gümligen-Bern, March 6, 2017

POSTFINANCE ANNUAL FINANCIAL STATEMENTS

PostFinance Ltd reports to the Group in accordance with International Financial Reporting Standards (IFRS) and issues its financial statements pursuant to the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 "Accounting – Banks").

Reconciliation	170
PostFinance Ltd statutory annual financial statements	171
Balance sheet	172
Income statement	174
Appropriation of profit	175
Cash flow statement	176
Statement of changes in equity	177
Notes	178
1 Business name and the legal form and domicile of the bank	178
2 Accounting and valuation policies	178
3 Risk management	183
4 Capital adequacy disclosure in accordance with the guidelines for systemically important banks	188
Information on the balance sheet	191
5 Securities financing transactions	191
6 Collateral for loans/receivables and off-balance sheet transactions, as well as impaired loans/receivables	191
7 Derivative financial instruments	192
8 Financial investments	193
9 Participations	193
10 Significant participations	193
11 Tangible fixed assets	194
12 Intangible assets	194
13 Other assets and other liabilities	194
14 Pledged or assigned assets and assets under reservation of ownership	195
15 Liabilities relating to own pension schemes	195
16 Value adjustments and provisions and reserves for general banking risks	196
17 Bank's capital	197
18 Amounts due from / to related parties	197
19 Holders of significant participations	197
20 Maturity structure of financial instruments	198
21 Assets and liabilities by domestic and foreign origin	199
22 Assets by country / group of countries	200
23 Assets by credit rating of country groups	200
24 Assets and liabilities by currency	201
Information on off-balance sheet transactions	202
25 Irrevocable commitments, contingent liabilities and assets	202
26 Managed assets	202
Information on the income statement	203
27 Result from trading activities and the fair value option	203
28 Material negative interest	203
29 Personnel expenses	203
30 General and administrative expenses	204
31 Extraordinary expenses and income	204
32 Taxes	204
Auditor's report	205

Reconciliation

PostFinance Ltd reports to the Group in accordance with IFRS and issues its financial statements pursuant to the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 "Accounting – Banks"). The following table shows the differences between the two accounting standards and reconciles the profit for the year in accordance with IFRS with the ARB financial statements.

PostFinance Ltd Reconciliation of profit		
CHF million	2015	2016
PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation	463	542
Management/licence fees/net cost compensation	99	14
PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation	562	556
Net income from associates	1	1
Operating profit from subsidiaries	15	-11
Net financial income	-3	-4
Earnings before tax (EBT)	575	542
Income tax	-145	-124
PostFinance Ltd profit as per IFRS	430	418
Amortization of revalued held-to-maturity financial assets	-65	-44
Valuation differences for financial assets as per ARB	-28	78
Realized gains from (earlier than scheduled) sales	-9	-5
Reversal of impairment/impairment on loans	-3	3
Valuation differences between IAS 19 and Swiss GAAP ARR 16	16	22
Depreciation of revalued real estate	-2	-4
Individual impairment losses due to lower fair value (fixed assets)	-8	-4
Amortization of goodwill	-200	-200
Realized gains from investments	-	1
Adjustment of deferred tax effects as per IFRS	90	46
PostFinance Ltd profit as per ARB	221	311

The main positions in the reconciliation of profit are as follows:

- The goodwill capitalized as part of the conversion is amortized by 200 million francs annually.
- Swiss Post reports its segments in accordance with IFRS based on operating profit before management, licence fees and net cost compensation. For this reason, the reconciliation of profit includes an offset of 14 million francs on the operating profit (previous year: 99 million francs).



POSTFINANCE LTD STATUTORY ANNUAL FINANCIAL STATEMENTS

The following pages show the PostFinance Ltd statutory financial statements in accordance with the Accounting rules for banks (articles 25–28 of the Banking Ordinance, FINMA Circular 2015/1 “Accounting – Banks” ARB).

Balance sheet

PostFinance Ltd | Balance sheet as per ARB

CHF million	Notes	31.12.2015	31.12.2016
Assets			
Liquid assets		38,882	37,453
Amounts due from banks		4,471	4,397
Amounts due from securities financing transactions	5	311	84
Amounts due from customers	6	10,993	13,169
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	61	65
Other financial instruments at fair value		–	–
Financial investments	8	57,395	61,742
Accrued income and prepaid expenses		653	598
Participations	9, 10	59	101
Tangible fixed assets	11	1,175	1,259
Intangible assets	12	1,400	1,200
Other assets	13	289	311
Total assets		115,689	120,379
Total subordinated claims		–	1
of which subject to mandatory conversion and/or debt waiver		–	–
Liabilities			
Amounts due to banks		1,220	2,406
Liabilities from securities financing transactions	5	108	723
Amounts due in respect of customer deposits		106,966	109,709
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	210	268
Liabilities from other financial instruments at fair value		–	–
Cash bonds		134	114
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		118	138
Other liabilities	13	17	8
Provisions	16	13	20
Reserves for general banking risks		–	–
Bank's capital	17	2,000	2,000
Statutory capital reserve		4,682	4,682
of which tax-exempt capital contribution reserve		4,682	4,682
Statutory retained earnings reserve		–	–
Voluntary retained earnings reserves		–	–
Profit carried forward		–	–
Profit		221	311
Total liabilities		115,689	120,379
Total subordinated liabilities		–	–
of which subject to mandatory conversion and/or debt waiver		–	–

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

PostFinance Ltd | Off-balance sheet transactions

CHF million	31.12.2015	31.12.2016
Contingent liabilities	1	0
Irrevocable commitments	676	709
Obligations to pay up shares and make further contributions	–	–
Credit commitments	–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2015	2016
Interest and discount income		196	175
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		852	790
Interest expense		–95	–44
Gross result from interest operations		953	921
Changes in value adjustments for default risks and losses from interest operations		13	21
Net result from interest operations		966	942
Commission income from securities trading and investment activities		42	40
Commission income from lending activities		14	16
Commission income from other services		639	633
Commission expense		–497	–462
Result from commission business and services		198	227
Result from trading activities and the fair value option	27	188	211
Result from the disposal of financial investments		34	28
Income from participations		1	2
Result from real estate		56	68
Other ordinary income		142	158
Other ordinary expenses		–50	–
Other result from ordinary activities		183	256
Operating income		1,535	1,636
Personnel expenses	29	–473	–488
General and administrative expenses	30	–518	–516
Operating expenses		–991	–1,004
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–258	–275
Changes to provisions and other value adjustments, and losses		–10	–8
Operating result		276	349
Extraordinary income	31	4	74
Extraordinary expenses	31	–	–29
Changes in reserves for general banking risks		–	–
Taxes	32	–59	–83
Profit		221	311

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Appropriation of profit

PostFinance Ltd | Distributable profit

CHF million	31.12.2015	31.12.2016
Profit for the year	221	311
Profit carried forward	–	–
Total distributable profit	221	311

At the General Meeting on 7 April 2017, the Board of Directors of PostFinance will propose the following appropriation of profit (previous year: 8 April 2016):

PostFinance Ltd | Appropriation of profit

CHF million	31.12.2015	31.12.2016
Allocation to other reserves	–	–
Dividend distributions	221	311
Profit carried forward to new account	–	–
Total distributable profit	221	311

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2015	Cash outflow 2015	Cash inflow 2016	Cash outflow 2016
Cash flow from operating activities (internal financing)				
Profit for the year	221	–	311	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	257	–	275	–
Provisions and other value adjustments	1	–	7	–
Change in value adjustments for default risks and losses	–	13	–	5
Accrued income and prepaid expenses	29	–	54	–
Accrued expenses and deferred income	–	4	20	–
Other items	65	–	44	–
Previous year's dividend	–	192	–	221
Subtotal	364	–	485	–
Cash flow from shareholder's equity transactions				
Share capital	–	–	–	–
Recognized in reserves	–	–	–	–
Subtotal	–	–	–	–
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	–	15	–	43
Real estate	3	121	11	86
Other tangible fixed assets	–	82	–	83
Intangible assets	–	–	–	–
Subtotal	–	215	–	201
Cash flow from banking operations				
Amounts due to banks	–	1,568	1,186	–
Liabilities from securities financing transactions	108	–	615	–
Amounts due in respect of customer deposits	–	3,145	2,743	–
Cash bonds	–	22	–	19
Negative replacement values of derivative financial instruments	37	–	58	–
Other liabilities	–	16	–	10
Amounts due from banks	–	523	74	–
Amounts due from securities financing transactions	997	–	227	–
Amounts due from customers	–	289	–	2,183
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	–	56	–	4
Financial investments	1,608	–	–	4,378
Other accounts receivable	–	144	–	22
Subtotal	–	3,013	–	1,713
Liquidity				
Liquid assets	2,864	–	1,429	–
Subtotal	2,864	–	1,429	–
Total	3,228	3,228	1,914	1,914

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Statement of changes in equity

Presentation of the statement of changes in equity

CHF million	Bank's capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserves and profit carried forward	Result of the period	Total
Equity as at 01.01.2016	2,000	4,682	–	–	221	–	6,903
Dividends	–	–	–	–	–221	–	–221
Profit	–	–	–	–	–	311	311
Equity as at 31.12.2016	2,000	4,682	0	0	0	311	6,993

Notes

1 | Business name and the legal form and domicile of the bank

Business name:	PostFinance Ltd (company number CHE-114.583.749)
Legal form:	Private limited company (Ltd)
Domicile:	Berne (Switzerland)

2 | Accounting and valuation policies

General principles

The bookkeeping, accounting and valuation policies are based on the Swiss Code of Obligations, the Banking Act and the related ordinance, statutory provisions and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA). The true and fair view statutory single-entity financial statements give an accurate picture of the assets, liabilities, financial position and results of operations of the company in accordance with the Accounting rules for banks, securities dealers, financial groups and conglomerates.

Individual report figures are rounded in the notes, while calculations are carried out using the non-rounded figures. Small rounding differences may therefore occur.

Foreign currency translation

Balance sheet items in foreign currency are converted at the foreign exchange rates valid at the end of the year. Any resulting exchange gains and losses are recognized in the income statement. Income and expenses are converted at the applicable daily rates.

Closing rates

	31.12.2015	31.12.2016
EUR	1.0810	1.0753
USD	0.9900	1.0227
GBP	1.4685	1.2554
JPY	0.0082	0.0087

Offsetting

In principle, no offsetting takes place, except in the cases set out below. Receivables and liabilities are offset if all the following conditions are met: the receivables and payables arise from transactions of the same type with the same counterparty, with the same maturity or earlier maturity of the receivable and in the same currency, and cannot lead to a counterparty risk. Positive and negative replacement values with the same counterparty are offset provided that legally recognized and enforceable bilateral agreements are in place. Value adjustments are deducted from the corresponding asset item.

Trade date/settlement date accounting

In principle, securities transactions are recognized on the trade date. Concluded foreign exchange and money market transactions are recognized in the balance sheet on the settlement date (value date). Foreign exchange transactions are recognized in the balance sheet in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments until their settlement date.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

General valuation principles

The detailed positions of items in the balance sheet are valued separately (item-by-item valuation).

Liquid assets, amounts due from banks and amounts due from securities financing transactions

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans/receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Cash outflows arising from reverse repurchase transactions are presented as amounts due from securities financing transactions. Financial investments obtained from transactions as collateral are generally not recognized in the balance sheet. Interest income from reverse repurchase transactions is accounted for using the accrual-based accounting principle. Securities lending and borrowing transactions are recorded at the value of the cash deposits that have been received or made, including the accrued interest. Securities borrowed or received as collateral are only recognized in the balance sheet if PostFinance gains control over the contractual rights associated with these securities. Securities lent and provided as collateral are only taken off the balance sheet if PostFinance loses the contractual rights associated with these securities. The fair values of the securities borrowed and lent are monitored on a daily basis in order to provide or claim additional collateral where required. Securities cover for reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values. Fees received or paid in relation to securities lending and repurchase transactions are stated in the result from commission business and services.

Amounts due from customers and mortgage loans

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans/receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Receivables are classed as impaired at the latest when the contractually agreed payments of capital and/or interest are more than 90 days outstanding. Interest outstanding for more than 90 days is regarded as overdue. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Bad debt provisions are made for the accounts of private and business customers that have been overdrawn for more than 60 days. Value adjustments that are no longer economically necessary are released to income. All value adjustments are deducted directly from this item in the balance sheet.

Overdue interest, the collection of which is impaired, is no longer accrued as income, but is reported without interest when its collection is so doubtful that the accrual of such interest is no longer deemed appropriate. If a receivable is considered entirely or partially uncollectible or a waiver has been granted, the amount of the receivable is derecognized from the corresponding value adjustment.

Trading portfolio assets

Securities held for trading acquired primarily with the aim of achieving short-term gains by making targeted use of fluctuations in market prices are measured at fair value. Realized and unrealized profit and loss from these securities is recorded in the result from trading activities and the fair value option. Interest and dividend income from securities held for trading is recognized under net interest income. Where, as an exception, no fair value is ascertainable, valuation and recognition are to follow the principle of the lower of cost or market value.

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments which are not accounted for under the hedge accounting rules or which do not meet the conditions to qualify for hedge accounting are treated as trading instruments. Derivative financial instruments acquired for trading purposes are recognized at fair value and are subsequently measured at fair value. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months. Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged underlying instrument are recognized in the income statement. Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are allocated to the compensation account, while changes in value to the extent a hedge is ineffective are recorded in the income statement. Positive and negative replacement values for all derivatives are recognized at fair value in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments.

Financial investments

Financial investments with a fixed maturity that PostFinance intends and is able to hold to maturity are measured at amortized cost (accrual method). The effective interest method spreads the difference between the acquisition cost and the repayment amount (premium/discount) over the life of the investment in question using the present value method. The fair values of financial instruments are determined on the basis of stock market prices and valuation techniques (present value method, etc.). In the case of listed financial instruments, the fair values correspond to market prices provided that such prices have been set on a price-efficient and liquid market. If financial investments intended to be held to maturity are sold or repaid prior to maturity, the profits and losses realized that correspond to the interest component are accrued over the remaining term. Holdings in equity securities (shares) are valued according to the principle of the lower of cost or market value. Debt securities acquired without the intention of being held to maturity are also valued according to the principle of the lower of cost or market value. PostFinance checks its financial investments on a regular basis for any indication that an asset may be impaired. Here it looks in particular to fair value trends and the downgrading of credit ratings by recognized rating agencies or qualified banks. If there are indications that an asset is impaired, the recoverable amount is calculated. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Both value adjustments are deducted directly from this item in the balance sheet. Value adjustments that are no longer economically necessary are released to income. Recoveries of receivables written off in prior periods are credited to this item in the balance sheet. Real estate available for sale is recognized in the balance sheet under financial investments according to the principle of the lower of cost or market value.

Participations

All equity securities in companies intended to be held as long-term investments are reported as participations. These items are included in the balance sheet at acquisition cost less economically necessary depreciation in accordance with the individual valuation principle.

Tangible fixed assets

Tangible fixed assets are recognized in the balance sheet at historical cost less cumulative depreciation. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life. Useful life is as follows:

- IT infrastructure 3–4 years
- Postomats 10 years
- Payment transaction software 10 years
- Real estate 10–50 years

Assets associated with the purchase, installation and development of payment transaction software are capitalized if they are of measurable economic benefit.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Regular checks are carried out to determine if there are signs of overvaluation. If this is the case, the book value is compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If the book value of an asset exceeds its recoverable amount, an impairment equal to the difference between the book value and the recoverable amount is recognized in the income statement. Profits realized from the disposal of tangible fixed assets are recorded in extraordinary income, while realized losses are recognized as extraordinary expenses.

Intangible assets

Surplus assets (goodwill) arising from the initial valuation of a business acquisition are included in the balance sheet under "Intangible assets" and depreciated over their useful life. Capitalized goodwill is depreciated on a straight-line basis over a ten-year period. If an assessment on the balance sheet date shows that the capitalization of a proportion of goodwill is no longer justified, the proportion in question is additionally depreciated on the relevant date. An assessment is carried out if there are any indications of impairment.

Accrued income and prepaid expenses, and accrued expenses and deferred income

Interest income and expenses, commission and other income and expenses during the accounting period are accounted for using the accrual-based accounting principle to ensure that they are correctly represented in the income statement.

Amounts due to banks, liabilities from securities financing transactions and amounts due in respect of customer deposits

Private and business accounts are included in the balance sheet at their nominal value. Financial investments transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under "Financial investments". Interest expenses from repurchase transactions are accounted for using the accrual-based accounting principle. Securities cover for repurchase and securities borrowing transactions is recognized on a daily basis at current fair values. Amounts borrowed from banks and cash bonds are recorded on the balance sheet at nominal value.

Provisions

Provisions are made according to objective criteria for all risks detectable on the balance sheet date and presented under this item in the balance sheet. Provisions that are no longer economically necessary are released to income.

Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions

These items are recorded at their nominal value as off-balance sheet transactions. Provisions are made for foreseeable default risks.

Pension benefit obligations

The accounting treatment of pension benefit obligations at PostFinance is based on Swiss GAAP ARR 16/26 in accordance with FINMA Circular 2015/1, margin no. 495 ff. PostFinance employees are insured with the Swiss Post pension fund foundation under a Duoprimat (combined defined benefit and defined contribution) scheme in accordance with the Federal Law on the Occupational Old-age, Survivors' and Disability Benefit Plan (BVG). Staff are thereby insured against the financial consequences of old age, death and disability. The retirement benefits of all active members are calculated on a defined contribution basis and the risk cover (death and disability) on a defined benefit basis. Expenses related to pension benefit obligations are recognized in personnel expenses. Pension benefit obligations represent the actuarial present value of benefits for the employee's eligible insurance period and take the future into account by including statistical probabilities such as death and disability.

The employer contribution reserve is part of the Swiss Post pension fund. PostFinance Ltd has no power of disposal over it. The employer contributions are not capitalized, given that PostFinance does not have control over the future economic benefit.

Taxes

Income tax is determined in each reporting period on the basis of the profit/loss accrued for the year. Deferred tax liabilities are calculated at the current tax rate. Accruals and deferrals are recognized in the balance sheet under accrued income and prepaid expenses or accrued expenses and deferred income.

The tax consequences of time differences between the values of assets and liabilities shown in the balance sheet and their tax bases are recognized as deferred taxes under provisions. Deferred taxes are determined separately in each business period.

Outsourcing of business units

PostFinance Ltd has outsourced various services to Swiss Post Group companies. Outsourcing relationships exist, notably with Post CH Ltd in payment transactions, financial and IT services, and with Swiss Post Solutions Ltd for printing and sending account documents and for the e-bill solution.

Accounting changes year-on-year

In the financial year 2016, there were no accounting changes year-on-year.

Business policy on the use of derivative financial instruments and hedge accounting

PostFinance Ltd uses derivative financial instruments exclusively to hedge interest and currency risks by applying hedge accounting.

PostFinance invests in foreign currency bonds in order to diversify its investment universe. In order to hedge the currency risks, foreign currency bonds refinanced in Swiss francs are transformed into synthetic Swiss franc bonds via currency swaps, and the foreign currency risks are fully mitigated.

Rolling foreign exchange forward contracts are used to hedge the foreign currency risks arising from equity mandates. Most foreign currency risks (>80 percent) are mitigated as a result.

Interest rate swaps are used to control duration on the assets side. Long (short) duration bonds are transformed into short (long) duration bonds by means of interest rate swaps. Interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

Types of hedged items and hedging transactions

PostFinance Ltd mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate/interest rate currency swaps) and shares (partial hedging of the currency risk via foreign exchange forward contracts).

Composition of groups of financial instruments

Financial investments that are sensitive to interest rates and currencies are hedged by micro hedges. In the case of shares, the currency risk is largely reduced by foreign exchange forward contracts.

Economic relationship between hedged items and hedging transactions

PostFinance Ltd records the relationship between the hedging instrument and the hedged item on the date on which a financial instrument is classed as a hedging relationship. The information recorded includes the risk management objectives and strategy of the hedging transaction, and the methods used to measure the effectiveness of the hedging relationship. The economic relationship between the hedged item and the hedging transaction is constantly measured on a prospective basis in the course of effectiveness tests by measuring factors such as inverse performance and its correlation.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Effectiveness measurement

Hedging is deemed to be highly effective if the following criteria are essentially met:

- Hedging is considered to be highly effective both upon its initial recognition (on a prospective basis via regression analysis) and throughout its term (retrospectively via the dollar offset method).
- There is a close economic relationship between the hedged item and the hedging transaction.
- There is an inverse relationship between the value changes of the hedged item and those of the hedging transaction with regard to the hedged risk.
- The actual results of the hedging are within a range of 80–125 percent.

Ineffectiveness

If the result of the effectiveness test is within a range of 80–125 percent, hedge accounting may be applied for the relevant period in accordance with IAS 39. If this results in an ineffective portion, this is included in the income statement for the period in question.

Events after the balance sheet date

On the date of issue of the financial statements, no material events had occurred as at 31 December 2016 which would have to be disclosed in the financial statements and/or in the notes.

3 | Risk management

PostFinance operates an appropriate risk management system in accordance with banking regulation requirements. The specific business risks faced by PostFinance, namely interest rate, liquidity, credit and market risks, as well as strategic and operational risks, are managed using industry-standard tools and methods.

Organization

PostFinance's Board of Directors conducts an annual risk assessment. Supported by the Board of Directors' Audit & Compliance and Risk committees, it sets out the primary guidelines and basic principles on managing financial, strategic and operational risks, approves the risk policy, and sets conditions which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of "equity needed to meet regulatory requirements". Maximum risk exposure is determined by the risk-bearing capacity of PostFinance and the risk appetite of the Board of Directors. The PostFinance Executive Board is responsible for the active management of financial, strategic and operational risks within the framework defined by the Board of Directors and ensures that the risk management infrastructure meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by establishing limits in individual risk categories and by defining requirements for risk monitoring reports. The Executive Board is informed of the risk measurement results and the extent to which limits are used in weekly and monthly reports. This enables it to decide on the necessary control measures, if any. The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee mandated for this purpose in managing financial risks in the overall balance sheet. It identifies and measures the financial risks entered into by PostFinance and proposes control measures. It also monitors and reports on the effectiveness of the control decided upon. The Risk Control department defines appropriate instruments to identify, measure, evaluate and control the risks entered into by PostFinance in the non-financial area. It also provides support to risk managers in applying these instruments. As an independent control body, it monitors the established risk profile across all risk categories and provides a central overview of the entire risk situation of PostFinance Ltd.

Financial risk measurement methods

The methods of measuring and monitoring risks are applied at the level of both the individual PostFinance portfolio and the overall PostFinance balance sheet. Risks are limited and monitored by means of a multi-level limit system.

A variety of methods of differing degrees of complexity are used to measure financial risks. The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

The methods applied at PostFinance to measure risks include measurement methods based on scenario analyses (e.g. to measure the earnings effects of interest rate risks or the full utilization of credit risk limits), sensitivity analyses (e.g. to measure the present value effects arising from interest rate risks) and value-at-risk methods (e.g. to measure fair value risks resulting from equity investments).

Financial risk management at PostFinance

The following financial risks are constantly taken, measured, controlled and monitored at PostFinance:

Interest rate risk and balance sheet structure risk

The term "interest rate risk" refers to the potential impact of a change in market interest rates on the present value of assets and liabilities in the balance sheet, resulting mainly from maturity mismatches, as well as the possible effect on the result from interest operations in the income statement.

PostFinance's interest-earning operations are a key earnings driver for Swiss Post. As changes in interest rates have a direct impact on net interest income, management of the risks associated with such changes is considered a priority.

The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest or require capital commitment. The interest rate and capital commitment of these deposits are therefore estimated using a replication method which aims to map the most closely matching maturities of similar customer products while minimizing the interest margin volatility of each product. The Executive Board notifies the Treasury department of the maturities of money and capital market investments on the basis of the target present value sensitivity, and defines the maturity transformation strategy as a result. The resulting imbalance between the liability and asset interest rates corresponds to the maturity transformation, which is controlled from a present value and income perspective.

The present value perspective covers the net effect of a change in interest rates on the equity of PostFinance in the event of modifications to the yield curve. Future cash flow accruals are discounted according to the risk-adjusted present value formula. Sensitivity to a parallel shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other.

As at 31 December 2016, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –158 million francs (previous year: –410 million francs with a shift in interest of –100 basis points). Unlike in the previous year, PostFinance currently uses a positive maturity transformation. The switch from a negative to a positive maturity transformation is principally due to the higher interest sensitivity on the asset side.

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future net interest income. In addition, dynamic income simulations are carried out according to several deterministic scenarios. These scenarios describe future market interest trends and the resulting changes in customer interest and customer volumes for each replica, as well as different maturity transformation strategies where applicable.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Credit risks

The term "credit risk" refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the other party to incur a financial loss. Credit risk increases as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the solvency of an entire group of otherwise unrelated counterparties.

PostFinance Ltd was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance Ltd is not permitted to issue direct loans and mortgages due to postal legislation provisions. Interest-bearing customer deposits therefore do not go towards granting mortgages, but are invested on the money and capital markets. PostFinance continues to pursue a conservative investment strategy. Liquidity and creditworthiness are the main criteria for its investment decisions. The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the sectors, countries and counterparties. A large proportion of customer deposits are invested as a sight deposit balance at the SNB.

The credit risks associated with the Treasury department's investments in the money and capital markets are limited through investment regulations and prescribed limits. Limits apply at counterparty and rating structure level as well as for controlling country risks. Investments are only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

Specifications and investment restrictions are based on publicly accessible ratings by recognized rating agencies and qualified banks, and are constantly updated to reflect changes in a counterparty's creditworthiness. Compliance with prescribed limits is monitored on an ongoing basis and is verified before the closing of each transaction.

Note on collateral concentration risks:

Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk, as it can be realized by PostFinance in the event of default by the counterparty. High concentrations of collateral are measured, monitored and restricted, as considerable losses in collateral value can lead to the insolvency of counterparties (the issuers of the collateral).

Note on credit risks arising from mortgage lending and SME financing:

The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 do not result in any credit risks for PostFinance. These are borne entirely by the partner bank. Since autumn 2009, PostFinance has been collaborating with Valiant Bank on financing for SMEs. This cooperation arrangement has enabled PostFinance to expand its range of services in the retail market. Since autumn 2010, PostFinance has also worked with Valiant Bank on mortgage lending to private customers. The credit risks resulting from the two areas of cooperation are assumed by Valiant Bank.

Liquidity risks

Liquidity risk refers to the risk that current and future payment obligations cannot be met on time or in full. Liquidity risks are managed in the short, medium and long term. To guarantee liquidity on a daily basis, financial cushions are defined for the settlement of unforeseen payments. These financial cushions should be available for use in stress situations in particular, when it may no longer be possible to turn to the unsecured interbank market for liquidity. The minimum amount for a financial cushion is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity in the short term is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure. As at 31 December 2016, the Liquidity Coverage Ratio stood at 204 percent (previous year: 217 percent).

To ensure liquidity in the medium term, liquidity stress scenarios are defined that last at least three months and must not lead to illiquidity. The long-term structural liquidity situation is reassessed by the Executive Board on an annual basis. There is an emergency plan to resolve any liquidity crises.

Foreign currency risks

The term "foreign currency risk" refers to the risk that the value of a financial instrument may change as a result of fluctuations in exchange rates. Such risks arise at PostFinance as a result of international payment transactions, products in foreign currencies and foreign currency investments.

Currency swaps and interest rate swaps as well as foreign exchange forward contracts are used to hedge against the impact of changes in foreign currency market interest rates or exchange rate changes on the fair values and earnings of fixed-interest bonds.

Foreign currency risks are measured and limited in the overall balance sheet using the value-at-risk indicator. All asset and liability transactions with an effect on the currency balance are taken into account in the measurement. The historic simulation method is applied with a conservative confidence level of 99 percent and an assumed holding period of one day. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from foreign currency risks stood at 1.4 million francs (previous year: 0.7 million francs).

Other market risks

PostFinance invests in shares and fund investments in its banking book in order to tap into additional sources of revenue. To measure the market risks arising from these transactions, the risk factors that have an impact on the present value of the relevant position are assigned to each position. These risk factors include interest, currency, credit spread and share price risks. Index proxies are also used to measure the credit risk of fund investments. To determine other market risks, changes in present value are modelled according to the change in the assigned risk factors before being measured and limited using the value-at-risk indicator. The historic simulation method is applied with a conservative confidence level of 95 percent and an assumed holding period of 250 days. Value-at-risk is calculated for 250 days by scaling the one-day value-at-risk using the root T rule. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from other market risks stood at 487 million francs (previous year: 329 million francs). The increase was mainly due to fixed-interest investments that had been recognized as available-for-sale in order to offer greater flexibility in terms of balance sheet controlling under IFRS, and are therefore also included in the market risk analysis.

A loss reporting threshold is established for measuring and controlling the accounting effects of changes in fair value. This threshold refers to losses in fair value during the calendar year that are recognized in the income statement. Measures must be taken by the Executive Board if the loss in fair value exceeds the reporting threshold.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Operational risk management at PostFinance

Definition

In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The principles on managing operational risk at PostFinance are set out in the risk policy.

Organization

PostFinance operates an operational risk management system that is controlled from a central specialist unit. This defines the risk management process for the entire area and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools and instruments and acts as the interface between line management and the Executive Board Committee for Internal Control (GLA IK), which is responsible for the effective and efficient implementation of the operational risk management policy.

Each department and team functions as its own decentralized operational risk controller, gathering the relevant information in its role as coordinator for its organizational unit, carrying out risk identification and assessment, and assuming responsibility for recording losses.

A decentralized operational risk manager is responsible for each of the largest operational risks at PostFinance (2016: nine top risks; 2017: nine top risks). These risk managers are responsible for the regular assessment and monitoring of the top risk assigned to them and report to the OpRisk Technical Committee on a quarterly basis.

Tools

PostFinance has various industry-standard tools with which to actively manage operational risk. Firstly, loss data across the entire company is collected together, enabling past operational losses to be analysed, common trends to be identified and measures to be taken based on the findings. Secondly, structured risk assessments (self risk assessments) are used to evaluate potential risk scenarios that may in future pose a threat to PostFinance. The resulting risk inventory allows the Executive Board Committee for Internal Control (GLA IK) to obtain a good overview of the company's entire risk situation.

In addition, the measures decided upon by the Executive Board Committee for Internal Control (GLA IK) to mitigate operational risks are monitored centrally. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Reporting

The Executive Board Committee for Internal Control (GLA IK) receives quarterly reports on the current top risks and, if necessary, introduces measures to mitigate the risks. Based on this information, Swiss Post's Board of Directors is notified of PostFinance's risk situation on a regular basis via the Board of Directors' PostFinance Committee.

4 | Capital adequacy disclosure in accordance with the guidelines for systemically important banks

According to the decree issued by the Swiss National Bank on 29 June 2015, PostFinance Ltd was designated a systemically important financial group. As a result, the requirements set out in articles 124 to 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) also became relevant to PostFinance Ltd.

In its ruling dated 23 May 2016, the Swiss Financial Market Supervisory Authority (FINMA) set out extended individual requirements based on the CAO valid until 30 June 2016. The new CAO, which also amended the requirements for systemically important banks, came into force on 1 July 2016. As a new ruling has not yet been issued to PostFinance Ltd, it continues to meet the requirements of the previous ruling. The terminology has however already been adapted to the new CAO. The requirements will be explained in detail by means of footnotes.

The disclosure for systemically important banks is a parallel calculation which supplements the "Disclosure of equity requirements as at 31 December 2016". The different requirements result in deviations, particularly with regard to eligible equity and capital ratios.

Minimum capital ratios for risk-weighted and unweighted capital requirements

in %	Ratio
Requirement for risk-weighted capital ratios¹	
Minimum required capital	8.00%
Capital buffer	2.75%
Additional capital ²	3.65%
Total requirement	14.40%
of which, to be held in common equity tier 1 (CET1) with a minimum of	10.00%
of which, to be held in conversion capital with high trigger with a maximum of	3.00%
of which, to be held in conversion capital with low trigger with a maximum of	1.40%
Countercyclical buffer	0.00%
Extended countercyclical buffer	0.01%
Total requirement (incl. countercyclical and extended countercyclical buffer)	14.41%
Requirement for unweighted capital ratios – leverage ratio³	
Minimum required capital	3.00%
Capital buffer	0.00%
Additional capital ⁴	0.46%
Total requirement	3.46%

1 As per CAO Art. 130 and 131 (minimum requirements) as well as CAO 148c (transitory provisions).

2 Corresponds to the difference between the requirement as per the transitory provisions under CAO Art. 148c and the decreed total requirement of 14.4%.

3 As per CAO Art. 130 and 131 (minimum requirements) as well as CAO 148c (transitory provisions).

4 Corresponds to the difference between the requirement as per the transitory provisions under CAO Art. 148c and the decreed total requirement of 3.46%.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Regulatory eligible capital as per definition for systemically important banks

in CHF million	31.12.2015	31.12.2016
Common equity tier 1 (before adjustments)	6,682	6,682
Adjustment in relation to common equity tier 1	-1,400	-1,200
Reclassification of common equity tier 1	-	-
Common equity tier 1 (CET1) as per definition for systemically important banks	5,282	5,482
Conversion capital with high trigger	-	-
Conversion capital with low trigger	-	-
Total eligible capital	5,282	5,482
Total risk-weighted assets (RWA)	27,100	31,969
Capital ratios as per definition for systemically important banks		
Common equity tier 1 ratio (CET1 ratio)	19.49%	17.13%
Ratio for conversion capital with high trigger	0.00%	0.00%
Ratio for conversion capital with low trigger	0.00%	0.00%
Total capital ratio	19.49%	17.13%

Coverage of risk-weighted capital requirement as at 31.12.2016

in CHF million	Requirement ratio	Capital requirement	Capital ratio	Existing capital
Minimum required capital	8.00%	2,557	8.00%	2,557
of which, covered by common equity tier 1	8.00%	2,557	8.00%	2,557
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Capital buffer¹	2.75%	879	5.50%	1,758
of which, covered by common equity tier 1	2.75%	879	5.50%	1,758
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Additional capital	3.65%	1,167	3.65%	1,167
of which, covered by common equity tier 1	0.00%	-	3.65%	1,167
of which, conversion capital with high trigger	0.00%	-	0.00%	-
of which, conversion capital with low trigger	0.00%	-	0.00%	-
Total	14.40%	4,603	17.15%	5,482
Surplus			2.75%	879
Countercyclical buffer	0.00%	0	0.00%	0
Extended countercyclical buffer	0.01%	4	0.01%	4
Total (incl. buffer)	14.41%	4,608	17.13%	5,478
Surplus (after coverage of buffer requirements)			2.73%	874
Total risk-weighted assets				31,969

¹ Attained capital ratio as well as existing capital incl. surplus after coverage of total requirement without buffers.

Leverage ratio based on unweighted positions

in CHF million	31.12.2015	31.12.2016
Total assets	115,689	120,379
Assets which must be deducted in determining eligible tier 1 capital	-1,400	-1,200
Adjustments for derivatives	188	447
Adjustments for securities financing transactions	2	0
Adjustments for off-balance sheet transactions	1,026	1,055
Other adjustments	-	-
Total commitment for leverage ratio	115,505	120,680
Tier 1	5,282	5,482
Leverage ratio	4.57%	4.54%

Leverage ratio as at 31.12.2016

in CHF million	Requirement ratio	Capital requirement	Capital ratio	Existing capital
Minimum required capital	3.00%	3,620	3.00%	3,620
of which, covered by common equity tier 1	3.00%	3,620	3.00%	3,620
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Capital buffer¹	0.00%	-	1.08%	1,306
of which, covered by common equity tier 1	0.00%	-	1.08%	1,306
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Additional capital	0.46%	555	0.46%	555
of which, covered by common equity tier 1	0.46%	555	0.46%	555
of which, conversion capital with high trigger	0.00%	-	0.00%	-
of which, conversion capital with low trigger	0.00%	-	0.00%	-
Total	3.46%	4,176	4.54%	5,482
Surplus			1.08%	1,306
Total overall commitment for leverage ratio				120,680

¹ Attained capital ratio as well as existing capital incl. surplus after coverage of total requirement.

Additional information in accordance with FINMA Circular 2008/22, margin no. 51:

Details of equity requirements are published at www.postfinance.ch.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2015	31.12.2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	311	84
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	108	723
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	2,107	3,251
with unrestricted right to resell or pledge	1,996	2,528
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	2,434	2,906

6 | Collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

Presentation of collateral for loans/receivables

as at 31.12.2016 CHF million	Type of collateral			Total
	Secured by mortgage	Other collateral	Unsecured	
Loans (before netting with value adjustments)				
Amounts due from customers ¹	–	–	13,210	13,210
Mortgage loans	0	–	–	0
Residential property	0	–	–	0
Total loans (before netting with value adjustments) 31.12.2016	0	–	13,210	13,210
31.12.2015	0	–	11,029	11,029
Total loans (after netting with value adjustments) 31.12.2016	0	–	13,169	13,169
31.12.2015	–	–	10,993	10,993

¹ Loans to municipalities, cities and cantons. These loans all have a rating issued by a rating agency recognized by FINMA.

Presentation of collateral for off-balance-sheet transactions as at 31.12.2016 CHF million		Type of collateral			Total
		Secured by mortgage	Other collateral	Unsecured	
Off-balance sheet					
Contingent liabilities		–	–	0	0
Irrevocable commitments		–	–	709	709
Total off-balance sheet					
31.12.2016		–	–	709	709
31.12.2015		–	–	677	677

Impaired loans/receivables CHF million	31.12.2015	31.12.2016
	Gross debt amount ¹	34
Net debt amount	34	1
Individual value adjustments	34	1

¹ Expired bond and its individual value adjustment were reclassified from financial investments to amounts due from banks.

7 | Derivative financial instruments

Presentation of derivative financial instruments (assets and liabilities) as at 31.12.2016 CHF million	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Swaps	–	–	–	–	133	3,055
Foreign exchange/precious metals						
Forward contracts	4	5	779	3	50	1,520
SWAPS CCIRS	–	–	–	58	79	5,704
Total before netting agreements as at 31.12.2016	4	5	779	61	263	10,278
of which, determined using a valuation model	4	5		61	263	
31.12.2015	3	6	576	57	204	7,003
of which, determined using a valuation model	3	6		57	204	
Total after netting agreements as at 31.12.2016	4	5	779	61	263	10,278
31.12.2015	3	6	576	57	204	7,003

Breakdown by counterparty as at 31.12.2016 CHF million	Central clearing houses	Banks and securities dealers	Other customers
	Positive replacement values (after netting agreements)	–	62

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016
CHF million				
Debt securities	55,757	60,118	58,403	62,374
of which, intended to be held to maturity	55,757	60,118	58,403	62,374
Equity securities	1,638	1,624	1,729	1,706
Total	57,395	61,742	60,132	64,080
of which, securities eligible for repo transactions in accordance with liquidity requirements	48,387	47,097	–	–

Breakdown of counterparties by rating¹

CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	44,581	9,431	4,191	30	0	1,884

¹ The following ratings agencies, all of which are recognized by FINMA, were consulted for the ratings: fedafin AG, Fitch Ratings, Moody's Investors Service, Standard & Poor's Ratings Services.

9 | Participations

Presentation of participations	2016									
	Acquisition cost	Accumulated value adjustments	Book value 31.12.2015	Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2016	Market value 31.12.2016
Participations										
with market value	28	–8	20	–	17	1	–1	–	37	37
without market value	40	–1	39	–	25	0	–	–	64	–
Total participations	68	–9	59	–	42	1	–1	–	101	37

10 | Significant participations

Significant investments	CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes ¹	
					31.12.2015	31.12.2016
Finform Ltd, Berne, Switzerland		Fintech and regtech	CHF	100,000	–	50.00%
TWINT Ltd, Zurich, Switzerland		Mobile payment	CHF	10,200,000	100.00%	33.33%
TWINT Acquiring Ltd, Zurich, Switzerland		Acquiring for payment transactions	CHF	100,000	–	33.33%
SECB Swiss Euro Clearing Bank GmbH, Frankfurt a.M., Germany		Payment transaction processing in EUR for Swiss financial institutions	EUR	30,000,000	25.00%	25.00%
SIX Interbank Clearing Ltd, Zurich, Switzerland		Payment transaction processing for financial institutions	CHF	1,000,000	25.00%	25.00%
Lendico Schweiz AG, Zurich, Switzerland		Crowdlending platform	CHF	100,000	–	24.44%
moneymeets community GmbH, Cologne, Germany		Online financial services	EUR	81,000	–	20.39%
moneymeets GmbH, Cologne, Germany		Infrastructure for online financial services	EUR	81,000	–	20.39%
Debtors Service Ltd, Berne, Switzerland		Accounts receivable management	CHF	1,000,000	100.00%	–

¹ TWINT Acquiring Ltd is held indirectly via TWINT Ltd. All other participations are directly owned by PostFinance Ltd.

Additional information on the true and fair view statutory single-entity financial statements in accordance with FINMA Circular 2015/1 margin no. 264: the effect of a theoretical application of the equity method with regard to these participations would be to reduce total assets by 6 million francs (previous year: 4 million francs) and profit for the year by 3 million francs (previous year: 11 million francs).

11 | Tangible fixed assets

Presentation of
tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2015	2016					Book value 31.12.2016
				Reclassifications	Additions	Disposals	Depreciation	Reversals	
Bank buildings	193	-23	170	-	6	-2	-10	-	164
Other real estate	947	-81	866	-	80	-9	-47	-	890
Proprietary or separately acquired software	99	-3	96	0	76	-	-5	-	167
Other tangible fixed assets	88	-45	43	0	7	-	-12	-	38
Total tangible fixed assets	1,327	-152	1,175	-	169	-11	-74	-	1,259

Future lease obligations under operating leases

CHF million	2017	2018	2019	2020	2021	2022	Total
Future lease payments	19	18	2	1	0	0	40
of which cancellable within a year	0	0	0	0	0	0	0

12 | Intangible assets

Presentation of intangible assets

CHF million	Acquisition cost	Accumulated amortization	Book value 31.12.2015	2016			Book value 31.12.2016
				Additions	Disposals	Amortization	
Goodwill	2,000	-600	1,400	-	-	-200	1,200
Total intangible assets	2,000	-600	1,400	-	-	-200	1,200

13 | Other assets and other liabilities

Breakdown of other assets
and other liabilities

CHF million	31.12.2015	31.12.2016	31.12.2015	31.12.2016
	Other assets	Other assets	Other liabilities	Other liabilities
Compensation account	144	172	-	-
Indirect taxes	142	134	15	6
Other assets and liabilities	3	4	2	1
Total other assets and other liabilities	289	310	17	7

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

14 | Pledged or assigned assets and assets under reservation of ownership

Total amount of assets pledged or assigned to secure own commitments and of assets under reservation of ownership¹

CHF million	31.12.2015	31.12.2016
Book value of assets pledged and assigned as collateral	0	50

¹ Excluding securities lending and repurchase transactions.

15 | Liabilities relating to own pension schemes

Pension benefit obligations

There is no independent pension scheme for PostFinance staff. Their pension benefits are handled exclusively by the Swiss Post pension fund. The employer may be required to pay restructuring contributions in the event of underfunding of the Swiss Post pension fund.

Additional amounts due for extended disability benefit plans in the form of transitional disability insurance (supplementary disability pensions for men up to the age of 65 and women up to the age of 64) and staff vouchers are taken into account in the annual financial statements.

Liabilities relating to own pension schemes as per Swiss GAAP ARR 16

All the compulsory ordinary employer contributions associated with the pension plan are accounted for as personnel expenses using the accrual-based accounting principle. An annual assessment is carried out in accordance with Swiss GAAP ARR 16 to determine whether the pension schemes generate an economic benefit or an economic obligation for PostFinance. The assessment is based on information from contracts, the financial statements of the pension schemes and other calculations presenting their financial situation and current overfunding or underfunding – in accordance with Swiss GAAP ARR 26 accounting principles. PostFinance does not however intend to use the economic benefit that may result from overfunding to reduce employer contributions. Consequently, a future economic benefit is not capitalized. An economic obligation is however recognized under liabilities. With 42,894 active insured people and 29,612 pensioners (as at 31 December 2016), the Swiss Post pension fund had total assets of 15,837 million francs as at 31 December 2016 (previous year: 15,641 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at just under 101.2 percent (previous year: 100 percent). As the Swiss Post pension fund value fluctuation reserves have not yet reached the set regulatory level, there is no overfunding available. The Swiss Post pension fund has employer contribution reserves of 561 million francs, of which 550 million francs with a waiver of use (previous year: 1,056 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 2.25 percent (previous year: 2.25 percent) and the technical basis of BVG 2015 (previous year: BVG 2010) were used to calculate pension cover. It should be noted that all data regarding the Swiss Post pension fund is based on the information available at the time of drawing up the ARR 16 financial statements. Consequently, it may differ from the actual information contained in the annual financial statements for the Swiss Post pension fund. A detailed assessment did not reveal any financial impact on the bank; according to the financial statements for the Swiss Post pension fund drawn up according to Swiss GAAP ARR 26, there were no spare funds or underfunding as at 31 December 2016. There are no employer-sponsored pension schemes.

The economic benefit or obligations and pension expenses can be summarized as follows:

Presentation of the economic benefit/obligation and the pension expenses	Overfunding/ underfunding	Economic interest of PostFinance Ltd		Change in economic interest (economic benefit/obligation) versus previous year	Contributions paid	Pension expenses in personnel expenses	
		31.12.2015	31.12.2016			2015	2016
CHF million	31.12.2016	31.12.2015	31.12.2016	2016	2016	31.12.2015	31.12.2016
Swiss Post pension fund	25	0	0	0	36	34	36
Staff vouchers	-7	-6	-7	1	0	1	1
Disability pensions	0	-1	0	-1	0	0	-1
Total ARR 16	18	-7	-7	0	36	35	36

The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance's retirement capital of PostFinance Ltd's entire retirement capital. This gives the following picture:

Employer contribution reserves (ECR)	Nominal value		Waiver of use		Net amount		Influence of ECR on personnel expenses	
	31.12.2016	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
CHF million	31.12.2016	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Swiss Post pension fund	34	-33	29	1	0	28		
Total ARR 16	34	-33	29	1	0	28		

16 | Value adjustments and provisions, and reserves for general banking risks

Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

CHF million	As at 31.12.2015	Use in conformity with designated purpose ¹	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2016
Provisions for restructuring	-	-1	-	-	1	0	0
Other provisions	6	-3	-	-	10	-1	12
Total provisions	13	-4	-	-	11	-1	19
Reserves for general banking risks	-	-	-	-	-	-	-
Value adjustments for default and country risks	262	-	-	-	-	-46	216
of which, value adjustments for default risks in respect of impaired loans/receivables	111	-	-	-	-	-41	70
of which, value adjustments for latent risks	151	-	-	-	-	-5	146

¹ There were no changes in purpose.

Management report

6	Business activities
11	Organization
12	Developments
16	Group strategy
23	Financial controlling
25	Business performance
53	Risk report
59	Outlook

Corporate governance

62	Group structure and shareholders
62	Regulatory accounting
63	Capital structure
63	Board of Directors
67	Executive Management
70	Remuneration
73	Auditor
73	Information policy

Annual financial statements

75	Group
159	Swiss Post Ltd
169	PostFinance Ltd

17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital CHF million, number in million	31.12.2015			31.12.2016		
	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital						
Share capital	2,000	2	2,000	2,000	2	2,000
of which, paid up	2,000	2	2,000	2,000	2	2,000
Total bank's capital	2,000	2	2,000	2,000	2	2,000

18 | Amounts due from / to related parties

Disclosure of amounts due from/to related parties CHF million	Amounts due from		Amounts due to	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Holders of qualified participations	1,630	1,664	635	565
Group companies	13	–	7	–
Linked companies	9	17	831	795
Transactions with members of governing bodies	0	0	3	5

Associated companies and subsidiaries that are under the direct or indirect management of associated companies are regarded as linked companies.

Transactions (such as securities transactions, payment transactions, and interest on deposits) with related parties, with the exception of members of the Executive Board and Senior Management (senior management and individual specialist functions at PostFinance Ltd), were carried out according to the same terms and conditions and lending rates as transactions with third parties.

Industry-standard preferential conditions apply to the Executive Board and members of Senior Management, as is the case for all PostFinance employees.

PostFinance only issues loans and mortgages in cooperation with partners. These are not regarded as transactions with members of governing bodies in the strict sense and are therefore not shown in the Annual Report.

19 | Holders of significant participations

Disclosure of holders of significant participations CHF million	31.12.2015		31.12.2016	
	Nominal	% of equity	Nominal	% of equity
With voting rights: Swiss Post Ltd	2,000	100	2,000	100

20 | Maturity structure of financial instruments

Presentation of the maturity structure of financial instruments (assets/financial instruments)

CHF million, as at 31.12.2016	Due							Total	
	At sight	Cancellable	Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity		
Liquid assets	37,453	–	–	–	–	–	–	37,453	
Amounts due from banks	242	–	135	580	1,344	2,096	–	4,397	
Amounts due from securities financing transactions	–	–	84	–	–	–	–	84	
Amounts due from customers	430	3	1,970	927	3,893	5,946	–	13,169	
Mortgage loans	–	–	0	–	–	–	–	0	
Positive replacement values of derivative financial instruments	65	–	–	–	–	–	–	65	
Financial investments	1,519	–	2,135	6,181	29,850	22,056	–	61,742	
Total	31.12.2016	39,709	3	4,324	7,688	35,087	30,098	–	116,910
	31.12.2015	40,967	6	3,886	7,282	38,063	21,908	–	112,113

Presentation of the maturity structure of financial instruments (debt capital/financial instruments)

CHF million, as at 31.12.2016	Due							Total	
	At sight	Cancellable	Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity		
Amounts due to banks	2,406	–	–	–	–	–	–	2,406	
Liabilities from securities financing transactions	–	–	723	–	–	–	–	723	
Amounts due in respect of customer deposits	66,843	42,865	–	–	–	–	–	109,709	
Negative replacement values of derivative financial instruments	268	–	–	–	–	–	–	268	
Cash bonds	–	–	11	11	85	8	–	114	
Total	31.12.2016	69,517	42,865	734	11	85	8	–	113,220
	31.12.2015	65,570	42,826	111	16	102	13	–	108,638

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

21 | Assets and liabilities by domestic and foreign origin

Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle		31.12.2015		31.12.2016	
		Domestic	Foreign	Domestic	Foreign
CHF million					
Assets					
Liquid assets	38,879	3	37,441	12	
Amounts due from banks	4,432	39	4,337	60	
Amounts due from securities financing transactions	281	30	12	72	
Amounts due from customers	10,991	2	13,167	2	
Mortgage loans	0	–	0	–	
Positive replacement values of derivative financial instruments	13	48	6	59	
Financial investments	29,572	27,823	31,042	30,700	
Accrued income and prepaid expenses	389	264	351	247	
Participations	54	5	69	32	
Tangible fixed assets	1,175	–	1,259	–	
Intangible assets	1,400	–	1,200	–	
Other assets	287	2	309	2	
Total assets	87,473	28,216	89,193	31,186	
Liabilities					
Amounts due to banks	1,151	69	2,360	46	
Liabilities from securities financing transactions	–	108	723	–	
Amounts due in respect of customer deposits	103,406	3,560	105,846	3,863	
Negative replacement values of derivative financial instruments	162	48	181	87	
Cash bonds	131	3	113	1	
Accrued expenses and deferred income	118	0	137	1	
Other liabilities	17	0	7	1	
Provisions	13	–	20	–	
Bank's capital	2,000	–	2,000	–	
Statutory capital reserve	4,682	–	4,682	–	
Profit carried forward	–	–	–	–	
Profit	221	–	311	–	
Total liabilities	111,901	3,788	116,380	3,999	

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle) CHF million, percent	31.12.2015		31.12.2016	
	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	87,474	75.61	89,193	74.09
Europe	21,547	18.62	19,690	16.36
North America	4,194	3.63	6,038	5.02
Other countries	2,474	2.14	5,458	4.53
Total assets	115,689	100.00	120,379	100.00

23 | Assets by credit rating of country groups

Breakdown of total assets by credit rating of country groups (risk domicile view) CHF million, percent	Net foreign exposure 31.12.2015		Net foreign exposure 31.12.2016	
	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	18,470	64.80	15,947	51.40
Aa	8,375	29.39	12,273	39.55
A	481	1.69	1,608	5.18
Baa	909	3.19	426	1.37
Ba	137	0.48	217	0.70
B	0	0.00	170	0.55
Caa	100	0.35	269	0.87
No rating	29	0.10	118	0.38
Total	28,501	100.00	31,028	100.00

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

24 | Assets and liabilities by currency

Presentation of assets and liabilities broken down by the most significant currencies for the bank

as at 31.12.2016
CHF million

	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	37,318	135	–	–	–	–	37,453
Amounts due from banks	4,366	10	7	2	8	4	4,397
Amounts due from securities financing transactions	8	43	33	–	–	–	84
Amounts due from customers	13,154	15	0	0	0	0	13,169
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	65	–	–	–	–	–	65
Financial investments	52,157	6,691	2,715	48	29	102	61,742
Accrued income and prepaid expenses	533	57	8	0	0	0	598
Participations	69	13	19	–	–	0	101
Tangible fixed assets	1,259	–	–	–	–	–	1,259
Intangible assets	1,200	–	–	–	–	–	1,200
Other assets	308	1	0	1	0	1	311
Total assets shown in balance sheet	110,437	6,965	2,782	51	37	107	120,379
Delivery entitlements from spot exchange, forward forex and forex options transactions	7,475	299	136	47	0	45	8,002
Total assets	117,912	7,264	2,918	98	37	152	128,381
Liabilities							
Amounts due to banks	2,399	7	0	0	0	0	2,406
Liabilities from securities financing transactions	723	–	–	–	–	–	723
Amounts due in respect of customer deposits	106,753	2,459	409	43	8	37	109,709
Negative replacement values of derivative financial instruments	268	–	–	–	–	–	268
Cash bonds	111	3	–	–	–	–	114
Accrued expenses and deferred income	138	0	0	–	–	–	138
Other liabilities	8	0	0	–	–	0	8
Provisions	20	–	–	–	–	–	20
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit	311	–	–	–	–	–	311
Total liabilities shown in the balance sheet	117,413	2,469	409	43	8	37	120,379
Delivery obligations from spot exchange, forward forex and forex options transactions	616	4,731	2,496	48	28	101	8,020
Total liabilities	118,029	7,200	2,905	91	36	138	128,399
Net position per currency 31.12.2016	–117	64	13	7	1	14	–18
Net position per currency 31.12.2015	–16	38	–28	7	–9	20	12

Information on off-balance sheet transactions

25 | Irrevocable commitments, contingent liabilities and assets

PostFinance discloses payment obligations for depositor protection in irrevocable commitments together with contingent liabilities from pending legal cases. PostFinance Ltd is jointly and severally liable for all amounts due in connection with VAT for the companies belonging to the "Swiss Post" VAT group. There are no other material off-balance-sheet transactions in accordance with FINMA Circular 2015/1, Annexes 5–28 to 5–31.

As far as systemic importance is concerned, Swiss Post Ltd has deposited a letter of comfort amounting to 2 billion francs in favour of PostFinance Ltd.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2015	31.12.2016
Type of managed assets:		
Other managed assets	40,889	45,845
Total managed assets¹	40,889	45,845
of which, double counting	–	–

¹ "Managed assets" refers only to assets deposited for investment purposes. Assets in connection with retirement planning products which are managed by third parties and assets deposited for transaction purposes are not included. PostFinance Ltd offers neither collective investment schemes managed by the bank nor asset management. Accordingly, assets for which the customer decides independently how they should be invested are reported under "Other managed assets".

Presentation of the development of managed assets

CHF million	31.12.2016
Total managed assets (including double counting) at beginning	40,889
+/- net new money inflow or net new money outflow ¹	197
+/- price gains/losses, interest, dividends and currency gains/losses	223
+/- other effects ²	4,536
Total managed assets (including double counting) at end	45,845

¹ Net new money inflow or net new money outflow is calculated based on the overall change in managed assets, less price, interest and currency gains/losses, dividend distributions and other effects.

² "Other effects" includes the migration of customer custody accounts which were transferred from Banque Cantonale Vaudoise to PostFinance Ltd.

PostFinance Ltd is a category 2 institution in accordance with the Annex to FINMA Circular 11/2, and was rated as a systemically important bank in accordance with Art. 7 of the Banking Act by the Swiss National Bank in 2016. From the 2016 financial year, FINMA therefore requires detailed information on managed assets, even if the threshold set out in FINMA Circular 15/1, margin no. 229, is not exceeded. The development of managed assets was not disclosed for the financial year 2015.

Management report		Corporate governance		Annual financial statements	
6	Business activities	62	Group structure and shareholders	75	Group
11	Organization	62	Regulatory accounting	159	Swiss Post Ltd
12	Developments	63	Capital structure	169	PostFinance Ltd
16	Group strategy	63	Board of Directors		
23	Financial controlling	67	Executive Management		
25	Business performance	70	Remuneration		
53	Risk report	73	Auditor		
59	Outlook	73	Information policy		

Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2015	2016
Payment transactions and financial investments	195	212
Hedge accounting	6	-3
Proprietary trading	-14	2
Total result from trading activities	188	211

Breakdown by risk and based on the use of the fair value option

CHF million	2015	2016
Result from trading activities from:		
Interest rate instruments	0	0
Equity securities	-	1
Foreign currencies	188	210
Total result from trading activities	188	211

28 | Material negative interest

PostFinance is affected by the SNB's measures and has paid negative interest on part of its sight deposit balance at the SNB since 22 January 2015. PostFinance has defined individual customer thresholds for major business customers and banks, based on their usual behaviour in relation to payment transactions. The proportion of credit that exceeds this threshold has been subject to a fee since 1 February 2015. The situation has intensified for PostFinance in the past few months. Due to a further increase in customer deposits, the sight deposit balance at the SNB now exceeds the exemption limit virtually without interruption. The expenses resulting from these measures amount to 24 million francs for the 2016 financial year, while income stands at 12 million francs. Both are recognized in the result from interest operations. Since 1 February 2017, PostFinance has therefore also charged a 1 percent fee on the credit balance of private customers that exceeds the threshold value of one million francs. In the 2015 financial year the impact of negative interest was not material in nature.

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2015	2016
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	381	393
Social insurance benefits	72	75
Changes in book value for economic benefits and obligations arising from pension schemes	0	0
Other personnel expenses	19	20
Total personnel expenses	472	488

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2015	2016
Office space expenses	48	47
Expenses for information and communications technology	186	178
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	22	40
Fees of audit firm(s) (Art. 961a no. 2 CO)	2	1
of which, for financial and regulatory audits	1	1
of which, for other services	1	0
Other operating expenses	260	250
Total general and administrative expenses	518	516

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2015	2016
Losses from disposal of participations	–	29
Total extraordinary expenses	–	29

Extraordinary income

CHF million	2015	2016
Reversals of impairment	4	2
Gains from disposal of participations	–	72
Total extraordinary income	4	74

32 | Taxes

Tax expenses for corporate income tax and taxes on capital stood at 83 million francs (previous year: 58 million francs). As in the previous year, a tax rate of 20.5 percent was used for calculating corporate income tax.

Current and deferred taxes

CHF million	2015	2016
Expenses for current capital and income taxes	58	83
Creation/release of deferred taxes	1	–
Total taxes	59	83

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Report of the Statutory Auditor to the General Meeting of PostFinance AG, Berne

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of PostFinance AG, which comprise the balance sheet, income statement, cash flows statement, statement of changes in equity and notes (pages 172 to 204) for the year ended 31 December 2016.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Ertugrul Tüfekçi
Licensed Audit Expert
Auditor in Charge

Philipp Bertschinger
Licensed Audit Expert

Zurich, 24 February 2017

Reporting

Reporting structure

The Swiss Post annual reporting documents for 2016 consist of:

- Swiss Post Annual Report
- Swiss Post Financial Report (management report, corporate governance, annual financial statements for the Group, Swiss Post Ltd and PostFinance Ltd)
- PostFinance Ltd Annual Report
- PostBus Switzerland Ltd Performance Report
- GRI report (in accordance with the Global Reporting Initiative guidelines)
- Annual Report key figures

Electronic versions of these documents are available at www.swisspost.ch/annualreport. The Swiss Post Ltd Annual Report and Financial Report, the PostFinance Ltd Annual Report and the PostBus Switzerland Ltd Performance Report are also available in printed form.

Languages

The Swiss Post Annual Report and Financial Report are available in English, German, French and Italian. The German version is authoritative.

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Reports can be ordered online at www.swisspost.ch/annualreport. Swiss Post employees may order copies through the usual channels.

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Publisher and point of contact

Swiss Post Ltd
Wankdorfallee 4
P.O. Box
3030 Berne
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Tel. +41 58 338 11 11
Media relations +41 58 338 13 07
www.swisspost.ch

Concept and project management

Swiss Post Finance, Berne
Swiss Post Communication, Berne
Dr Andreas Sturm, Sturm Consulting, Riehen

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Swiss Post Finance, Berne

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Swiss Post Finance, Berne
Dr Andreas Sturm, Sturm Consulting, Riehen

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Five-year overview of key figures

		2012	2013	2014	2015	2016
Result						
Operating income	CHF million	8,576	8,575	8,371	8,224	8,188
Generated in competition	% of operating income	84.1	85.6	85.7	85.1	85.8
Generated abroad	% of operating income	12.0	13.2	14.6	14.0	13.7
Operating profit	CHF million	860	911	803	823	704
Generated in competition ¹	% of operating profit	88.0	95.5	85.5	87.0	93.5
Generated abroad	% of operating profit	4.1	5.2	9.0	6.9	9.1
Group profit	CHF million	772	626	638	645	558
Equity	CHF million	3,145	5,637	5,010	4,385	4,881
Value generation						
Economic value added	CHF million	269	125	207	169	121
Added value generated	CHF million	5,314	5,328	5,220	5,193	5,145
to employees	CHF million	4,161	4,131	4,108	4,074	4,034
to creditors	CHF million	82	93	57	69	64
to public sector	CHF million	34	94	79	94	118
to owner	CHF million	200	180	200	200	200
to company	CHF million	837	830	776	756	729
Jobs						
Headcount (excluding trainees)	Full-time equivalents	44,605	44,105	44,681	44,131	43,485
Trainees in Switzerland	Persons	2,015	2,024	2,035	2,077	2,118
Jobs in peripheral regions	Persons	20,172	19,494	19,106	18,633	18,176
Turnover rate (voluntary departures)	As % of average headcount	3.7	3.6	4.1	3.8	4.0
Notice given by employer for economic reasons	Persons	315	180	168	78	84
Employment conditions and remuneration						
Employment in accordance with Swiss Post CEC	Full-time equivalents as %	62.7	62.8	61.1	61.5	53.8
Swiss Post CEC minimum salary	CHF per annum	45,047	45,047	47,620	47,620	47,620
Average salary for employees	CHF per annum	82,554	82,695	83,039	83,472	82,231
Average remuneration paid to members of Executive Management	CHF per annum	515,441	499,281	477,719	591,574	588,377
Salary bandwidth ²	Factor	6.2	6.0	5.8	7.1	7.2
Health management						
Occupational accidents	Number per 100 FTEs	7.2	6.6	5.9	6.1	5.9
Days lost to illness and accidents	Days per employee	11.0	11.6	11.8	12.4	12.5
Diversity						
Women	% of employees	48.4	48.5	48.7	48.4	48.1
Nationalities represented	Number	140	144	142	142	143
Women on Board of Directors	%	22.2	22.2	33.3	33.3	33.3
Women in Executive Management	%	11.1	12.5	12.5	12.1	11.1
Women in senior management roles	%	8.0	9.3	11.0	12.3	12.3
Women in middle and lower management roles	%	23.0	23.7	23.6	23.4	24.2
Demographics						
Average age of workforce	Years	44.7	44.8	45.1	45.3	45.6
Resource consumption						
Energy consumption	Gigajoules	4,053,768	4,075,670	4,063,574	4,067,287	4,143,240
Energy consumption within Swiss Post	Gigajoules	3,232,405	3,205,634	3,223,276	3,210,571	3,261,864
Renewable share	%	20.0	19.0	21.0	21.0	21.0
Energy consumption outside Swiss Post	Gigajoules	821,363	870,035	840,297	856,716	881,376
Carbon footprint (scope 1–3)						
Carbon footprint	t CO ₂ equivalent	466,169	437,043	429,703	428,807	434,868
CO ₂ efficiency increase since 2010 ³	%	2.6	9.8	12.0	13.4	16.0

1 The figures from 2012 are not comparable with those from 2013 to 2016 (new postal legislation from 2013).

2 Factor = average remuneration paid to Members of Executive Management vs. average employee salary.

3 The rise in CO₂ efficiency is measured as the change in CO₂ equivalents per core service in the year under review compared with the base year. Each core service is defined by unit (consignment, transaction, passenger kilometre, kilometre, full-time equivalent etc.).

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Swiss Post Ltd
Wankdorffallee 4
P.O. Box
3030 Berne
Switzerland

Tel. +41 58 338 11 11
www.swisspost.ch

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