SWISS POST IS RIGHT HERE. FOR EVERYONE.

FINANCIAL REPORT
2018

SWISS POST

About this Financial Report

Structure of annual reporting documents
The Swiss Post annual reporting documents for 2018 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
- Sustainability Report (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.

7,691 million

francs in **operating income**, down 373 million francs year-on-year.

405 million

francs in **Group profit**, down 122 million francs year-on-year.

1,898 million

With a fall of 5.2 percent, the volume of **addressed letters** posted in Switzerland declined again in 2018.

138 million

Thanks to booming online retail, PostLogistics delivered 6.7 percent more **parcels** in Switzerland.

119 billion

francs, down by 0.8 percent, represents the level of **average customer assets** held by PostFinance.

156 million

PostBus again transported one million more **passengers** in 2018 due to the continuing trend towards public transport use.

83 points

Customer satisfaction remained stable, equalling the high level of the previous year.

20%

is the **CO_2 efficiency improvement** over 2010 achieved by Swiss Post by the end of 2018.

58,180

employees, 1,189 below the **headcount** for the previous year.

80 points

The high index value for **employee commitment**, which declined by one point year-on-year, is a testament to motivated and committed employees.

Financial Report 2018

MANAGEMENT REPORT

Swiss Post operates in markets that are undergoing rapid change due to intense competition, internationalization, technology deployment and regulations. Driven by digital/ e-commerce, the logistics market is facing global competition. The level of digitization in the communication market is rising. Following regulatory changes in the financial market, digital providers have the possibility to gain a foothold in payment transactions. Growing numbers of new competitors are entering the passenger transport market.

Swiss Post is meeting the challenges in its market environment and at regulatory level by launching a transformation strategy for the years 2017 to 2020. Halfway through the strategy implementation period, it has not only defended its leading market positions, but also successfully developed them.

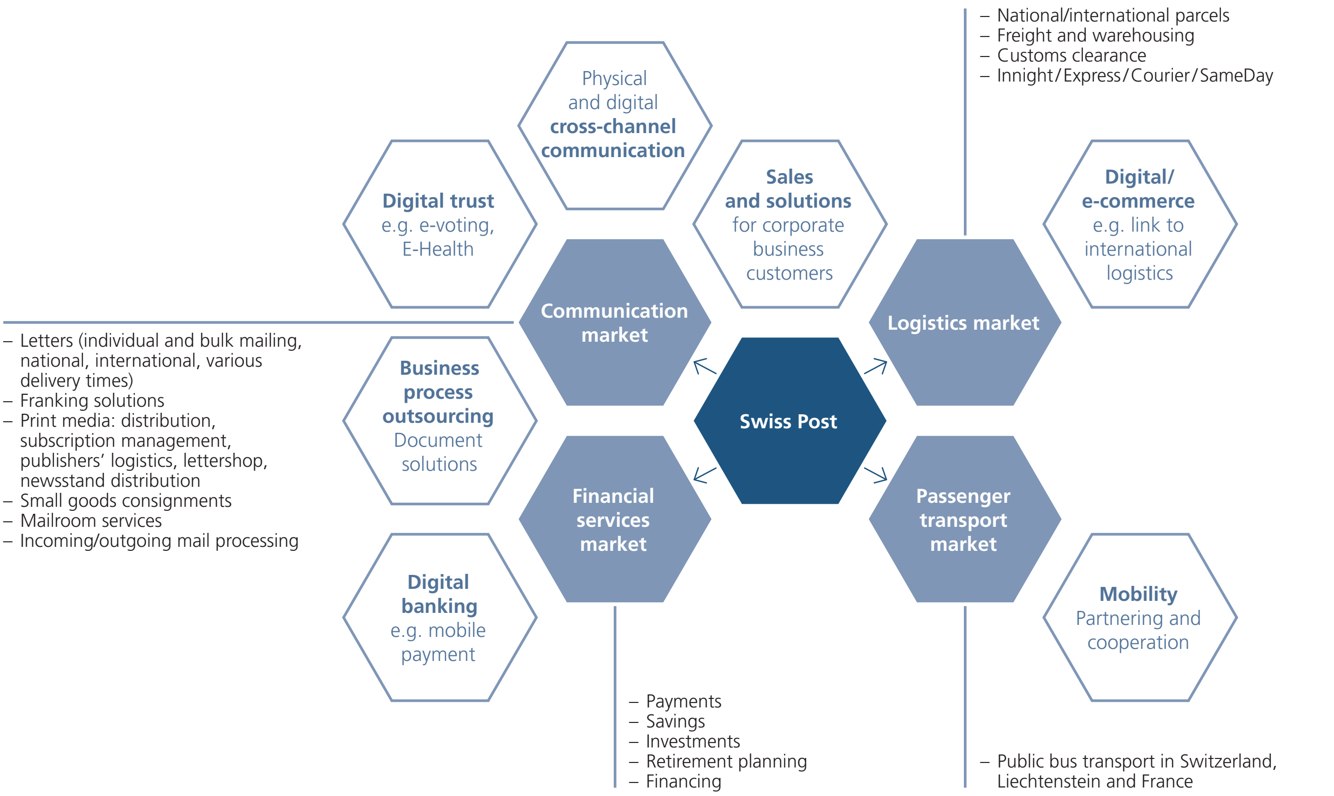
Business activities

Swiss Post offers financial and mobility services in addition to postal products and services. It is also developing cross-market solutions, for instance in digital/e-commerce. Swiss Post is proud to be able to serve all its private and business customers in Switzerland and to operate in a targeted manner abroad.

Range of services

Swiss Post's range of services includes the processing of logistics and communication consignments, secure electronic solutions as well as financial and mobility services. Within the core business in its four markets Swiss Post positions itself as a quality provider offering the best value for money. Cross-market solutions create tailor-made customer benefits (e.g. in digital / e-commerce).

Range of services



Swiss Post is constantly developing its products and services in line with the needs of business and private customers. This involves consistently linking the physical and digital worlds, e.g. with cross-channel marketing campaigns or the digitization of incoming mail processing. Together with its customers, Swiss Post is increasingly developing solutions which connect elements right across the Group (e.g. working capital management as a combination of logistics and financial products).

Swiss Post generates 85.6 percent of its revenue in competition. The remaining 14.4 percent is accounted for by the monopoly on letters weighing less than 50 grams, where Swiss Post is in competition with electronic services.

Customers

"Swiss Post does everything it can to make my life easier – whenever, wherever and however it suits me."

Swiss Post is committed to meeting the needs of its customers. It aims to make all important contact moments a positive experience for the customer. They should be aware that Swiss Post does everything it can to make their lives easier – whenever, wherever and however it suits them. Swiss Post's services should be easy to understand and straightforward to use. The numerous physical and digital access points give Swiss Post customers a flexible choice of channel.

Swiss Post's customer base comprises millions of individuals and several hundred thousand companies ranging from small businesses to large multinationals. Most of Swiss Post's income stems from major customers and corporate accounts which are provided with tailored solutions.

Corporate accounts generate more than half of logistics revenue.

Communication and logistics market | Business customer segments
2018

Business customer revenue CHF per annum	**Business customer segment**	**Business customers** Number	**Share of business customer revenue** Percent
Over 2,000,000	Corporate accounts and key accounts	202	57%
100,000 to 2,000,000	Business accounts	2,399	
25,000 to 100,000	Retail accounts	5,445	41%
3,000 to 25,000	Small and medium-sized enterprises	27,666	
Up to 3,000	Other	93,621	2%

Swiss Post offers services to every household in Switzerland and to around 130,000 business customers in the communication and logistics markets. PostBus transported around 156 million passengers in the year under review. In addition, around 2.6 million private customers maintain a banking relationship with PostFinance.

Geographical segmentation

Swiss Post operates first and foremost in Switzerland. In the international market, it focuses on growth opportunities with proven business models which support and develop its core business. Domestic business accounts for 84.5 percent of Group revenue, with 15.5 percent generated abroad or in cross-border business.

Domestic

Swiss Post is present in Switzerland with a large number of access points and PostBus routes.

Access points

Customer-oriented sales network for today and tomorrow.

Compared with other companies around the world, Swiss Post has one of the most efficient and dense networks of access points. Whether for postal transactions on the move, at home or digitally, Swiss Post provides the best possible universal service for different regions and generations. By 2020 it will expand its network to over 4,200 access points to ensure that it is even more accessible to its customers.

On the move: branches and service points
Every day, thousands of Swiss Post employees and numerous partner staff serve and advise over one million customers in 1,078 branches and 1,061 branches with partners. A network of 39 PostFinance branches and 56 consulting offices is available for financial services. 143 PostFinance employees

advise small and medium-sized business customers directly at their premises. 984 Postomats, 14,583 letter boxes, 316,300 P.O. Boxes and 111 My Post 24 terminals are also available around the clock, as are 197 service points such as at railway stations or petrol stations. To meet the needs of business customers, Swiss Post operates 304 counters for business customers in branches and 115 business customer points in industrial or business districts as well as at letter and parcel processing centers.

At home: basic and home delivery service
Swiss Post serves over 4 million households, can offer delivery of consignments on a specific day or at a specific time on request, e.g. on Saturdays or in the evening, or collect parcels from the customer's home with the pick@home service. In 1,341 – predominantly rural – locations, customers can take advantage of the home delivery service ("branch counter" at their front door) and pay bills to delivery staff directly at their front door. Swiss Post offers business customers consignment collections from their company address and the secure transport of daily takings and sums of money via SecurePost.

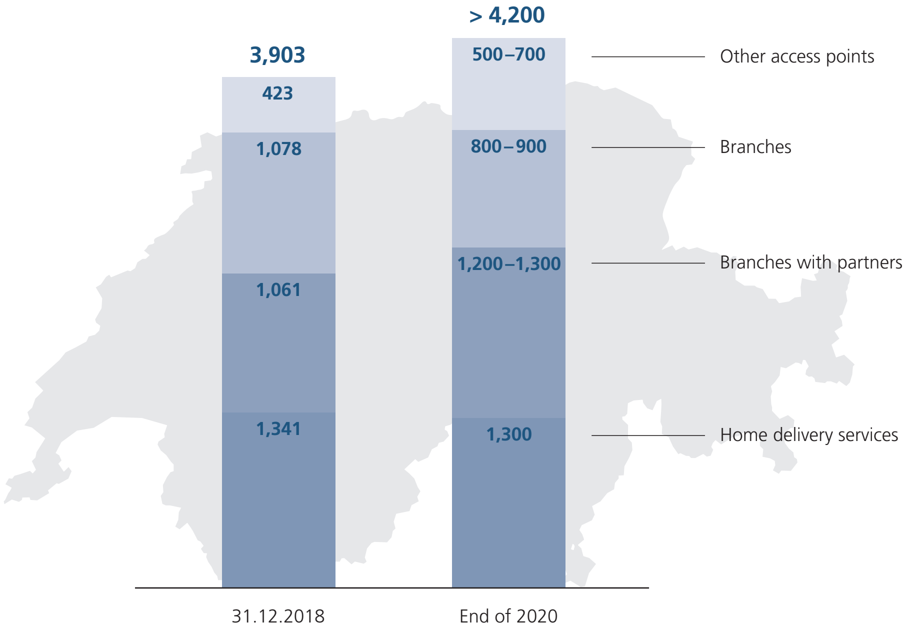
Digital: a range of online services
To complement the physical network, private and business customers can also use a range of digital services via the Swiss Post Customer Center (e.g. e-finance, TWINT, My consignments, WebStamp and PostCard Creator) or interact via mobile applications (e.g. Post-App, PostFinance App) or social media. In addition, around 339 call center agents respond to inquiries to the Contact Center via e-mail and telephone from locations in Fribourg, Schaffhausen, Kriens and Visp. Around 7,000 inquiries are dealt with here each day.

Present throughout Switzerland.

By the year 2020, Swiss Post will increase the number and range of its access points to over 4,200. Its focus is increasingly on the tried-and-tested branches with partners model, developing the home delivery service and opening additional access points such as My Post 24 terminals and business customer points.

Access points

Number as at 31.12.2018 and target for end of 2020



More information on developments in the network and universal service can be found on pages 36 to 39 of the Annual Report.

PostBus routes

In the passenger transport market, PostBus offers 901 PostBus routes in Switzerland, covering 12,719 kilometres and 14,600 stops in the public transport network, as well as tourist routes, school buses and dial-a-ride buses. PostBus runs two autonomous shuttles on public roads in the city of Sion. The PostBus App includes features such as the sale of tickets for the entire Swiss public transport network. To round off its services, PostBus also operates the PubliBike bike sharing service, providing 3,100 bikes at 321 stations.

PostBus route network

31.12.2018

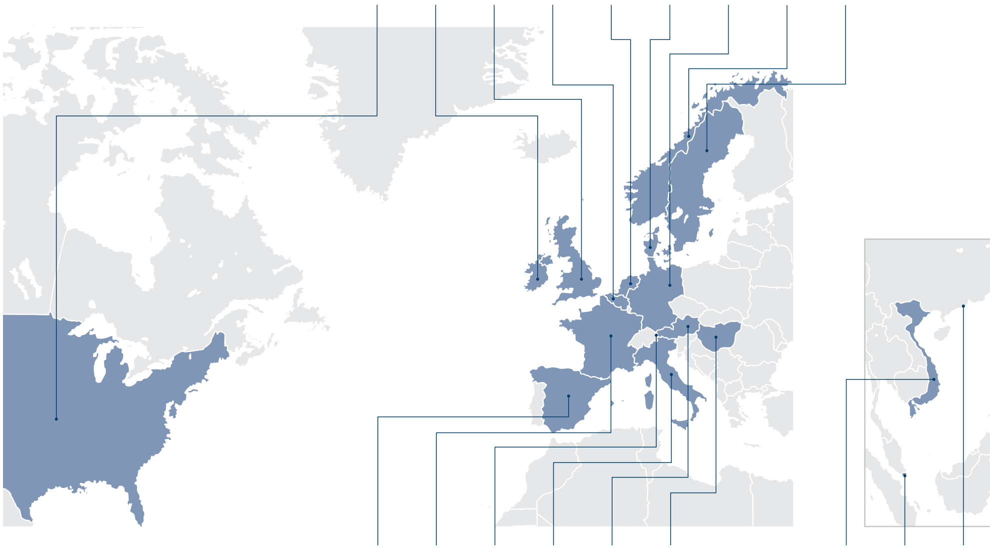
Abroad

Selective presence abroad.

Swiss Post has its own branches in 19 countries. Post CH Ltd is represented by subsidiaries, franchise or cooperation partners and sales agents in Europe, North America and Asia. Cooperation with partners abroad gives it access to their global logistics networks. A PostBus subsidiary operates the entire regional transport network in Liechtenstein. An orderly exit from the French business is currently being examined by PostBus.

Swiss Post abroad

2018	US	IE	UK	BE	NL	DK	DE	NO	SE
International letters	■[1]		■[1]	■[1]	■[1]	■[1]	■[1]	■[1]	■[1]
Passenger transport									
Document solutions BPO[2]	■	■	■		■		■		



	ES	FR	LI	IT	AT	HU	VN	SG	HK
International letters	■[1]	■		■[1]	■[1]			■[1]	■[1]
Passenger transport		■	■						
Document solutions BPO[2]	■	■	■	■	■	■	■	■	■

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

Brands

Three brands under one roof.

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

The brand identity and strategy developed and introduced last year, together with the optimized brand identities, were further implemented in day-to-day operations in 2018. The current improvement measures aim to create a customer-oriented experience at all contact points with the Swiss Post core brand and the two flagship brands PostFinance and PostBus. Synergy effects are also achieved and the brands are compellingly brought to life across all the points of contact by means of closely coordinated interplay between the different communication tools in terms of content, form and timing.

Brands and markets

Core brand

SWISS POST

Passenger transport market	Communication and logistics market	Financial services market
Flagship brand		**Flagship brand**
PostBus	SWISS POST	PostFinance

Image and product campaigns were combined under one roof and a joint marketing/communication architecture developed in 2018. The new, integrated product communication was inaugurated in March and continued in June with a broad-based national billboard campaign. This consists of eight product adverts as well as a template building block system for product communication. Swiss Post's integrated image campaign with the slogan "Swiss Post is right here. For everyone." was launched in autumn 2018. The campaign uses TV, print and online channels to further increase confidence in the Swiss Post brand.

The "Dynamic sponsorship: commitments for Swiss Post" pillar of the current sponsorship strategy places a clear emphasis on private customers. The two commitments "Hiking" and "TEDx" strengthen the target positioning. They allow us to demonstrate proximity and accessibility and help ensure a positive Swiss Post experience. Together with the two other main sponsorship pillars (business sponsorship and social sponsorship), they establish Group sponsorship as a brand management tool.

Regular image measurements are carried out on the brand identity. This showed that Swiss Post maintains a leading position in its core business with a supported familiarity score of 97 percent from businesses and 100 percent from the general population. Swiss Post has been the focus of politicians and the media since the discovery of the excess subsidy payments at PostBus in February 2018. However, this has not had a negative impact on the way in which the Swiss Post brand is perceived by the population – the public even rated the brand slightly higher in the first half of 2018 than in the second half of 2017. There was nevertheless a slight, but insignificant decline, in perception by the business target group. Both the Swiss population and businesses continue to associate Swiss Post strongly with letter and parcel services, and only occasionally with new digital or physical-digital services.

Swiss Post is setting new standards in its target markets thanks to the physical-digital interplay of the services offered. It aims to continue to specifically integrate the underlying expertise at the interface between the physical and digital worlds into the brand identity and communication in the future, 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.

Organization

A market-oriented structure.

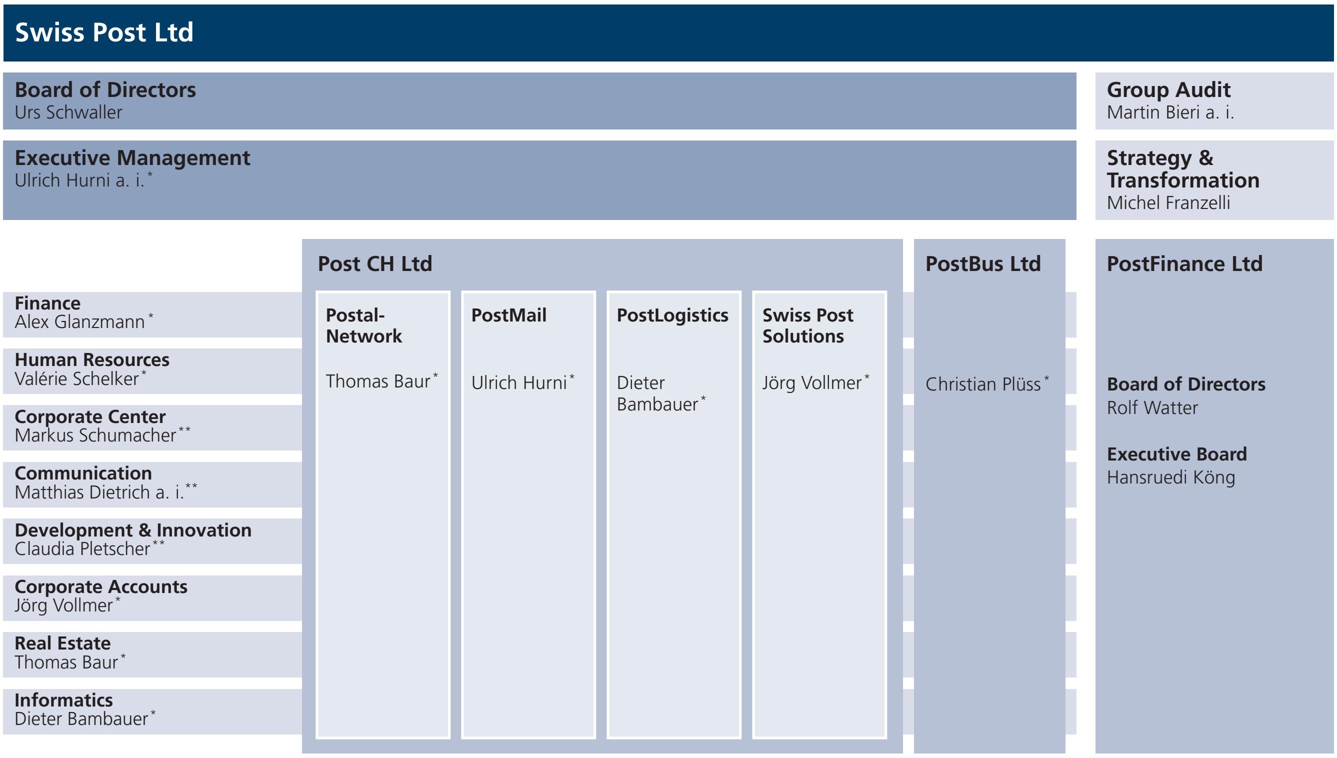
Swiss Post operates six executive Group units: PostalNetwork, PostMail, PostLogistics, Swiss Post Solutions, PostBus and PostFinance. They are presented in the annual financial statements as individual segments.

The Finance, Human Resources, Corporate Center, Communication, Development & Innovation, Corporate Accounts, Real Estate, Informatics, Group Audit and Strategy & Transformation 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.

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

Organization chart

31.12.2018



* Member of Executive Management
** Member of Extended Executive Management

More information on the Board of Directors and Executive Management can be found on pages 64 to 66 and 69 to 70. For details of changes to the Board of Directors and Executive Management during the year under review, see pages 66 and 71.

Background

Swiss Post's operating environment is marked by change. Its activity is affected by changing technological, sociocultural, economic, and legal and political factors. It needs to exploit the transformation for its own benefit.

Trends in the environment

2018

Technological factors

The digital transformation is presenting Swiss Post with challenges.

There is a constant need to adapt to keep up with the 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 transformed. Thanks to intelligent data analysis (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.

Sociocultural factors

Mobile access to the Internet via smartphone and the use of the Internet for communication, 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 and to recognize the opportunities for playing new roles in sectors such as mobility solutions or the circular economy.

Economic factors

Technology leaders with disruptive business models are increasing their presence in Swiss Post's markets. They are expanding their product ranges horizontally so that their customers can consume a wide variety of products and services from one and the same corporate ecosystem. Economic pressure on Swiss Post is rising in all four markets:

Communication market

Digital substitution is progressing in the mail business, but its intensity is difficult to predict. It therefore represents a risk for Swiss Post. What is certain is that letter volumes and demand for traditional over-the-counter services will continue to decline. The market for promotional mailings and small goods consignments offers growth opportunities. 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 provider of document solutions, can tap into this potential.

Logistics market

The ongoing internationalization in digital/e-commerce is bringing international logistics competitors and price pressure to Switzerland. Parcel senders and recipients are price-sensitive and have high expectations as regards quality. There is a demand for rapid delivery, flexible recipient services and seamless international processing (incl. customs clearance). Orders from Swiss customers continue to rise.

Financial services market

The low interest environment is likely to persist due to the weak European economy. In this market environment, it is becoming increasingly difficult for PostFinance to find profitable investments for the customer deposits entrusted to it. Accordingly, its income is declining by a figure in the high double-digit millions each year. The challenge facing PostFinance is to diversify its entire income structure and tap into new business areas in which non-interest income can be generated.

Passenger transport market

As purchasers of services, the Confederation and cantons are less able to pay compensation to transport companies owing to scarcer financial resources. The situation in the passenger transport market is made more difficult by the fact that for many years, PostBus received excess compensatory payments due to accounting practices that do not comply with the law. 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. Individual customers continue to demand more flexible, varied and combinable mobility services such as sharing models in urban areas.

Swiss Post must develop its business models at a rapid pace whilst verifying its strategy and ensuring the necessary process and cost efficiency.

Legal and political factors

Legal requirements changing over time.

In the year under review, the regulatory and political environment in which Swiss Post operates was marked by the public debate and network development announced in October 2016, as well as by the parliamentary discussion of the evaluation of postal legislation presented by the Federal Council. The evaluation focuses mainly on the usefulness, efficiency and economic viability of the universal service and represents the first step in the further development of postal legislation. In its evaluation report, the Federal Council comes to the conclusion that universal postal and payment transaction services are provided by Swiss Post and financed from its own resources. It proposes selected modifications to postal legislation, particularly to encourage competition or to guarantee even better protection for consumers. On behalf of the Federal Council, the Federal Office of Communications (OFCOM) investigates the requirements of the population in relation to the universal service. Ultimately it comes down to defining the universal service of the future. As part of the evaluation, a large number of initiatives concerning Swiss Post were submitted to the Swiss parliament. Key aspects to note are the motions from the two transport commissions regarding the postal network and ensuring an equal playing field for Swiss Post and its competitors. In association with Swiss Post, the working group on future accessibility requirements set up by DETEC drew up a proposal which was approved by the Federal Council in November 2018 and came into force on 1 January 2019.

Swiss Post wants to achieve its transformation in dialogue with the public, politicians and the supervisory authorities.

2020 Swiss Post strategy

Suitable solutions for customer requirements of the future.

Swiss Post is meeting the challenges in its environment in the years 2017 to 2020 by implementing a transformation strategy. Its aim is to complete a transformation by 2020 that will enable it to offer solutions to meet the customer requirements of the future.

Swiss Post's strategy is based on its statutory mandate, the strategic goals set by the Federal Council and Swiss Post's vision. The strategy consists of four strategic thrusts for achieving the specified targets (Swiss Post's strategic goals). Swiss Post is considering growth options that could be achieved through new business models in seven growth and business development areas.

Statutory mandate and strategic goals set by the Federal Council

Swiss Post's activity is based on the Postal Services Act, the Postal Services Organization Act and the related ordinances. As the owner, the state defines strategic goals for Swiss Post every four years.

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 Services 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 a 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 Post for home delivery (delivery method and nationwide coverage). Priority and non-priority individual items (A and B Mail, as well as Priority and Economy parcels) are universal service products for which much stricter guidelines regarding delivery times must be met than in other countries. Postal legislation stipulates that 97 percent of addressed domestic letters and 95 percent of domestic parcels must be delivered by Swiss Post on time. Priority items must be delivered to their destination by the following day, while non-priority individual items must be delivered within three working days after the day of posting. Individual universal service items are available in branches and 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.

Classification of services

2018	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

Strategic goals set by the Federal Council

Universal service and profitable growth.

The Confederation, as Swiss Post's owner, manages the company through the designation of strategic goals. 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 this period. A number of new aspects were integrated into the goals in response to the new market conditions and customer requirements. 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 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 develop services in the areas of information and data transmission.

The Federal Council expects Swiss Post to provide a high-quality universal service comprising postal services and payment transaction services throughout Switzerland in accordance with the Postal Services Act of 17 December 2010. Swiss Post should offer a high standard of marketable, innovative products, services and solutions in both physical and electronic form in its core business in the communication, logistics, financial services and passenger transport markets. In particular, Swiss Post should:
– secure a leading market position in the area of national and cross-border letter and parcel mail
– cover modern communication and logistics requirements by the development of contemporary services, particularly in the areas of information and data transmission
– consolidate its position as an established financial institution on the Swiss market
– maintain its position as market leader in national and cross-border payment transactions
– develop products and services to meet customers' financial requirements (in the sub-markets of payments, savings, investments, financing and retirement planning)
– remain an important and risk-conscious investor in the domestic and international money and capital markets
– secure its position as market leader in public passenger transport in Switzerland
– develop new system services and comprehensive mobility solutions in domestic and international public bus transport

The aim is to generate profitable growth and to increase the company's earning power as a result of efficiency improvements. Swiss Post should achieve industry-standard returns in all business areas in order to maintain and increase the company's value in the long term. The payment of dividends to the Confederation should observe the principle of consistency.

Within its operating confines, Swiss Post should pursue a corporate strategy committed to ethical and sustainable principles and take account of regional concerns in the various areas of the country in its organizational structure. Its human resources policy should be progressive and socially responsible, and its employment conditions attractive.

Vision and core values

In 2014, Swiss Post set itself a 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”.

Swiss Post’s strategic goals

With its strategic goals for the strategy period 2017 to 2020 Swiss Post is setting out its ambitions regarding customer focus, market position, efficiency, employee commitment, corporate responsibility and finances.

Customers
- Customer satisfaction: at least 80 points (on a scale of 0 – 100)
- Customer experience: increase customer experience or recommendation rate per unit
- Customer proximity: over 4,200 access points

Market
- Swiss Post wants to generate 10 percent of new revenue by 2020. It is therefore growing in its core business and in seven growth and business development areas. Swiss Post wants to remain the market leader in its four current markets.

Efficiency
- Swiss Post wants to optimize its processes. As well as implementing measures to increase efficiency in the units, it is seeking to achieve around 5 percent of savings at Group level by 2020. This includes savings in cross-unit functions (Finance, HR, Communication), in procurement and in IT.

Employees
- Employees are crucial to business success. Swiss Post relies on staff commitment and wants to maintain a very high employee commitment score of 80 points (scale of 0 – 100).

Corporate responsibility
- Swiss Post is aiming to improve its CO_2 efficiency by at least 25 percent by 2020 (base year 2010).

Finances
- Despite the challenging market situation, Swiss Post is aiming to achieve an operating result (EBIT) of 600 million francs in the strategy period which runs until 2020.

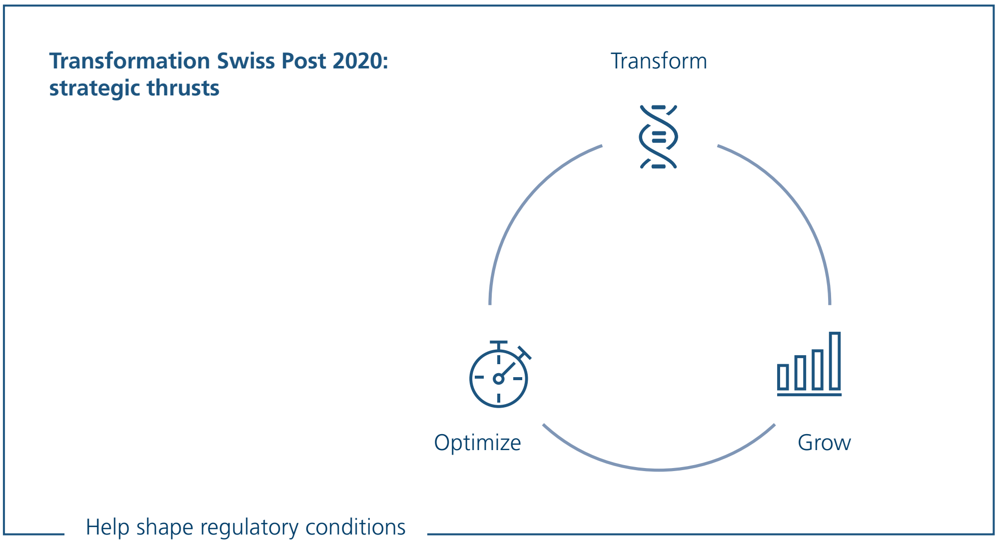
The challenges in the environment have intensified further, which means achieving the goals that have been set until the end of the strategy period is likely to be difficult.

Strategic thrusts

Transform, grow, optimize and help shape regulatory conditions.

In order to meet its goals, Swiss Post is pursuing four strategic thrusts: transform, grow, optimize and help shape regulatory conditions. See also pages 8 to 14 of the Annual Report.

Strategic thrusts



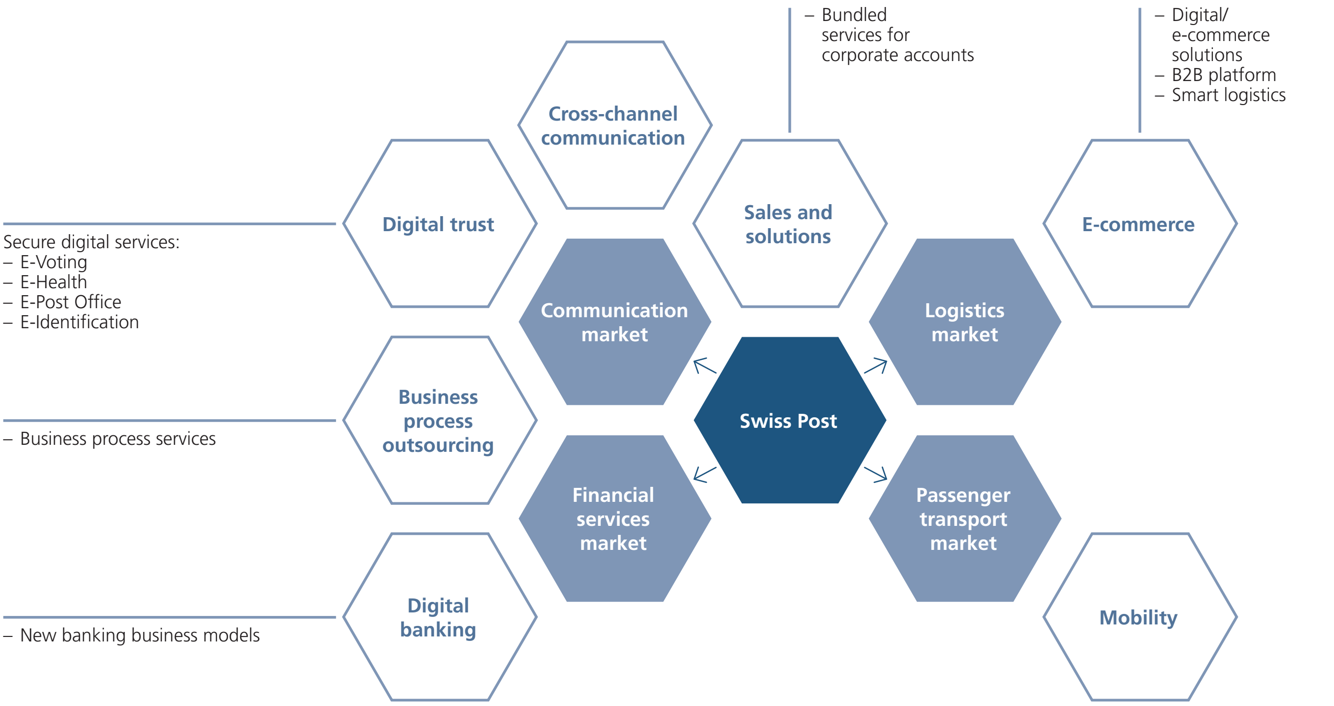
Driving forward transformation of the business

Swiss Post is changing by adopting measures in the areas of customer experience management, digitization and employee skill changes. It is also transforming the postal network so that it can continue to meet customer requirements in the future. This first thrust will allow substantial innovations to be introduced.

Generating growth and new business

Swiss Post is seizing the opportunities offered in its environment and aiming to achieve 10 percent of new revenue by 2020. To do so, it is seeking to grow in its core business and beyond. The seven focal points of its growth and development programme are particularly important here (see pages 10 to 13 of the Annual Report for details of the growth and business development areas). The following illustration shows which new business models will be developed in each development area.

Growth and business development areas



Optimizing and increasing efficiency

In order to be able to invest in the future, Swiss Post needs to become even more efficient in its core business. It is aiming to increase efficiency by 5 percent by 2020. The "functional management" programme for the Finance, Human Resources and Communication service units, the optimization of ICT and reorganization of procurement are part of this strategic thrust. More information can be found on page 14 of the Annual Report.

Helping shape regulatory conditions

The regulatory framework forms the basis for Swiss Post's business activities. As a closely regulated company, Swiss Post finds itself trying to reconcile the conflicting demands of the market and politics. It wants to fulfil its universal service obligation in such a way that it reflects changing customer requirements. To do so, it requires entrepreneurial freedom. In dialogue with the regulators, Swiss Post exerts its influence on core topics in order to generate as much customer benefit as possible.

Market strategies

The strategies of the management units form the link between Group strategy and Swiss Post's activities in its four markets.

Communication market

PostMail

Letters enjoy a strong impact.

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 (cooperation with France's La Poste), in the international small goods business, and in the development of cross-channel communications products at the interface between the physical and the digital world. PostMail's core business is rounded off by new and innovative services, for instance over the "last mile".

Swiss Post Solutions

Leading international position in business process outsourcing.

Swiss Post Solutions (SPS) helps its national and international customer with the digital transformation of business processes by providing document solutions – a fast-growing market with a global volume of well over 30 billion dollars. By offering innovative solutions in the areas of mailroom services, document input processing, intelligent automation, business process services and document output processing, SPS is aiming to make a tangible contribution to Swiss Post's new business by 2020 and to expand its leading international position. Reputed business customers all around the world already place their trust in the expertise of SPS in designing, developing and implementing end-to-end solutions and in providing professional advice on the key value drivers in business process outsourcing. The main focus is on financial service providers (insurance companies, banks) and industries such as telecommunication providers and energy suppliers. SPS operates in all the major economic areas around the globe either directly or through partners. Its core markets remain Switzerland, Germany, the UK and the USA.

PostalNetwork

On the go, at home, digitally: PostalNetwork is close to its customers.

Swiss Post already offers the densest network of postal services in Europe. It intends to expand this with new, alternative access points. PostalNetwork is increasingly opting for formats, models and services that customers can easily integrate into their everyday lives, both digitally and physically. Branches remain a key part of the network. They increasingly offer customers attractive opening times through partners such as retailers. Swiss Post is gradually introducing a new model for its self-operated branches, with a perceptibly stronger focus on Swiss Post's own products, advice on digital and physical Swiss Post services, and integrated self-service solutions.

Logistics market

Number one in the Swiss logistics, parcel and digital/ e-commerce markets.

Driven by booming online trade and continuing globalization, logistics and, in turn, PostLogistics will continue to expand. The strongest growth drivers will have an impact on the parcel division. Goods logistics are also registering positive growth due to internationalization and increasing requirements in the B2B segment.

A new phase of digital/e-commerce will turn the world into a worldwide warehouse. Trade is shifting from in-store to electronic commerce, and customer-specific omnichannel concepts with integrated customs clearance solutions are becoming a reality. Domestic retailers are coming under increasing pressure due to the wide selection of products, price differences and ever shorter delivery times offered by international competitors, particularly from Asia. Interest groups are being formed in response, and the importance of imports will continue to grow. A significant speed shift, i.e. faster delivery, is also being observed.

In addition to existing competitors, new rivals located in neighbouring countries, partly from outside the sector, are forcing their way onto the parcel market. It can therefore be assumed that these or other competitors will also enter our market in the short or medium term. Furthermore, due to disruptive technologies, new competitive models can bring about fundamental and lasting change to the market at any time (such as "uberfication"/the platform economy, 3D printing, etc.).

Based on its underlying strategy of quality and cost leadership, PostLogistics is endeavouring to secure its position as the pace-setter on the Swiss logistics market. PostLogistics is driven by its ambition to remain the largest logistics provider in Switzerland and in the cross-border parcel business. Its additional strategic goals include strengthening market leadership in the parcel business and digital / e-commerce and creating positive customer experiences. Market-driven innovations should also secure an advantage over the competition in the long term. Delivery times are being shortened thanks to further innovative services. Small consignments, warehousing and Innight are being positioned more strongly in high-quality niche markets – for instance in the pharmaceutical industry.

The main features which set PostLogistics apart include the comprehensive product portfolio, high degree of standardization of bulk business, high-quality nationwide network and very good knowledge of local market conditions/customer preferences of our mail carriers.

Financial services market

From a traditional financial service provider to a digital powerhouse.

The increasing digitization of banking services has resulted in more and more global technology companies, as well as fintech start-ups, forcing their way onto the market. This, and today's difficult market environment with persistently low interest rates and declining revenues in the core business, force PostFinance to act. Its aim is to make better use of the many opportunities offered by digitization and to actively drive and help shape the process. PostFinance is therefore focusing its strategy even more closely on the digital world and developing from a traditional financial service provider into a digital powerhouse.

PostFinance has defined strategic thrusts for the future: digitization of its core business, enhancement of the investment options it offers its customers, implementation of the solutions business for major business customers and development of additional sources of income from new business models.

On the road to becoming a digital powerhouse, innovation management plays a key role, allowing PostFinance to recognize promising products, technologies and business models at an early stage. At the same time, PostFinance is increasing its commitment to corporate venturing, with targeted investment in young, innovative or highly specialized growth companies whose operations are relevant to its core business. In the future, an increasing proportion of innovation will therefore be in collaboration with partners.

Passenger transport market

Leading position in road passenger transport.

As part of its realignment, PostBus is refocusing on its strengths, affirming its social responsibility and concentrating on its core business, "regional passenger transport", including directly related other business. With this new identity in mind, PostBus is therefore seeking to enter other business areas in addition to its core business. These should help it to make public transport more customer-friendly and efficient, to optimize the use of operating capacities and to participate in new mobility solutions.

Corporate responsibility strategy

Swiss Post is aware of its special corporate responsibility as one of the largest employers and as the market leader in postal services, payment transactions and road-based public passenger transport in Switzerland.

We take an ethical approach to our corporate responsibility. This approach is implemented at Swiss Post based on clear principles which are firmly embedded as core values – “reliable”, “value-enhancing” and “sustainable”. For Swiss Post, sustainability means ensuring an appropriate balance between economic success, environmental action and social responsibility, while taking account of the needs of current and future generations. As regards sustainability, Swiss Post wishes to remain one of the leading postal companies internationally, and to be amongst the most exemplary companies nationally.

Swiss Post is contributing to sustainable development with forward-looking solutions.

In the strategy period from 2017 to 2020, Swiss Post intends to develop new products and skills in line with customer requirements for an energy-efficient, resource-friendly, circular and fair economy. Swiss Post is committed to sustainable and responsible procurement and works for the common good. It continuously reduces its greenhouse gas emissions thanks to energy-efficient buildings and vehicles, optimized logistics processes, innovative alternative technologies and the use of renewable energy. Swiss Post additionally enables its customers to act sustainably by offering products such as the carbon-neutral “pro clima” – Shipment service. It also does its bit for society by proposing jobs in rural areas and taking responsibility for its supply chain.

In the strategy period from 2017 to 2020, Swiss Post is aiming to achieve a CO_2 efficiency increase of at least 25 percent by the end of 2020 (base year 2010) in its established climate and energy area of action. 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 degrees Celsius by 2100 compared to pre-industrial levels, as decided by the international community as part of the Paris Climate Agreement.

The focus of the other areas of action within the corporate responsibility strategy is on topics that have been classified as highly relevant by internal and external stakeholders and that strongly influence Swiss Post’s entrepreneurial freedom. Responsible procurement, circular economy, corporate citizenship and now also employees are defined as further areas of action with goals and strategic measures.

Responsible procurement

Our ambition

In terms of sustainability, we want to become one of the leading procurement organizations in the postal industry.

Goals and strategic thrusts

- Incorporate sustainability criteria into service tenders.
- Draw up a risk evaluation for strategic suppliers.
- Integrate the circular economy and carbon-neutral approach consistently into procurement practice.

Sustainability is a vital part of the overall procurement process.

Swiss Post wants to continue to structure its procurement in a sustainable manner. The central focus is on the concept of due diligence, with the entire supply chain and the activities of suppliers being placed more firmly in the spotlight. In turn, Swiss Post advocates socially acceptable working conditions and environmental measures at its suppliers across the entire procurement chain.

Since 2017 corporate responsibility criteria have been taken into account in all public tenders, and by 2020 all strategic suppliers will undergo risk evaluation. In extensive procurement processes, lifecycle costs are taken into account in the contracting decision. This ensures that the most economically advantageous tender – and not the cheapest offer – is considered as prescribed by the legislator. Growing attention is being paid to the procurement of recyclable products. As a member of the Fair Wear Foundation, Swiss Post has also undertaken to comply with comprehensive social standards in the manufacture of its clothing since 2012. For the fifth time in a row, the Foundation designated Swiss Post as a "leader".

Climate and energy

Our ambition

Swiss Post's climate goal is in line with the objective of stabilizing global warming to well below 2 degrees Celsius by 2100.

Goals and strategic thrusts

- Improve CO_2 efficiency by at least 25 percent by 2020 (base year 2010).
- Promote renewable energy and increase its share.
- Use the best available technologies and expand climate-friendly products.

More information on the achievement of these goals can be found integrated into the Annual Report, on pages 51 to 53 of the Financial Report and in the Sustainability Report, available at www.swisspost.ch/sustainabilityreport.

Employees

Our ambition

Swiss Post develops its employees and organization in order to succeed.

Goals and strategic thrusts

- Employee performance is ensured, even with age.
- The organization is transforming into a varied working environment and is becoming more agile and innovative.
- By 2020 a joint leadership understanding will be developed and appropriate conduct demanded.

Employees – agile, innovative and diverse.

Swiss Post is committed to the health of its employees. It seeks to take account of demographic trends and changing requirements by implementing health promotion management and by applying a working model that maintains performance levels throughout every phase of life. Diverse teams help to create an agile, innovative working environment. Diversity is promoted in a targeted manner. Management has an important role to play in the successful completion of the current phase in our transformation as a postal service provider. Management training is adapted to changing requirements, for example.

More information on the employees area of action can be found in the human resources section on pages 48 to 51.

Circular economy

Our ambition

With our products and skills, we support a resource-friendly and circular economy.

Swiss Post offers intelligent logistics solutions in the circular economy.

Goals and strategic thrusts

- Tap into new logistics potential and create additional social benefits.
- Support circular product use with innovative logistics services.

Swiss Post's products and skills support a resource-friendly, circular economy. With its services Swiss Post helps to increase the frequency of use and recycling rate of resources, thereby ensuring that consumption in Switzerland is more responsible towards future generations. Swiss Post wants to tap into new logistics potential and create social benefits. It is particularly committed to the recycling of selected reusable materials, the repair and reuse of devices and work resources, and the encouragement of opportunities for sharing. Swiss Post takes back used Nespresso coffee capsules as well as PET bottles and packaging material when exchanging e-food orders, and disposes of them correctly. It collects used paper on behalf of municipalities and recovers everyday items and textiles for reuse and recycling in partnership with institutions such as second-hand shops or Texaid. In addition, it makes the logistics and data processing skills it has acquired in e-commerce available to sharing or repair platforms. Swiss Post also takes its social responsibility seriously as a consumer: it installs used scooter batters in stationary energy storage units, collects used Swiss Post clothes, and is increasingly committed to sustainable forms of procurement, for instance in building technology, and to the targeted management of its own daily waste.

Corporate citizenship

Our ambition

We are committed to the common good and make corporate resources available for charitable, social or environmental purposes.

Goals and strategic thrusts

- Contribute to solving social or environmental challenges and create added value for society.
- Encourage employees to publicize and support Swiss Post's commitment to corporate citizenship.

Swiss Post's social commitment is taking effect.

Swiss Post is committed to charitable and social concerns. Social commitments such as the "Santa Claus campaign" are anchored in Swiss Post's corporate responsibility strategy. They are part of the corporate citizenship area of action. In activities of this kind, Swiss Post donates a proportion of its resources specifically to support charitable and social concerns. Swiss Post has been making an active contribution in this area for years, for example by providing logistics services free of charge for the "2 × Christmas" distribution campaign organized by the Swiss Red Cross (SRK), and delivering Christmas gifts to people in need. Work clothing that is no longer used is collected and donated to the SRK to be given a new lease of life. Items of clothing that can no longer be worn are made into bags or laptop covers by the social organization BEWO. Swiss Post also has a cultural commitment, supporting Swiss artists with its own art collection. Foundations and projects with a social, cultural or historical background or a focus on youth work are promoted by Swiss Post – via the postage stamp fund or the issue of special stamps with a surcharge such as Pro Patria or Pro Juventute. The latter make an important contribution to raising funds and conveying messages. Swiss Post also supports the project "Each cell counts – schools generate solar power!" that involves schoolchildren installing solar power systems onto the roofs of Swiss schools – the electricity generated as a result is used directly inside the building. Swiss Post employees can volunteer to help fit solar panels onto roofs.

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 set by 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, for industry-standard returns to be achieved in all business areas and for net debt to be less than 1 × EBITDA.

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 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. Investments and allocation of resources to strategic projects or business units are controlled centrally, taking into account the investment potential available. Approval of individual plans such as investments, projects or acquisitions of participations with a considerable financial impact or of plans with strategic importance is granted by Swiss Post's Executive Management or Board of Directors according to the funds required or the type of business.

Swiss Post's financial reporting is conducted within the framework of management reporting (internal reporting) and on the basis of consolidated financial statements (external reporting).

The management reporting shows the contribution of the 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. Results are also determined for services based on their classification: universal service, outside the universal service, monopoly and competition. 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 three elements 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, challenges 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.

Business performance

Key figures

Operating profit and Group profit down on previous year.

Swiss Post generated Group profit of 405 million francs in 2018. Operating profit (EBIT) fell to 501 million francs. Swiss Post achieved a good overall result again in 2018 despite the difficult environment. The fall in profit year-on-year is due to the negative interest rate situation as well as the necessary reimbursement of the irregular compensatory payments received and other effects at the PostBus unit. As a result of the current transformation of Swiss Post's core business, access points and organizational aspects are continuously being tailored to future requirements.

Group | Key figures

2018 with previous year for comparison		2017	2018
Results			
Operating income [1, 4]	CHF million	8,064	7,691
Generated abroad and crossborder [2]	CHF million	1,153	1,191
	% of operating income	14.3	15.5
Reserved services [3]	CHF million	1,153	1,106
	% of operating income	14.3	14.4
Operating profit [1, 4]	CHF million	718	501
As a share of operating income [4]	%	8.9	6.5
Generated abroad and crossborder [2]	CHF million	82	82
	% of operating profit	11.4	16.4
Group profit [1]	CHF million	527	405
Employees			
Headcount at Swiss Post Group	Full-time equivalents	42,316	41,632
Abroad	Full-time equivalents	6,971	7,310
Financing			
Total assets [4]	CHF million	127,289	124,202
Customer deposits (PostFinance) [4]	CHF million	113,195	111,141
Equity [4]	CHF million	6,583	6,732
Investments			
Investments	CHF million	394	412
Other property, plant and equipment, intangible assets	CHF million	245	252
Operating property	CHF million	97	63
Investment property	CHF million	29	24
Investments	CHF million	23	73
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities [4]	CHF million	1,941	–1,309
Value added [1, 5]	CHF million	5,143	4,686
Economic value added [1]	CHF million	102	–28

1 Normalized figures for 2017.
2 Definition of "abroad" in accordance with the segmentation in the Financial Report.
3 Letters up to 50 g.
4 Figure has been adjusted (see Note 2, Basis of accounting, Accounting changes).
5 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 240).

Drivers

The economy

According to the Swiss National Bank, global growth has lost momentum somewhat in the past few months. Economic indicators are therefore more mixed than they were a few months ago. Employment figures in the advanced economies rose and unemployment declined. The growth in international trade in goods also continued. Economic growth slowed in the euro area, although this is likely to have been temporary. Household and business survey results point to economic activity remaining solid, and this is likely to continue to be underpinned by favourable financing conditions and robust growth in household income. In Switzerland the slowdown in growth was more pronounced than expected. Overall capacity utilization deteriorated somewhat as a result. The favourable development in the labour market continued. Unemployment has receded further in the past few months.

Customers and sectors

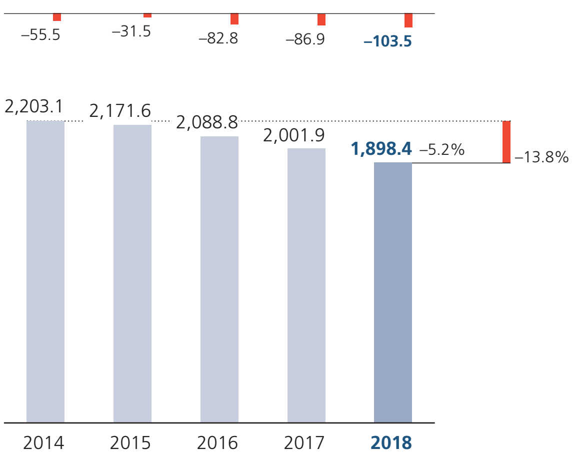
Volume trends reflect changing customer behaviour.

Communication market

We deliver around 7 million addressed letters and process over half a million payments at the counter each day, making us the leading postal organization in Switzerland. Our products for private and business customers range from physical, hybrid or electronic letters and goods consignments to value-added services such as cash on delivery, registered letters and promotional mail. We face challenges because demand for traditional postal services is falling. In the communication market the number of addressed letters was down 5.2 percent and the number of payments processed declined by 5.7 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 rose by 5.9 percent year-on-year. The products offered by Swiss Post Solutions to help companies with the outsourcing of business processes and with innovative services in document solutions continue to meet with very high demand. The business process outsourcing unit was further strengthened in July 2018 by the acquisition of HR process outsourcing activities from the DXC Group.

More pronounced decline in letter volumes.

Communication market | Addressed letters in millions
2014 to 2018
2014 = 100%



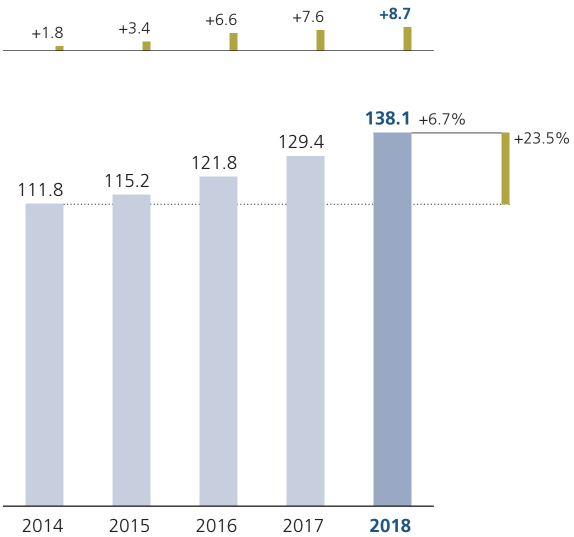
High level of dynamism due to increasing demand and competition.

Logistics market

We deliver over 500,000 parcels in Switzerland each working day on average. In the logistics market too, we are the largest service provider in Switzerland. Our comprehensive range of services in the national and international parcel business, e-commerce, freight and warehousing, Innight, Courier and Express, fleet management, customs clearance and valuables logistics is experiencing higher demand. We are pleased to meet this demand by investing in new parcel centers, for example. Domestic parcel volumes carried by PostLogistics increased year-on-year (+7.1 percent). Import and export volume trends remained stable. The overall increase stood at 6.7 percent.

E-commerce leads to new record volumes.

Logistics market | Parcels in millions
2014 to 2018
2014 = 100%



Regulatory framework represents an increasing burden.

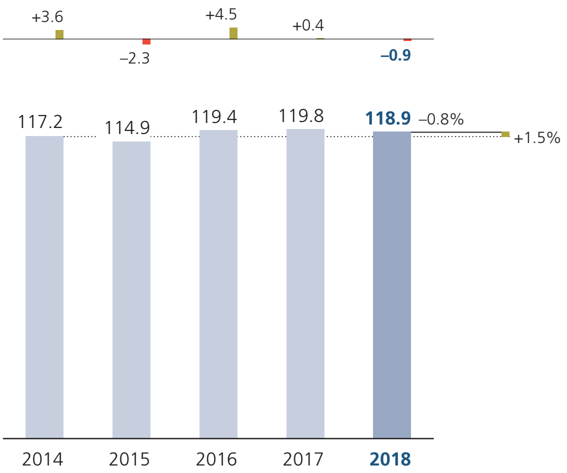
Financial services market

We make a significant contribution to the functioning of the Swiss economy with payment transactions from PostFinance. In addition, we have a business relationship with virtually every household and SME in Switzerland. This obliges us to provide top performance, but also represents the basis for our motivation. The banking arm of Swiss Post is taking the current interest rates and changing customer requirements as an opportunity to consistently gear its strategy towards the transformation into a digital powerhouse. The aim is to help our customers manage their money as easily as possible.

No short-term measures can compensate for PostFinance's competitive disadvantage in not being able to issue its own loans and mortgages. In the medium to long term, PostFinance is tapping into new sources of revenue through innovation and the targeted expansion of business activities, particularly in the investment area. Swiss Post is following the debate on the lending prohibition initiated by the Federal Council with great interest, and is prepared to state its case as a directly affected party.

Trend reversal initiated in customer assets.

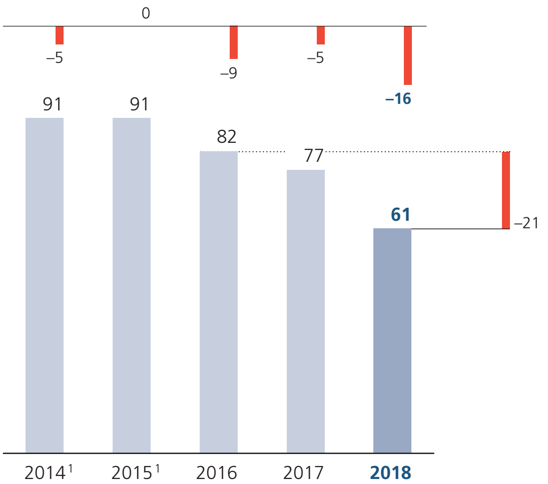
Financial services market | Average customer assets in CHF billion
2014 to 2018
2014 = 100%



The interest differential business is the most important source of income for PostFinance. Special attention needs to be paid to the current low interest rate situation and prevailing operating framework. In autumn 2018 PostFinance announced pricing measures for key services as an appropriate way to counter the above-mentioned operating framework. Customer confidence remains intact, and average customer assets declined by just 0.9 billion francs (0.8 percent) year-on-year despite the pricing measures. An investment crisis continues on the assets side of the balance sheet, as reflected in the very high levels of liquidity at the Swiss National Bank. Interest margins fell by 16 basis points to 61 basis points year-on-year.

Interest margins decline as expected.

Financial services market | Interest margin in basis points
2014 to 2018
2016 = 100%



1 The definition of the interest margin was modified for 2016. The figures from 2014 to 2015 are not comparable.

Demand remains high for mobility solutions.

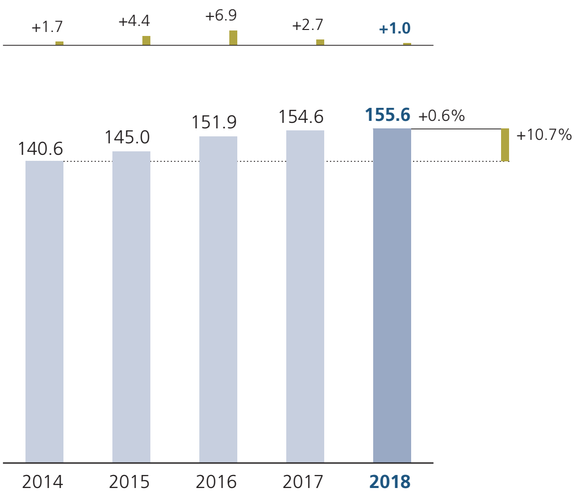
Passenger transport market

PostBus is the market leader in public bus transport in Switzerland. Its comprehensive range of public transport services continues to enjoy growing passenger demand. The transport services provided by PostBus experienced growth of 2.2 percent.

Innovation and sustainability constantly play an important role in the development of the PostBus network. For some time now, PostBus has been making increasing use of vehicles with alternative drives, the most recent example being a purely electrically powered vehicle on the Sarnen-Alpnach route. Since 18 October 2018, PostBus has been testing a new door-to-door service with its partners AMAG and SBB, in cooperation with the canton of Aargau and the Federal Office of Transport (FOT), as part of its efforts towards shaping the mobility of the future. Several minibuses operating under the name "Kollibri" are already available for journeys in the Brugg region (canton of Aargau).

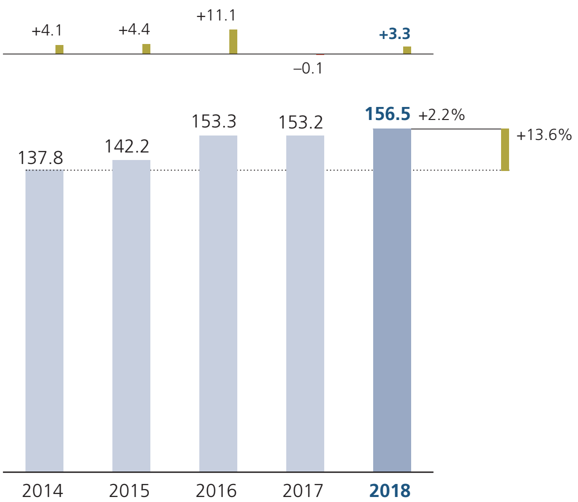
Public transport undergoes further expansion.

Passenger transport market | Number of passengers (Switzerland) in millions of passengers
2014 to 2018
2014 = 100%



The expansion of services continues.

Passenger transport market | Kilometres covered in millions of km
2014 to 2018
2014 = 100%



Profit situation

Economic value added

Negative economic value added.

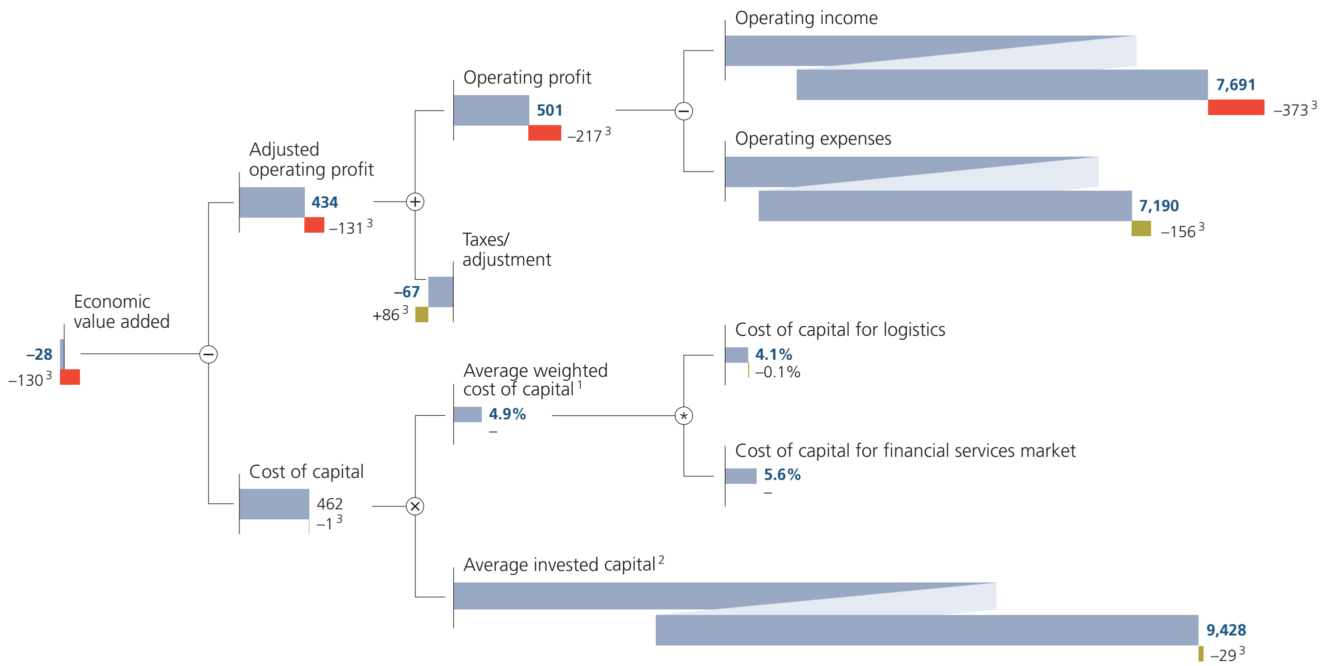
In line with the Federal Council's financial goals, Swiss Post is expected to maintain the positive economic value added in the long term. Economic value added is created when adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also 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 72).

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 the relevant average capital amount).

Economic value added amounted to –28 million francs. The decrease year-on-year is mainly due to the decline in operating profit. This is attributable to the ongoing low interest rate situation and the reimbursement of excess compensatory payments received and other effects at the PostBus unit.

The low interest rate environment and compensatory payments situation give rise to negative economic value added.

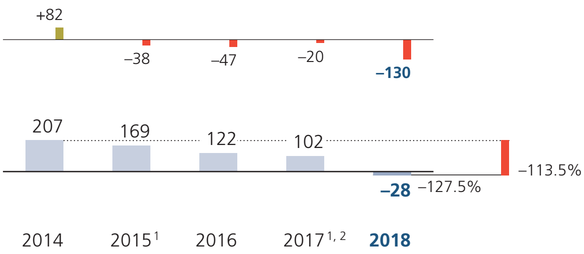
Group | Economic value added in CHF million
2018



⊙ 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 At PostFinance corresponds to average equity in accordance with Basel III of 4,933 million francs and in logistics units to the average net operating assets (NOA) of 4,495 million francs.
3 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

Economic value added continues to decline.

Group | Economic value added in CHF million
2014 to 2018



1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

Income statement

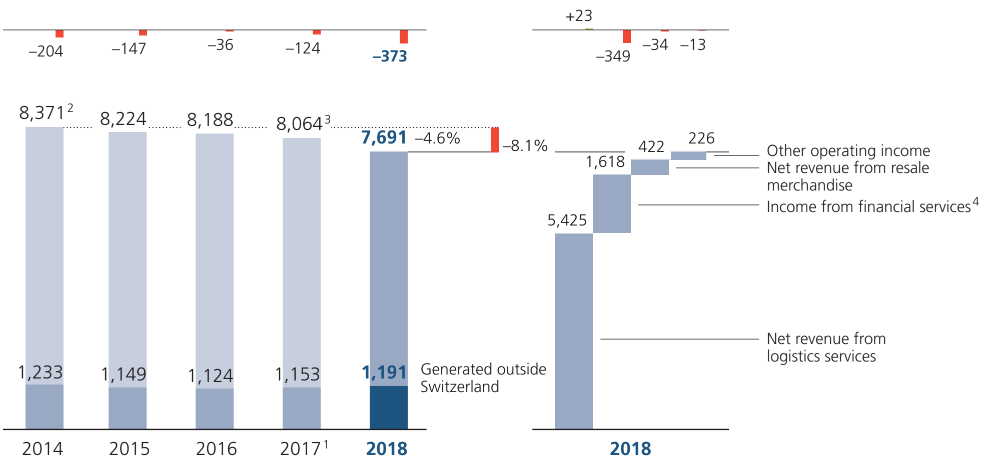
Operating income

Decline in operating income.

Operating income stood at 7,691 million francs in 2018 (prior year, normalized: 8,064 million francs). This represents a decline of –373 million francs year-on year. This was mainly due to declining volumes of addressed letters, interest rate-related decreases in revenue and the required reimbursement of irregular compensatory payments received.

Low interest rate situation accentuates decline in operating income.

Group | Operating income in CHF million
2014 to 2018
2014 = 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).
3 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
4 Including "Other revenue from financial services" of 938 million francs as at 31 December 2018 (as at 31 December 2017: 1,291 million francs).

A slight rise in net revenue from logistics services was achieved thanks to growth in parcel volumes and at Swiss Post Solutions, while income from financial services fell by 349 million francs year-on-year to 1,618 million francs. This is mainly due to non-recurring one-off capital gains of 109 million francs from the sale of shares in the previous year and the current market-related lower interest and dividend income, which decreased by 155 million francs. Due to an accounting change (IFRS 9), the subsequent measurement of the company's own investment funds will be recognized in the income statement from 2018. The performance of these investment funds caused a further decline of 51 million francs in income from financial services in 2018. The above-mentioned accounting change also had an impact on impairment and reversals of impairment. The need for impairment on the investment portfolio is expected to become more stable in future, provided that the perception of risks on the international financial markets remains the same. The net change between impairment and reversals of impairment was around 37 million francs lower than in the previous year. Net revenue from resale merchandise dropped by 34 million francs due to modifications to the product range. Other operating income was down 13 million francs year-on-year, mainly due to a non-recurring one-off payment in the previous year in connection with the finalization of construction activities at the PostParc in Berne.

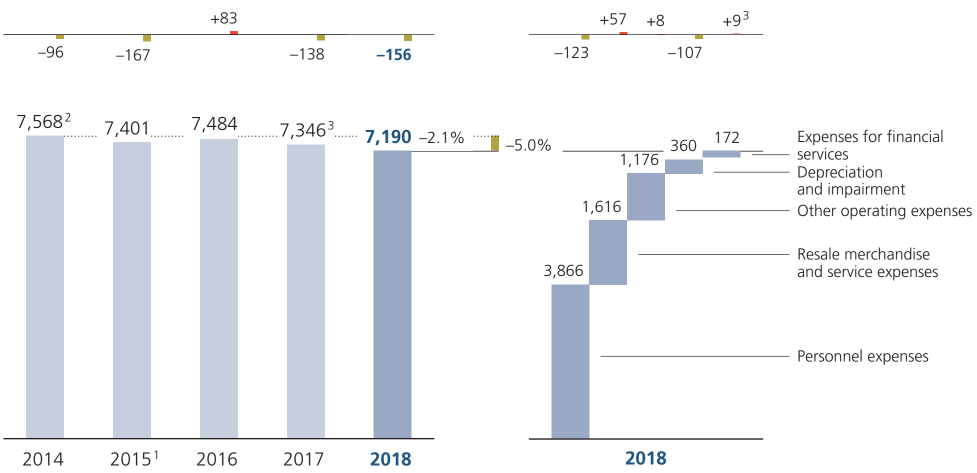
Operating expenses

Reduction in operating expenses.

Operating expenses declined by 156 million francs to 7,190 million francs year-on-year (prior year: 7,346 million francs). Personnel expenses in relation to total operating expenses remained stable and stood at around 54 percent in 2018.

Greater efficiency and reassessment of useful life have an impact.

Group | Operating expenses in CHF million
2014 to 2018
2014 = 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).
3 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

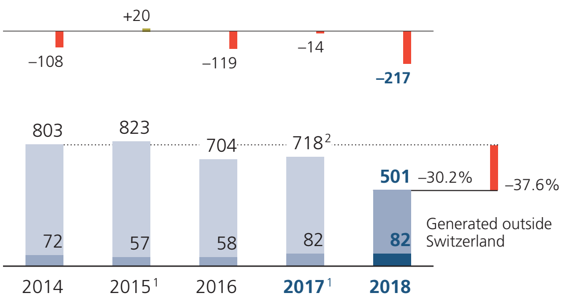
The fall in personnel expenses year-on-year associated with the reduction in headcount was mainly due to lower costs for wages and salaries and a decrease in employee benefit expenses. Resale merchandise and service expenses increased by 57 million francs to 1,616 million francs, due to factors including a rise in expenses for temporary employees and higher service expenses. Higher negative interest rates on asset transactions of around 10 million francs prompted a rise in expenses for financial services. Other operating expenses increased by 8 million francs in 2018. Depreciation and impairment expenses fell by 107 million francs. This reduction is mainly due to reassessments of useful life in the previous years.

Operating profit

Swiss Post generated an operating profit of 501 million francs in 2018. This represents a decrease of 217 million francs in comparison with the prior-year figure. The fall in profit year-on-year is due to reimbursements, to declining volumes for structural reasons, and to the negative interest rate situation. In the communication market the above-mentioned declines were offset by lower personnel expenses.

Low interest rate situation shows full effect, non-recurring one-off effect from prior year.

Group | Operating profit in CHF million
2014 to 2018



1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

Decline in Group profit.

Group profit

Financial income totalled 24 million francs, with financial expenses standing at 49 million francs. At 35 million francs, net income from associates and joint ventures was up 45 million francs on the previous year. Expenses for income taxes fell by 39 million francs in comparison with the prior-year figure to 106 million francs. Group profit amounted to 405 million francs in 2018.

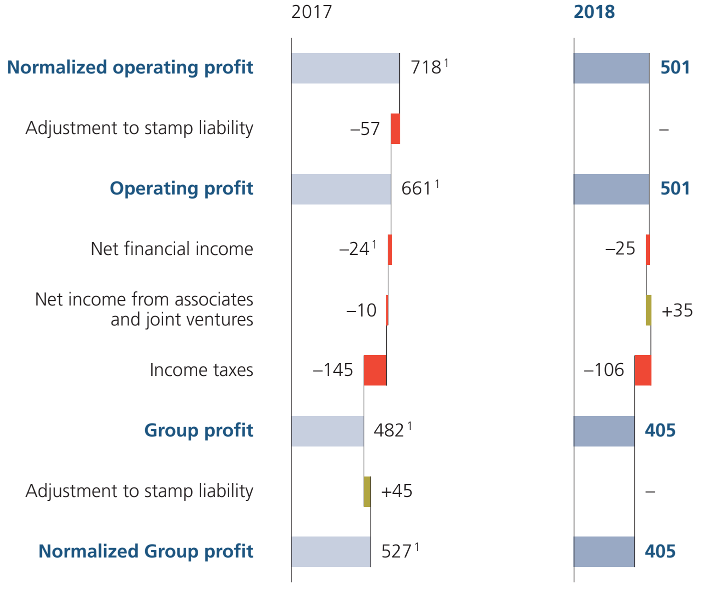
One-off item in 2017 – non-recurring in 2018

Swiss Post's financial result included the following one-off item in 2017 which was normalized in the management report:

The sale of stamps results in a performance obligation for Swiss Post vis-à-vis customers for the unused stamps. Due to new technical possibilities, the process implemented until now for measuring the use of these stamps has been changed in order to produce a higher quality estimate. The new method also allows the use of stamps from collections to be measured, the value of which was not included in the liability recognized previously. On this basis, the measurement of the performance obligation as at 31 December 2017 resulted in a one-off increase of around 57 million francs recognized in profit or loss.

No one-off items were recognized in the 2018 reporting period.

Group | One-off item in operating profit and Group profit in CHF million
1.1. to 31.12. in 2017 and 2018



1 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

Segment results

Overview

Three markets contributed to operating profit.

Group | Segment results 1.1. to 31.12.2018 with prior-year period CHF million, percent, full-time equivalents	Operating income[1] CHF million 2017[5]	Operating income[1] CHF million 2018	Operating result[1, 2] CHF million 2017[5]	Operating result[1, 2] CHF million 2018	Margin[3] Percent 2017[5]	Margin[3] Percent 2018	Headcount[4] Full-time equivalents 2017[5]	Headcount[4] Full-time equivalents 2018
PostMail	2,835	2,721	370	388	13.1	14.3	15,736	14,979
Swiss Post Solutions	551	583	25	31	4.5	5.3	6,585	6,789
PostalNetwork	1,102	1,045	–159	–94			5,435	4,753
Communication market	**4,207**	**4,090**	**236**	**325**	**3.3**	**7.9**	**27,756**	**26,521**
PostLogistics	1,619	1,678	119	145	7.4	8.6	5,281	5,400
Logistics market	**1,619**	**1,678**	**119**	**145**	**7.4**	**8.6**	**5,281**	**5,400**
PostFinance[6]	2,076[7]	1,704	549	220			3,475	3,333
Financial services market	**2,076**	**1,704**	**549**	**220**			**3,475**	**3,333**
PostBus[8]	925[7]	954	19[7]	–58	2.1		3,261	3,354
Passenger transport market	**925**	**954**	**19**	**–58**	**2.1**		**3,261**	**3,354**
Other[9]	889	926	–201	–127			2,543	3,024
Consolidation	–1,933	–1,920	–4	–4				
Group	**8,064**	**7,691**	**718**	**501**	**8.9**	**6.5**	**42,316**	**41,632**

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 Figures have been adjusted (see Notes to the 2018 Group annual financial statements, Accounting changes).
8 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.
9 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).

Communication market

PostMail

PostMail: prior-year result surpassed.

PostMail recorded an operating profit of 388 million francs in 2018, exceeding the prior-year figure by 18 million francs.

Operating income fell by 114 million francs. Revenue from addressed letters in Switzerland alone dropped by 57 million francs. The decline in volumes and revenue was due to substitution by electronic media and cost optimizations by customers. Newspaper revenue dropped by 15 million francs year-on-year due to a decline in subscriber numbers.

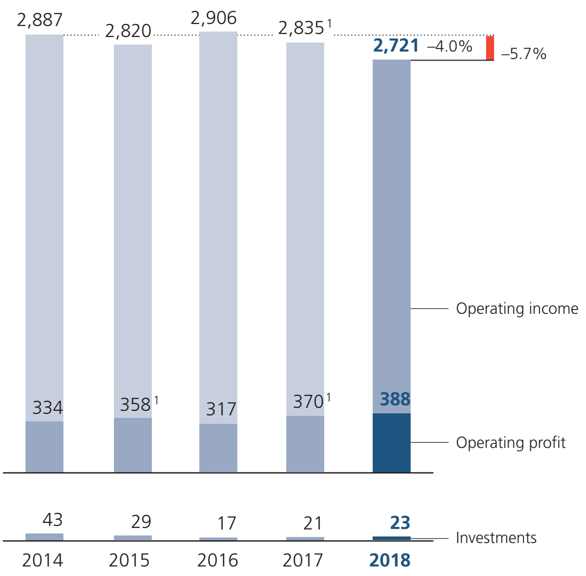
Positive trends were observed in the import business due to tariff adjustments and foreign exchange effects. Higher revenue was also recorded for new products in supplementary business areas, such as publication solutions and the collection and delivery of non-postal products on delivery rounds.

Operating expenses declined by 132 million francs due to various measures to improve efficiency. Significant reductions were principally seen in staff requirements as well as in payments for internal Swiss Post services. One-off items in premises costs and employee benefit expenses also contributed to the decline.

Headcount fell by 757 full-time equivalents year-on-year due to lower staff requirements in sorting and delivery associated with declining volumes, as well as to optimization projects relating to operations. Transfers of personnel due to the introduction of functional management and the associated central bundling of management functions led to a further decline of around 250 FTEs.

Decline in volumes more than offset by efficiency improvements.

PostMail | Operating income, operating profit and investments in CHF million
2014 to 2018



1 Normalized figures.

Since 2014, PostMail has achieved an operating profit of over 300 million francs each year, making a substantial contribution to the Group result. Declining average annual volumes of addressed letters of around 4 percent, as well as decreases in subscription newspapers, contributed to lower operating income. Thanks to ongoing optimizations in service provision processes, the fall in revenue seen in recent years was absorbed on the expense side each year. The increase in operating income between 2015 and 2016 was due to the transfer of product responsibility for private customer letters from PostalNetwork to PostMail.

Average investments of 27 million francs ensured the continuing excellent quality of PostMail services. In recent years, investments have been made in letter centers and in the optimization of sorting and delivery processes in particular.

Swiss Post Solutions: successful document solutions provider.

Swiss Post Solutions

Swiss Post Solutions achieved an operating profit of 31 million francs. Operating profit was 6 million francs higher than the prior-year figure.

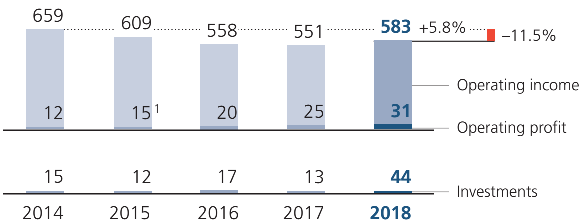
At 583 million francs, operating income was 32 million francs up on the previous year. Growth was sustained by very good new business. The acquisition of the HR process outsourcing activities from the DXC Technology Group in July 2018 also contributed to this growth.

Operating expenses totalled 552 million francs, up 27 million francs on the previous year. This includes 3 million francs of expenses associated with the acquisition of the new business unit.

Average headcount rose by 204 to 6,789 full-time equivalents year-on-year, mainly due to the acquisition (+206) and to higher staff requirements in Vietnam (+185) and in the US (+95). In contrast, the number of FTEs fell due to efficiency measures, particularly in the United Kingdom (–161) and following the sale of Swiss Post Solutions s.r.o. in Slovakia (–103).

Development of identified potential for growth.

Swiss Post Solutions | Operating income, operating profit and investments in CHF million
2014 to 2018



1 Normalized figure.

Swiss Post Solutions has increased its operating profit every year for the past five years. Operating profit stood at 31 million francs in 2018, up 24 percent year-on-year.

The constant positive trend in operating profit is the result of the consistent implementation of strategic measures, mainly to take advantage of opportunities for growth in the core business and to develop the service portfolio and industry-specific products. In support of this, the portfolio of solutions and investments has been permanently optimized in the past five years, recently by the sale of Swiss Post Solutions s.r.o., Slovakia and the acquisition of the business process outsourcing HR processes business unit from the DXC Technology Group (both in 2018). The ongoing implementation of projects to improve profitability and save costs in all countries also contributed to the positive operating result.

PostalNetwork

PostalNetwork: significant improvement in 2018 result.

Thanks to network development and the consistent adaptation of resources to meet volume trends, combined with efficiency increases, losses in the core business of letters and inpayments were more than offset and the operating result improved by 65 million francs. PostalNetwork generated an operating result of –94 million francs in 2018.

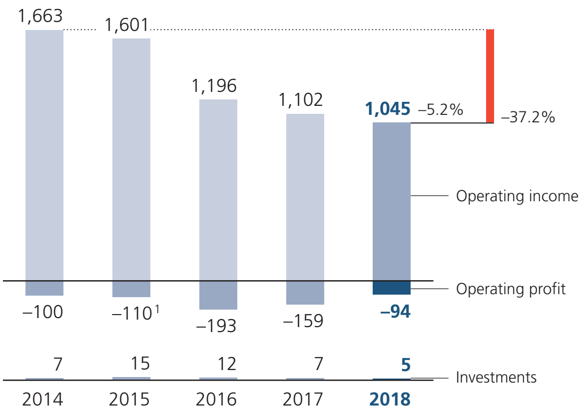
Operating income was down by 57 million francs year-on-year to 1,045 million francs. Income from logistics products dropped by 13 million francs. This was essentially due to declining letter volumes in the network of just under 2 percent, while the number of parcels transported via the network increased by more than 7 percent. The decrease in payment transactions which has been observed for quite some time continued due to substitution through e-banking (almost –6 percent). Declining volumes in payment transactions resulted in a 8 million franc drop in revenue from financial products overall. Net revenue from resale merchandise declined by 36 million francs due to adjustments to the range.

Operating expenses were cut by 122 million francs year-on-year to 1,139 million francs. Personnel expenses were 81 million francs below the previous year's level, due largely to a drop in headcount attributable to network development and efficiency increases. Resale merchandise and service expenses were also down, falling 24 million francs due to the fall in revenue from complementary business. Other operating expenses and depreciation declined by a total of 17 million francs.

Headcount of 4,753 employees fell by 682 full-time equivalents year-on-year. This was due to the transfer of 117 full-time equivalents to the Finance, Human Resources, Communication and ICT units, as well as to the significant developments in the postal network.

Good progress made on network development.

PostalNetwork | Operating income, operating result and investments in CHF million
2014 to 2018



1 Normalized figure.

Responsibility for private customer products was transferred to PostMail and PostLogistics in 2016. The figures are therefore only comparable from the year mentioned above onwards. The focus during the observation period has been on reducing the negative contribution to results. Network development plays an important role in this. The decline in operating income was absorbed by the measures introduced in the past few years. Further efficiency increases in the network led to a significant improvement in results from 2017.

Constant investments in recent years have ensured that PostalNetwork meets part of the universal service obligation.

Logistics market

PostLogistics

PostLogistics: operating profit up year-on-year.

PostLogistics posted operating profit of 145 million francs in 2018, which was 26 million francs higher than the previous year's level. This rise was mainly due to higher parcel volumes, an impairment loss on assets in the previous year and lower rent and depreciation.

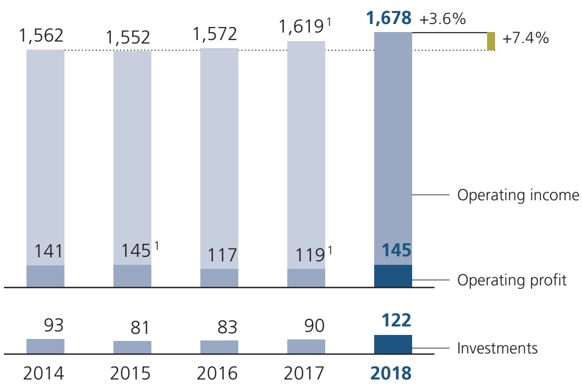
Operating income totalled 1,678 million francs, exceeding the previous year's total by 59 million francs. This rise was due to the acquisition of companies and higher parcel volumes.

Operating expenses increased by 33 million francs year-on-year to 1,533 million francs. The rise was mainly attributable to volume-related higher expenses for parcels and to the acquisition of companies. The additional expenses were partly offset by the above-mentioned lower rent and depreciation.

Average headcount increased by 119 to 5,400 full-time equivalents due to the effects mentioned above.

New capacities are being made available.

PostLogistics | Operating income, operating profit and investments in CHF million
2014 to 2018



1 Normalized figures.

In 2018 PostLogistics achieved its highest operating profit since 2015, mainly due to higher parcel volumes and lower rent and depreciation. Lower operating profit was generated in 2016 and 2017 in relation to previous years. This was mainly due to the transfer of product responsibility for private customer parcels from PostalNetwork on 1 January 2016.

In 2018, operating income also reached its highest level in five years. This was mainly due to the continued rise in parcel volumes caused by growth in online retail and to the acquisition of companies.

Investments in 2018 were above the average level seen in recent years. This was principally attributable to the purchase of interests in subsidiaries and to investments in connection with the future processing strategy.

Financial services market

PostFinance

PostFinance: decline in operating profit.

In 2018, PostFinance recorded an operating profit of 220 million francs, representing a decrease of 329 million francs year-on-year.

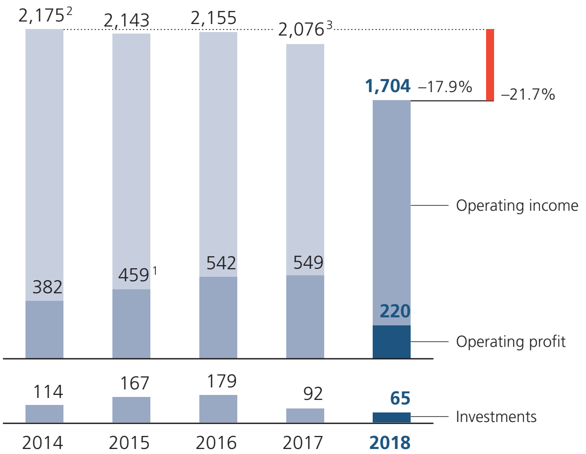
Operating income was down 372 million francs to 1,704 million francs. This is mainly due to non-recurring one-off capital gains of 109 million francs from the sale of shares in the previous year and the current market-related lower interest income, which decreased by 155 million francs. Reversals of impairment were down 38 million francs year-on-year. In addition, a decline in income of –14 million francs was recorded in other income, –7 million francs in income from investment properties, and –8 million francs in trading profit/loss.

Operating expenses totalled 1,484 million francs, down 43 million francs on the previous year's figure. The fall was mainly due to a 39 million franc decrease in depreciation and a 19 million franc decline in personnel expenses. There were rises of 8 million francs in additional expenses for financial services and of 4 million francs in other operating expenses.

Average headcount stood at 3,333 full-time equivalents, down 142 full-time equivalents year-on-year. As part of its new strategic focus, since July 2017 PostFinance has placed an emphasis on the simplification and digitization of its processes. Vacant positions were therefore only partly filled.

Low interest rate environment impacts result.

PostFinance | Operating income, operating profit and investments in CHF million
2014 to 2018



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).
3 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

The interest differential business is the most important source of revenue for PostFinance. The ongoing low interest situation has eroded interest margins and had a negative effect on interest income, leading operating income to decline in the last few years. 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 has had a positive effect on operating income in the past few years.

Investments have risen significantly over the past few 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 were also made in modernizing the core banking system, which was successfully rolled out at the end of March 2018.

Passenger transport market

PostBus

PostBus: expected decline in result.

PostBus recorded an operating result of –58 million francs. The decline of 77 million francs year-on-year is predominantly due to the voluntary payment to purchasers of 17 million francs for the years 2004 to 2006. Impairment losses on intangible assets (15 million francs) and on property, plant and equipment (5 million francs) as well as the settlement of a legal dispute in France (7 million francs) also weighed on the operating result in 2018.

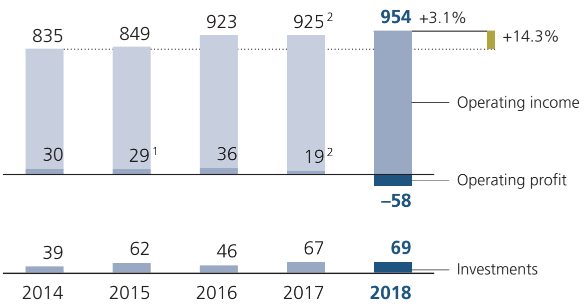
The 29 million franc increase in operating income was mainly due to the expansion of services and higher passenger revenue.

Operating expenses increased by around 106 million francs. The main factors influencing this rise were the reimbursement of excess compensatory payments received in the period from 2004 to 2006, impairment losses on intangible assets and on property, plant and equipment, as well as the settlement of a legal dispute in France. In addition to the rise in expenses due to the expansion of services and the launch of new urban networks at PubliBike, additional costs were incurred by fuel price trends and increases in personnel expenses.

Average headcount rose by 93 to 3,354 full-time equivalents. Centralizations resulted in a reduction in administrative staff in Switzerland, although this effect was more than offset by the expansion of services.

Adjustment and reorganization

PostBus | Operating income, operating profit and investments in CHF million
2014 to 2018



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

The settlement of a legal dispute in France mentioned above, impairment on intangible assets and recognition of the reimbursement to purchasers of excess compensatory payments were responsible for the negative operating results seen in the past two years.

An average of 58 million francs has been invested in the past five years, mainly for replacements and new acquisitions in the vehicle fleet. Investment requirements varied between 2014 and 2018, principally as a result of acquisitions in previous years, expansions of services and vehicle procurement cycles.

Function units

Function units: the transformation continues in 2018.

The function units generated an operating result of –127 million francs in 2018. The operating result was therefore 74 million francs higher than the prior-year figure.

At 926 million francs, operating income was up 37 million francs year-on-year. The increase was mainly due to a rise in intra-Group income and to higher gains on the sale of property, plant and equipment.

Operating expenses decreased by 37 million francs to 1,053 million francs. In particular, lower depreciation (75 million francs) was required in the reporting period due to the reassessment of useful lives. Personnel expenses were up 60 million francs due to the transfer of full-time equivalents from business units to function units. Headcount rose by 481 to 3,024 full-time equivalents as a result.

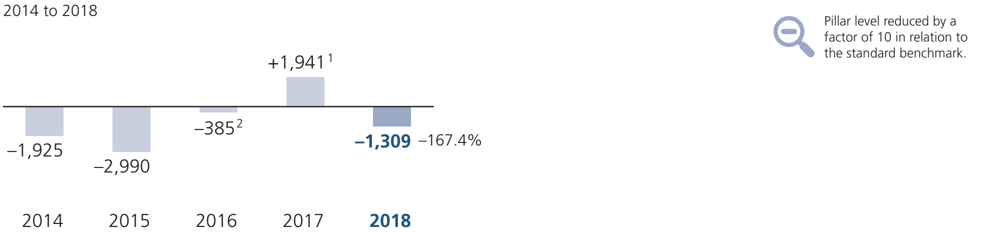
Assets and financial situation

Cash flow and investments

Cash flow from operating activities totalled –1,309 million francs in 2018. Cash flow from operating activities of 1,941 million francs was recorded in the 2017 comparison period. The outflow of funds in 2018 mainly concerned the financial services business. For more information on changes in the consolidated cash flow statement, see page 82.

Cash outflow due to decline in customer deposits.

Group | Cash flow in CHF million
2014 to 2018

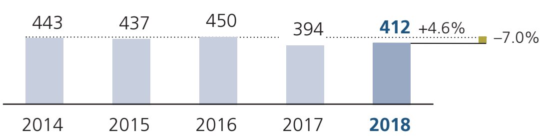


1 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
2 The figure has been adjusted (see Notes to the 2017 Group annual financial statements, Basis of accounting, Accounting changes, Changes to the classification of negative interest and accrued interest in the cash flow statement).

Overall, investments in property, plant and equipment (274 million francs, mainly in operating property and vehicles), as well as in investment property (24 million francs), intangible assets (41 million francs) and interests (73 million francs) were up 18 million francs on the previous year. Excluding the effects 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 to improve efficiency. Investments will mainly be made in property, plant and equipment, predominantly in Switzerland.

Future sources of income secured by investments.

Group | Investments in CHF million
2014 to 2018



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 investments 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 2018.

Consolidated balance sheet

Amounts due from banks
In comparison with 31 December 2017, amounts due from banks decreased by 1,691 million francs.

Financial assets
In comparison with the end of 2017, financial assets decreased by 1,059 million francs.

Property, plant and equipment
The carrying amount for property, plant and equipment fell by 23 million francs compared with 31 December 2017.

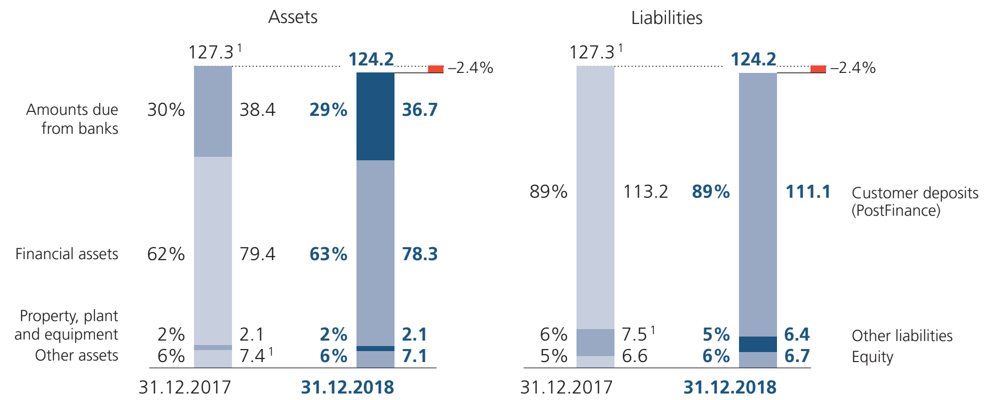
Customer deposits
Since the end of the previous year, customer deposits at PostFinance have decreased by 2,054 million francs to 111,141 million francs. As at 31 December 2018, customer deposits accounted for around 89 percent of the Group's total assets.

Other liabilities (provisions)
Provisions declined by 87 million francs to 485 million francs due to the settlement of claims against PostBus in connection with excess compensatory payments received. Employee benefit obligations decreased by 15 million francs year-on-year to 2,611 million francs.

Equity
Consolidated equity as at 31 December 2018 (6,732 million francs) was calculated net of the appropriation of profit for 2017.

Balance sheet reduced by decline in customer deposits.

Group | Balance sheet structure in CHF billion
As at 31.12.2017 and 31.12.2018



1 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

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 194.

Non-financial results of a material nature

As well as financial and market-based goals, Swiss Post also sets itself the following strategic goals (see page 18):
- Customer satisfaction: at least 80 points on a scale of 0 – 100
- Employee commitment: at least 80 points on a scale of 0 – 100
- Corporate responsibility: improvement in CO_2 efficiency of at least 25 percent by the end of 2020 in comparison with 2010

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 20 years Swiss Post has commissioned an independent institute to conduct and evaluate annual satisfaction surveys for quality assurance and improvement purposes. Around 15,000 private and business customers from Switzerland and in selected countries abroad take part in this survey. 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

2017 to 2018
Index 100 = maximum

	2017	2018
Swiss Post Group [1]	83	83
Business customers (Switzerland)		
PostMail (national consignments)	79	81
PostMail (international consignments)	77	78
PostLogistics	77	79
PostFinance	76	77
Swiss Post Solutions	85	85
PostalNetwork	84	– [2]
Private customers		
PostFinance	80	79
PostalNetwork	88	87
PostBus, commuters	74	74
PostBus, leisure travellers	83	81

1 Overall satisfaction
2 Due to a new survey method, a figure comparable to that of the previous year cannot be given here.

Group | Recipient customer index

2017 to 2018
Index 100 = maximum

	2017	2018
Overall delivery quality (recipient customer index)	91	90

The results have remained very high for several years. At 83 out of a possible 100 points, this year's Group-wide customer satisfaction index confirms the previous year's figure. 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.

New measurement method for the PostalNetwork unit

This year's business customer satisfaction score for the PostalNetwork unit cannot be compared with the results of the previous year due to a new survey method. These methodological adjustments represent the first step towards a change in the survey method throughout the Group from 2019. The questionnaire will be modified and customer satisfaction will be measured over the entire year. The results will ensure greater representativeness and help to understand the needs of Swiss Post customers even better and to implement measures more quickly in future.

Private customers

The 13,000 private customers questioned in the customer satisfaction survey rated individual Group units at the same high level as they did last year. The highest number of points (87) was once again achieved by the PostalNetwork unit. Private customers generally award the individual Swiss Post units good marks, with ratings between 74 and 87 points.

The quality of letter deliveries was rated by 2,400 private recipient customers in a separate survey – the recipient customer index – once again achieving a very high 90 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 2,000 or so business customers questioned once more assigned high scores of between 77 and 85 to individual units, with Swiss Post Solutions receiving very good grades of 85 out of a possible 100 points. Customers using letter mail are even more satisfied in both national and international business. National satisfaction increased by two points to 81, while international satisfaction rose by one point to 78. With 79 points, the Logistics division of Swiss Post was rated two points 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.

Human resources

Employee commitment

Stable scores despite major challenges.

The results of the annual employee survey are once again stable in 2018. Commitment from employees remains high, at 80 points. This index reflects “personal commitment” and consists of three components: “identification”, “staff turnover” and “motivation”. The rating is one point below the previous year’s figure. The score remains positive overall and corresponds exactly to the target given by the Confederation, as the owner of Swiss Post.

Group | Employee survey

2017 to 2018
Index 100 = maximum

	2017	2018
Commitment	81	80
Identification	78	78
Staff turnover	78	78
Motivation	86	86
Work situation [1]	76	76
Unit fitness [2]	72	72
Customer focus	75	75
Employee satisfaction	73	73

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”.

Focusing on transformation

In comparison with the previous year, Swiss Post has performed well as an employer at Group level – despite a turbulent period and far-reaching changes. The unit fitness measure has maintained the score from the previous year, of 72 points, with the quality factors for work situation also being rated as stable by employees, at 76 points. Employee satisfaction was rated just as highly as in the previous year, at 73 points. Trends vary according to the unit, however, and a more critical view has emerged among employees affected by the reorganizations. Employees nonetheless remain committed to Swiss Post – motivation levels remain high throughout the Group, again receiving a rating of 86 points.

Measurement categories unchanged over ten years

For the survey in May 2018, Swiss Post used the same measurement model for the tenth year running. Results 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 45,000 employees in 14 countries in six different languages. The response rate was 76.7 percent (previous year: 79.1 percent).

Investment in staff

Transformation also means taking employees with it on the journey into the future.

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

2,001 apprentices received training in 15 professions at Swiss Post in 2018. This represents around 6 percent of its headcount. This makes Swiss Post one of the largest training companies in Switzerland. The success rate in final apprenticeship examinations stood at 99.1 percent in 2018. Three out of every four newly-qualified professionals who wanted to remain at Swiss Post continued to work for the company. Furthermore, Swiss Post has enabled 27 university graduates to enter the working world as part of its in-house trainee programme, with a retention rate of 90 percent.

Digital skills

The skills required from staff are changing as a result of the digital transformation. The "FutureSkills" programme supports the skill changes required by this transformation and strengthens the expertise of Swiss Post employees to help them to meet future challenges. It targets three areas: (1) building up expertise in the use of digital tools and media in everyday work, (2) developing forward-looking key skills in the fields of ICT, communication, collaboration and management throughout the digital transformation, (3) establishing and enhancing the agility and learning culture in order to respond flexibly to new requirements. Examples are teaching PostBus drivers to use tablets or experimenting with agile ways of working in development teams. Finally, the measures aim to promote target group-specific, self-organized development of employees in a timely manner at individual level.

Employer attractiveness/candidate experience

Since April 2017 Swiss Post has measured the candidate experience during the recruitment process in an online survey. All candidates – whether or not they were granted an interview – can give feedback on the application process. Swiss Post generally received good scores in the mid-2018 evaluations. Most candidates find the recruitment process positive and therefore have a positive experience of the Swiss Post brand. At the same time, the evaluations show potential for constant improvement. It was established that internal and external candidates do not perceive the recruitment process in the same way, for instance. To remedy this, greater attention will be paid to the differences and needs of both groups of applicants in future. Measures were also taken to increase the speed of the process and to further professionalize HR recruitment. The next candidate experience evaluation is planned for mid-2019.

Social Counselling Service, Job Center, Swiss Post Personnel Fund, Case Management

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. 2,254 people benefited from advisory services in 2018; 1,056 managers and employees attended prevention seminars (addiction, bullying, sexual harassment and preparation for retirement, etc.).

Awareness about how to handle money was raised among more than 600 apprentices and around 50 employees during courses organized by the Swiss Budget Advice Association, co-financed by the Swiss Post Personnel Fund.

68 calls were received by the crisis helpline, which is manned 24/7. The calls mainly concerned psychological crises and problems in the workplace.

A total of 287 applications were processed by the Swiss Post Personnel Fund in 2018 (11 of which were rejected) and financial support of 716,637 francs was granted. In addition, 24 new loans totalling 252,385 francs were issued.

Swiss Post's Job Center is a point of contact where staff can assess their professional situation and ask questions about their personal advancement. 883 career counselling sessions were held and 261 consultations given on professional re-orientation, making the Job Center a vital part of Swiss Post's socially responsible human resources policy.

418 cases were registered with Case Management, and 304 cases closed. Employees received assistance in complex situations of illness in order to facilitate coordination and cooperation between all the stakeholders and allow integration into the workplace.

We introduced a new health and social affairs hotline in 2018. This can be used as a point of contact (telephone, e-mail, Skype) for managers and employees to ask questions about difficulties at work or health. A consultation appointment can be arranged in one of our hubs if appropriate.

Employment conditions

Collective employment contract

Swiss Post takes responsibility as an employer.

An agreement was reached with the social partners in 2017 to extend the Post CH Ltd CEC, PostBus CEC and PostFinance Ltd CEC by two years to the end of 2020. Negotiations on individual topics at PostalNetwork were successfully completed. Discussions continue at PostBus. The collective employment contracts at Post Real Estate Management and Services Ltd, SecurePost Ltd, Swiss Post Solutions Ltd and PostLogistics Ltd remain in force until the end of 2019. Renegotiation began at the end of 2018. Talks have been completed to establish a framework CEC for early-morning deliveries, which will be implemented in 2019. Negotiations on the development of the redundancy plan will resume at the beginning of 2019. Swiss Post continues to rely on a good social partnership and takes responsibility as an employer.

Equal pay

Swiss Post sets great store by 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 pay inequality is thereby minimized.

Swiss Post received the results of the latest equal pay analysis in 2018. The independent external company entrusted with the analysis awarded Swiss Post a good result which is well within the tolerance threshold of +/–5 percent applicable to procurement checks by the Confederation. A further verification of equal pay will be carried out in 2019 on a voluntary basis.

Diversity at Swiss Post

The new strategic focus on diversity management was approved by Swiss Post Executive Management in July 2018. The priorities of the new focus are the promotion and management of optimally diverse teams. Achieving a good work-life balance remains an important factor for Swiss Post. Swiss Post creates an attractive operating framework which empowers staff members to combine the different aspects of their lives. This includes flexible working models. Around 21,600 employees work part-time and around 8,500 take advantage of teleworking each year. Job sharing is also used. Swiss Post also contributes around 1.3 million francs towards external childcare, 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 around 40,200 Swiss Post employees in Switzerland and pays 655 million francs in pensions to around 30,000 people each year. The Foundation Board, formed jointly by employer and employee representatives, is responsible for the management of the foundation. Swiss Post employer contributions represent around 270 million francs per year.

The level of cover in accordance with the revised Swiss Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) stood at around 102 percent (including employer contribution reserve with a waiver of use) as at 31 December 2018.

More information on employees can be found in the Annual Report on pages 55 to 58.

Corporate responsibility: climate and energy area of action

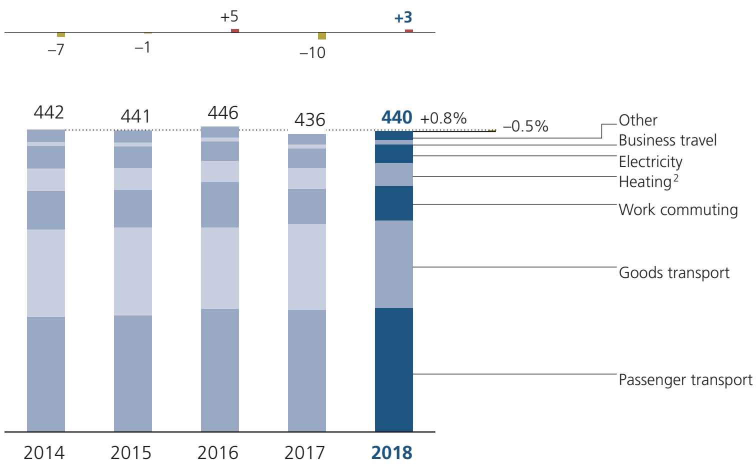
We're acting now to protect the climate for the future.

Thanks to a range of efficiency measures, Swiss Post's greenhouse gas emissions fell slightly, despite an increase in parcel volumes and business growth at PostBus. Heat requirements have been continually reduced.

At the end of 2018, Swiss Post had increased CO_2 efficiency by 20,4 percent and is therefore on track towards its target of increasing CO_2 efficiency by 25 percent by 2020 (base year 2010).

Swiss Post's greenhouse gas emissions are on a downward trend.

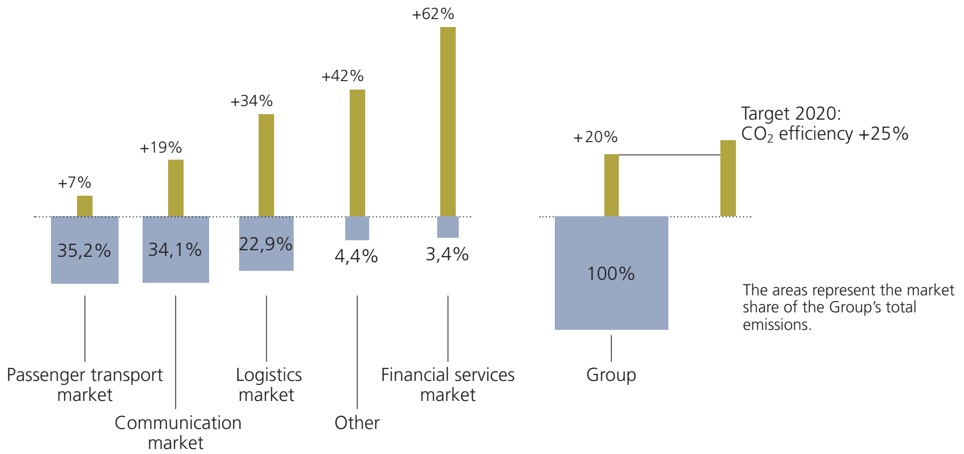
Group | Greenhouse gas emissions by process[1] in 1,000 t of CO_2 equivalents
2014 to 2018
2014 = 100%



1 Within and outside Swiss Post.
2 The increase in greenhouse gas emissions from heating in 2018 compared to previous years is due to a change in measurement method.

Swiss Post continues to increase its CO_2 efficiency.

Group | CO_2 efficiency and proportion of CO_2 emissions by market
2018
CO_2 efficiency index[1] 2010 = 100%, CO_2 emissions equivalent to 1000 t CO_2



1 The CO_2 efficiency index is measured as the change in CO_2 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 kilometre, kilometre, full-time equivalent, etc.).

In order to reduce its CO_2 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 and eco-electricity have already become standard fuels for Swiss Post's vehicle fleet. Approximately 41 percent of the energy-efficient vehicle fleet already uses alternative drive systems such as electric or hybrid engines. PostBus operates 49 diesel hybrid buses on Swiss roads and has been gathering experience with electric buses on scheduled services since 2017. 33 Post Company Cars Ltd petrol stations offer diesel containing 7 percent biodiesel made from residues from edible oil production. Swiss Post's fleet of around 6,000 two and three-wheeled vehicles runs exclusively on electricity and 100 percent eco-electricity. The same applies to the eight new electric vehicles being tested by PostLogistics. In addition, the use of vehicle capacities and routes are continually being optimized.

- Potential energy savings in building services and in Swiss Post buildings have been systematically identified and measures introduced. Swiss Post is also replacing heating oil completely with low-sulphur eco-oil. Fossil fuels are generally no longer used in any new buildings or replacement heating systems. The MINERGIE®-compliant Swiss Post headquarters in Berne's Wankdorf City district is 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 eleven photovoltaic systems on its roofs, feeding approximately six gigawatt hours of solar electricity into the grid each year. Swiss Post generates electricity for its own use in three additional photovoltaic systems.

- The photovoltaic system in Neuchâtel stores surplus electricity in an innovative energy storage unit fitted with used batteries from Swiss Post's two and three-wheeled vehicle fleet in line with the circular economy concept. After an average of seven years of operation, the scooter batteries still have a storage capacity of almost 80 percent. This is too little to be able to deliver letters, but more than enough for a stationary energy storage unit that can recharge Swiss Post scooters overnight.

– With "pro clima" – Shipment, all domestic letters have been carbon neutral since 2012 at no extra charge for customers. The same has applied to all PromoPost consignments since 2017. Swiss Post's private or business customers can choose to send all other consignments carbon neutrally using "pro clima" services for just a few extra centimes. Swiss Post is funding the construction of the first gold standard Swiss Post climate protection project in Switzerland: it consists of 30 biogas plants on farms that reuse manure and other organic waste to generate electricity.

– Sustainable employee mobility is promoted by providing staff with a free Half-Fare travelcard or discounted GA travelcard for rail travel. Employees at major sites can also recharge their electric vehicles and bikes free of charge using the comprehensive charging infrastructure. Swiss Post supports the bike to work initiative, and employees can take advantage of the services provided by PubliBike or carvelo2go for the rental of electric cargo bikes at a reduced rate.

– Raising employees' awareness of sustainability is a recurring theme of internal communication and is explored in depth at workshops and other events. Issues related to corporate responsibility are promoted and discussed in the sustainability ambassador network.

The constant increase in CO_2 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. This is also reflected in external ratings such as the Environmental Measurement and Monitoring System (EMMS) run by the International Post Corporation (IPC), with Swiss Post registering a further improvement in its Carbon Management Proficiency Score and being awarded the gold rating for the third time. Many key figures class Swiss Post as one of the leading companies within the IPC – for example with regard to the proportion of renewable electricity and the use of alternative drive technologies in its vehicle fleet.

More information on the corporate responsibility strategy can be found on pages 23 to 25 of the Financial Report integrated into the Annual Report, as well as in the Sustainability Report in accordance with GRI Standards, which is available at www.swisspost.ch/sustainabilityreport.

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 capacity and risk appetite). Risk management thereby makes an important contribution to the quality of decisions and helps increase the company's value. It also promotes a company-wide risk culture and risk awareness among all employees across all hierarchical levels.

Risk management system

The Board of Directors sets out the primary guidelines and principles for the risk management system, approves risk strategy and defines risk policy at Swiss Post Ltd. Risk strategy is derived from the corporate strategy and defines Swiss Post's general attitude towards risk detection, risk appetite and risk management. This makes it an integral part of entrepreneurial activities. It forms the basis for the design and operational implementation of risk management at Swiss Post. Risk policy, in the form of risk principles, represents an important element of risk strategy.

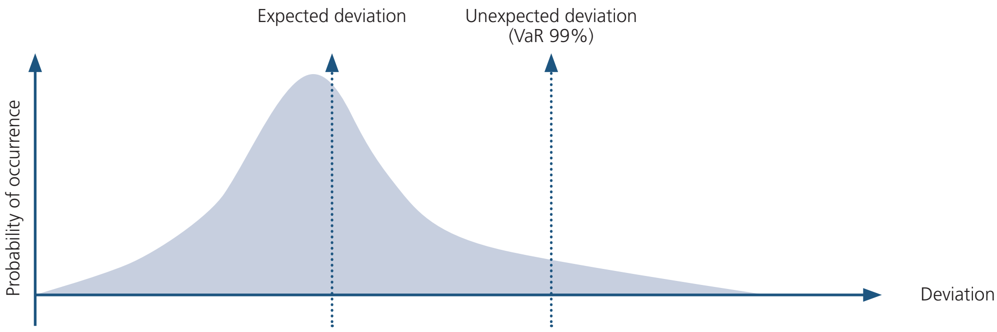
Risk simulation

Monte Carlo simulation techniques are used in risk management to calculate risk indicators that are then aggregated on the basis of correlations. The extent of loss or potential range of each risk is identified by means of risk simulation. Risks are assessed according to scenario analyses and by incorporating 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 from a risk perspective, while value at risk (99 percent) is used for unexpected EBIT deviations. The expected EBIT deviation for 2021 is also simulated and aggregated to identify the strategic risk situation.

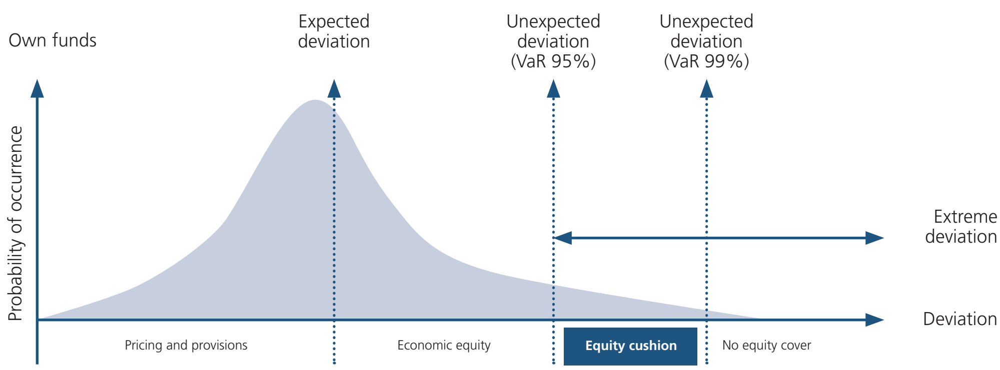
Risk indicators



Risk appetite and risk capacity

Risk appetite and risk capacity are calculated and checked using indicators determined across all aggregation levels. Risk appetite corresponds to the cumulated expected value from the risk simulation and should exceed the planned business results only to the extent that value added is still generated at Group level. Risk capacity is achieved if unexpected deviations (VaR 99 percent) are covered by economic equity. 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 appetite and risk capacity



Risk management process

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

Risk management process

- Risk identification
  Risk management comprises all the risks associated with the business activity. It is therefore not restricted to financial risks, but also takes into account latent risks as well as reputational and personal injury risks. Risks and opportunities are defined in the quantification as potential deviations from planned earnings before tax. Group strategy and a company-wide basic catalogue of risks form the basis for risk identification, among other factors.

- Risk assessment
  Every six months, managers and specialists measure the risks that have been identified. Risks are assessed on the basis of scenario analyses (best case, mid case and worst case scenarios) and/or by means of event data. Risk indicators for individual risks are measured via Monte Carlo simulation techniques. In future, a management assessment of the Swiss Post risk map will be added to this bottom-up process.

- 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.

- 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 twice a year to the Executive Boards, Executive Management, Board of Directors' Audit, Risk & Compliance Committee and Board of Directors. They summarize the dangers and opportunities identified together with the risk indicators, and outline the actions that need to be taken. In future, a risk matrix will be used to report all risk dimensions (short-term, strategic, latent, reputational and personal injury) to further increase the management focus.

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 various 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 2021.

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 budgeted figures 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 99 percent.

Based on the latest calculations, the Group has an expected loss potential of –37.1 million francs in relation to the financial year 2019. The average expected loss potential compared to the prior-year period has therefore decreased by 4.8 million francs (expected loss potential in 2018: –41.9 million francs). The unexpected annual loss potential (VaR 99 percent) for the Group totals –476.3 million francs for 2019. Risks have therefore increased year-on-year (unexpected loss potential in 2018: –433.0 million francs). Overall, the results show that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group's risk capacity is thereby guaranteed.

The largest loss potential with a short-term impact is due to shortfalls in the provision of services as well as project and legal risks. Positive effects could occur as a result of business optimization measures, customer acquisitions and the implementation of transformation projects.

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 2021 are regarded as strategic risks and opportunities.

The most significant strategic risks include major project risks, higher intensity of competition, legal risks and declining volume trends. Changes in the regulatory framework and risks associated with data security 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 all the risk dimensions (quantified short-term and strategic risks, latent risks as well as reputational and personal injury risks). 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.

For more information on risk management at Swiss Post, see pages 109 to 137.

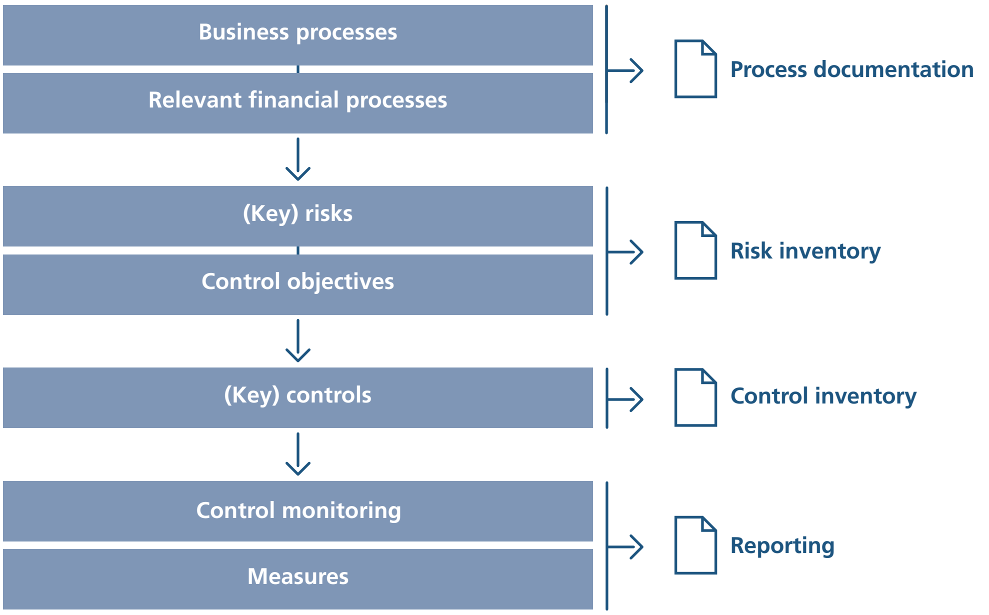
Internal control system

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 728a, 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

ICS-relevant financial processes across the Group are identified each year by means of materiality-based scoping before being documented in a comprehensible manner. For each activity, the potential risks are determined from the processes, 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. At the end of the reporting period, an 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, appropriate 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 to the Board of Directors.

Assessment of the internal control system as at 31 December 2018

All ICS-relevant financial processes and controls were formally assessed at the end of the financial year as part of the control monitoring procedure. No significant weaknesses in control procedures were identified. As a result of inherent limitations, the internal control system may however not completely prevent or detect misstatements in the financial reports.

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 2018.

Outlook

The Swiss National Bank (SNB) continues to expect that global economic growth will be somewhat above potential in the quarters ahead. The ongoing expansionary monetary policies in the advanced economies and the robust labour market situation are serving to underpin economic activity. In the medium term, growth is likely to slow gradually. Nevertheless, there are significant risks to this positive baseline scenario, primarily in connection with political uncertainties and protectionist tendencies.

In the euro area, the economic outlook is positive. The positive outlook nevertheless remains subject to various risks, including political imponderables in Italy, uncertainty surrounding international trade conflicts as well as the shape of future relations between the EU and the UK.

The outlook for Switzerland – Swiss Post's most important market – remains positive. As in other countries, economic momentum in Switzerland is likely to weaken somewhat in 2019. Overall, capacity utilization in the economy should remain high, however.

Swiss Post continues to face a challenging environment, despite favourable prospects for the economy as a whole. Structural change continues. Swiss Post is convinced that in continuing along its chosen path, it can continue to achieve the goals set for the future. However, it is likely to become more difficult to attain these targets in the coming years.

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

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 12 shows the Group's organizational units. The "Subsidiaries, associates and joint ventures" section on pages 172 to 180 of the Financial Report outlines the shareholdings.

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 75.

Regulatory accounting and companies under individual supervision

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 Services Ordinance of 29 August 2012 substantiates these requirements and regulates how net costs for the universal service obligation are to be calculated.

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 325 million francs for 2017. The calculation was approved by the regulatory authority PostCom in May 2018. Following the approval of the net costs for 2018 by PostCom in the second quarter of 2019, 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 and PostMail.

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

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 passed on 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.

PostFinance Ltd

Since 2013, PostFinance has been a private limited company under private law wholly owned by Swiss Post Ltd. PostFinance was granted a banking licence as a bank and securities dealer on 26 June 2013 and is subject to regulation by the Swiss Financial Market Supervisory Authority (FINMA). Postal legislation and the strategic goals of the Federal Council remain relevant to PostFinance's business activities. In particular, postal legislation specifies that PostFinance must provide a universal service for payment transactions throughout Switzerland. It also states that PostFinance may not issue loans and mortgages to third parties. In the summer of 2015, the Swiss National Bank (SNB) declared PostFinance to be a systemically important bank. In this regard, FINMA sets out specific requirements to be met by PostFinance. PostFinance issues annual financial statements in accordance with the Accounting rules for banks (articles 25–28 of the Banking Ordinance, FINMA Circular 2015/1 "Accounting – banks" ARB). The statutory auditor (KPMG AG) audits the financial statements of PostFinance Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes.

PostBus Switzerland Ltd

Since 2005, PostBus Switzerland Ltd has been a private limited company under private law wholly owned by Swiss Post Ltd. The passenger transport company is subject to supervision by the Federal Office of Transport (FOT). The strategic goals of the Federal Council remain relevant to PostBus's business activities. PostBus Switzerland Ltd issues annual financial statements in accordance with accounting regulations under commercial law (article 957ff. of the Swiss Code of Obligations). The statutory auditor (KPMG AG) audits the financial statements of PostBus Switzerland Ltd, which comprise the balance sheet, income statement and notes. The DETEC ordinance on the accounting of licensed businesses (RKV) is also applicable. PostBus Switzerland Ltd additionally prepares RKV annual financial statements. In accordance with article 37 of the Passenger Transport Act, the FOT performs an audit under subsidy law, which supplements the audit conducted by the company's statutory auditor. In a letter dated 7 February 2019, the FOT declared that it had not reviewed the 2018 annual financial statements in relation to subsidy law in accordance with Art. 37, para. 2 of the Passenger Transport Act. It considers the incidents related to subsidy law in 2018 as closed following the reimbursement of compensatory payments in accordance with the agreements reached between the affected communities and PostBus Switzerland Ltd (together with the balance clauses contained therein).

Capital structure

Swiss Post has Group equity comprising 1.3 billion francs of fully paid-in share capital plus capital reserves and retained earnings of around 5.4 billion francs. External debt amounted to almost 1 billion francs on the reference date.

The General Meeting decided to pay 200 million francs of profit from the 2018 financial year to the Confederation as a dividend in 2019 (resolution in 2017: 200 million francs as a dividend in 2018). The remaining amount is retained for the purpose of accumulating equity; on the reference date this equity stood at 6.7 billion francs (previous year: 6.6 billion).

Board of Directors

Composition as at 31 December 2018

The Federal Council elects Swiss Post Ltd's Board of Directors every two years. On the reference date (31 December 2018), 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 Services Organization Act, employees have the right to appropriate representation on the Board of Directors. In 2018, this representation was provided by Michel Gobet and, until the date of the General Meeting on 26 June 2018, by Susanne Blank. Ronny Kaufmann has been the second Human Resources representative on the Board of Directors since 27 November 2018.

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 iur.

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 Council 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 Mutuel Holding SA (Member of the Board of Directors); JPF Holding S.A. (Member of the Board of Directors); Liebherr Machines Bulle S.A. (Member of the Board of Directors); ST-PAUL HOLDING SA (Member of the Board of Directors), stood down in 2018; UCB Farchim SA (Member of the Board of Directors)

Philippe Milliet

Member of the Board of Directors, member since 2010, Vice-Chairman, since 2018, 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 AG (Head of Health Division, Member of the Corporate Executive Committee); Unicible (CEO); Galenica AG (responsible for distribution centers, responsible for operations and CEO of Galexis AG); Pharmatic AG (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: BOBST GROUP (Group Executive Committee, Head of Business Unit Sheet-Fed)

Peter Hug

Member of the Board of Directors, member since 2018, Vice-Chairman, since 2018, Switzerland, 1958, Dr rer. pol.

Committees: Investment, Mergers & Acquisitions (Chair); Audit, Risk & Compliance (Chair a.i.)

Professional background: F. Hoffmann-La Roche (Head Commercial Operations EEMEA, Head of Pharma Medicines Western Europe, Head Pharma Partnering, Managing Director, Pharma, Spain, Head of Diagnostics, Roche Diagnostics, Germany, General Manager, Pharma & Country President, Uruguay, Pharma Division Director, Roche SA, Greece), stood down on 31 December 2018

Key posts: Interpharma (Chairman of the Board), stood down on 31 December 2018

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); DGM Immobilien AG (Chairman of the Board of Directors); Comunus SICAV (Vice-Chairman of the Board of Directors)

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: UNI Global Union (Treasurer, Member of World Executive Committee; GDZ AG (Member of the Board of Directors), stood down on 31 December 2018

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 Grad AG (Member of the Board of Directors); Cooperative of ZFV companies, (Member of the Board of Directors, Member of the Human Resources Committee), Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee)

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); F. Hoffmann-La Roche (member of the Roche Consumer Health Executive Committee); Swissair (member of the Flight Operations Management Board); SR Technics (Vice President, Engineering)

Key posts: KUKA AG (Member of the Supervisory Board); mmtec (Owner and Managing Director); Lufthansa Technik AG (Member of the Supervisory Board); Wienerberger AG (Member of the Supervisory Board); Bedag Informatik AG (Member of the Board of Directors); Swisscontact (Member of the Foundation Board); Industrial Advisory Board of the Department of Mechanical and Process Engineering, ETH Zurich (Member); Innosuisse (Member of the Innovation Board), stepped down in 2018

Bernadette Koch

Member of the Board of Directors, member since 2018, Switzerland, 1968, Certified public accountant, business economist, Higher School of Economics and Administration

Committees: –

Professional background: Ernst & Young AG (People Partner, Member of the Management Committee of Assurance Switzerland, Partner/Head of the Public Sector market area)

Key posts: Energie Oberkirch AG (Member of the Board of Directors)

Ronny Kaufmann

Member of the Board of Directors, Human Resources representative, member since 2018, Switzerland, 1975, lic. rer. publ. University of St. Gallen

Committees: –
Professional background: Swisspower AG (CEO), Swiss Post (Head of Public Affairs & Corporate Responsibility), Mediapolis AG für Wirtschaft und Kommunikation (Co-Owner and Partner)
Key posts: Swisspower Ltd (CEO); Nordur Power SNG AG (Member of the Board of Directors)

Roger Schoch

General Secretary, member since 2018, Switzerland, 1971, Lawyer, Executive M.B.L. HSG

Professional background: Alpiq Holding AG (General Secretary), Swiss Federal Railways SBB (Chief Compliance Officer, Deputy Head of the Group Legal Service, Secretary of the Board of Directors)
Key posts: none

Changes in the year under review and events after the reporting period

Andreas Schläpfer stood down from his position as Member of the Board of Directors at the General Meeting held on 26 June 2018 after reaching the age of 70. Dr Peter Hug was nominated in a by-election at the General Meeting.

Vice-Chairman Adriano P. Vassalli and Member of the Board of Directors Susanne Blank announced their resignations from the date of the General Meeting on 26 June 2018. Bernadette Koch and Ronny Kaufmann were voted in as their successors at Swiss Post's Extraordinary General Meeting held on 27 November 2018.

General Secretary Kerstin Büchel left Swiss Post at the end of January 2018. Roger Schoch took over from her on 1 October 2018.

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 goals. It approves the basic structure of the Group, the pricing system with respect to the Federal Council or other relevant federal authority, accounting standards, the budget, reports to the owner and to OFCOM and PostCom, as well as large and strategic projects, and mandates the members of the Board of Directors for PostFinance Ltd. 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 19 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. The Board of Directors appoints the members of these committees independently. In addition, the Board of Directors may appoint non-standing committees at any time. There are three standing committees, which have an advisory and, to a limited extent, decision-making roles. In December 2018, a decision was also made to establish a non-standing PostBus committee (members: Urs Schwaller, Michel Gobet, Peter Hug and Nadja Lang). 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.

Board of Directors’ Audit, Risk & Compliance Committee

The Board of Directors’ Audit, Risk & Compliance 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 (Compliance). 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.

Board of Directors’ Organization, Nomination & Remuneration Committee

The Board of Directors’ Organization, Nomination & Remuneration Committee met sixteen times during the last financial year. It has an pre-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 prepares all the strategic organizational decisions for the Board of Directors. The CEO and the Head of Human Resources attend the meetings.

Board of Directors’ Investment, Mergers & Acquisitions Committee

The Board of Directors’ Investment, Mergers & Acquisitions 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 ten times during the year under review. In 2018, the committee addressed various innovative, long-term projects at Swiss Post on forward-looking topics within the above framework. The CEO and the Head of Finance attend the meetings.

Information and supervisory tools

Reporting

The Board of Directors receives monthly reports on 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 Board of Directors' Audit, Risk & Compliance Committee about planning compliance, strategic financial planning and the Federal Council's strategic goals.

The Board of Directors receives Executive Management meeting minutes and interim reports from Risk Management (see pages 109 to 137), Compliance, 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.

Risk Management

Swiss Post operates a risk management system in line with COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management) and ISO 31000 (see pages 109 to 137).

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.

Compliance

Swiss Post operates a compliance management system which defines and implements appropriate measures to prevent breaches of standards and ethics. It determines a binding code of conduct for employees, compliance with which is monitored. Swiss Post continually develops compliance as part of an ongoing process.

Group Audit

Group Audit monitors compliance with internal and external directives, the efficiency and effectiveness of processes, cybersecurity, the correct presentation of the accounting, and project management. It submits ongoing reports to the Audit, Risk & Compliance Committee and an annual report to the whole Board of Directors. Group Audit works in accordance with international standards and adheres to principles relating to integrity, objectivity, confidentiality, technical expertise and quality assurance. To guarantee maximum independence, Group Audit is a separate organizational unit which reports to the Board of Directors.

Executive Management

Composition as at 31 December 2018

The CEO and the six members of Executive Management 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 natural persons outside the Group.

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

Ulrich Hurni

Interim CEO, Head of PostMail, 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: Post CH Ltd (Chairman of the Board of Directors); Post Real Estate Ltd (Chairman of the Board of Directors); Asendia Holding Ltd (Chairman of the Board of Directors); TNT Swiss Post GmbH (Managing Director); Swiss Excellence Forum (Member of the Board)

Dieter Bambauer

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

Professional background: Swiss Post Ltd (Head of PostLogistics and Head of Informatics); 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 GmbH (Vice-Chairman of Management); Cargo sous terrain AG (Member of the Board of Directors); Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee); Member of the "Weltoffenes Zürich" ("Cosmopolitan Zurich") committee

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 Risk Committee and from 1 January 2019 Member of the Organization, Nomination & Remuneration Committee); Post CH Ltd (Member of the Board of Directors); Post Real Estate Ltd (Member of the Board of Directors); PostBus Ltd (Member of the Board of Directors); Swiss Post pension fund (Chairman of the Foundation Board); Swiss Post Insurance AG (Chairman of the Board of Directors)

Thomas Baur

Head of PostalNetwork 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

Valérie Schelker

Head of Human Resources, member since 2017, Switzerland, 1972, lic. rer. pol. University of Bern, CAS "Certified Strategy Professional" certificate programme at St. Gallen University

Professional background: Swiss Post Ltd (Head of Human Resources); PostFinance Ltd (Head of Working Environment, HR & Facility Management, Deputy Head of Working Environment, Head of HR Strategy & Development, Head of Market Research)
Key posts: Swiss Post pension fund (Member of the Foundation Board); SAV (Board member)

Christian Plüss

Head of PostBus, member since 2018, Switzerland, 1962, Dr. sc. ETH Zurich

Professional background: Alpiq AG (MD Hydro Power Generation); MeteoSchweiz (Director); Erdgas Ostschweiz AG (CEO); SBB AG (Head of Offer Management); Cap Gemini SA (Managing Consultant)
Key posts: GRAVAG Erdgas AG (Chairman of the Board of Directors); Swiss Alpine Spirit AG (Chairman of the Board of Directors); Energie Electrique du Simplon SA (Chairman of the Board of Directors); Engadiner Kraftwerke AG (Vice-Chairman of the Board of Directors); Officine Idroelettriche della Maggia SA (Member of the Board of Directors); Officine Idroelettriche di Blenio SA (Vice-Chairman of the Board of Directors), MTE-Plus Consulting GmbH (Managing Director)

Hansruedi Köng [1]

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

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: none

1 As 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 and events after the reporting period

Susanne Ruoff, CEO, left Swiss Post on 11 June 2018. Ulrich Hurni took up her position on an interim basis. Swiss Post Ltd's Board of Directors appointed Roberto Cirillo as the new CEO of Swiss Post on 20 November 2018. He will take over from Ulrich Hurni in April 2019.

Daniel Landolf, Head of PostBus Ltd and a Member of Swiss Post Executive Management, took early retirement on 5 February 2018. Thomas Baur assumed the role of Head of PostBus Ltd on an interim basis. Christian Plüss took over as Head of PostBus Ltd on 1 November 2018. He is also a member of Swiss Post Executive Management.

Remuneration

Policy

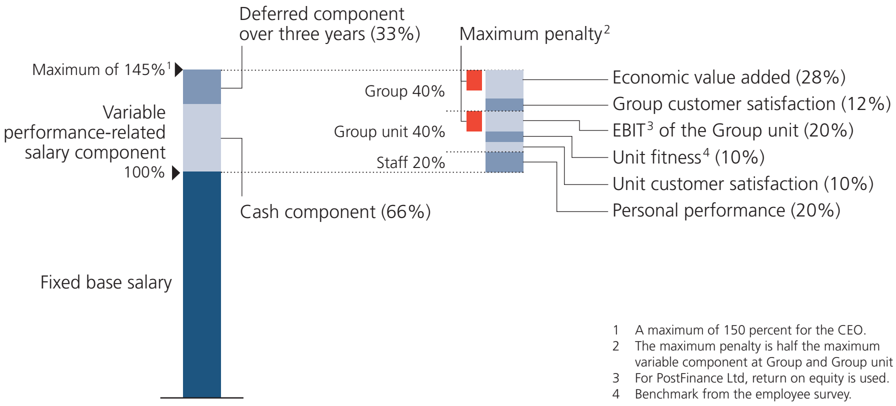
Corporate risk, scope of responsibility and the Confederation's Ordinance on Executive Pay are taken into account by the Board of Directors when determining the remuneration due to members of Executive Management. The Board of Directors has regulated the remuneration and fringe benefits for its members 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 50 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. If all the goals are achieved, the maximum variable component will be paid. Exceeding the goals will not lead to a higher payout.

Executive Management | Breakdown of remuneration

2018



1 A maximum of 150 percent for the CEO.
2 The maximum penalty is half the maximum variable component at Group and Group unit levels.
3 For PostFinance Ltd, return on equity is used.
4 Benchmark from the employee survey.

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 or a company car, a mobile phone 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.

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 disproportionally 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, a notice period of twelve months applies. No agreements exist regarding possible severance payments.

Level of remuneration

Members of the Board of Directors

In 2018, the 11 members of the Board of Directors received remuneration (fees and fringe benefits) totalling 1,062,985 francs. The fringe benefits totalling 334,770 francs are shown in the total remuneration. In 2018, the Chairman of the Board’s fee totalled 225,000 francs. The fringe benefits amounted to 28,470 francs.

Executive Management

The paid members of Executive Management and the CEO received remuneration totalling 5,082,669 francs in 2018. The fringe benefits of 261,138 francs are shown in the total remuneration. The remuneration of the interim CEO since 11 June 2018 has been taken into account in the remuneration paid to members of Executive Management. The performance-related component effectively payable to members of Executive Management in 2019, which is based on attainment of targets in 2017 and 2018, together with the deferred payments, amounts to 1,608,695 francs. A decision regarding the approval (entitlement and calculation) of the performance-related component for the former Head of PostBus will not be reached until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.

The base salary of the CEO totalled 620,000 francs. The additional calculated performance-related component amounts to 453,280 francs, of which 262,733 francs are from the account for variable remuneration. A decision regarding the approval of the performance-related component (entitlement and calculation) for the former CEO will not be reached until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.

Remuneration

CHF	2018
Chairman of the Board of Directors (1)	
Fees	225,000
Fringe benefits	
Expenses and representation allowances	22,500
First-class GA travelcard	5,970
Total remuneration	**253,470**
Other members of the Board of Directors (11) [1]	
Fees	503,215
Fringe benefits	
Expenses and representation allowances	96,300
Additional fringe benefits	210,000
Total remuneration	**809,515**
Entire Board of Directors (12)	
Fees	728,215
Fringe benefits	334,770
Total remuneration	**1,062,985**
CEO [2]	
Fixed base salary	620,000
Performance-related component (payable 2019) [3]	
Variable salary component	190,547
Outpayment from account for variable remuneration	262,733
Fringe benefits	
Expenses and representation allowances	15,000
Additional fringe benefits [4]	19,208
Additional payments [5]	–
Total remuneration	**1,107,488**
Other members of Executive Management (8) [6]	
Fixed base salary	2,592,836
Performance-related component (payable 2019) [7]	
Variable salary component	772,595
Outpayment from account for variable remuneration	382,820
Fringe benefits	
Expenses and representation allowances	130,800
Additional fringe benefits [4]	96,130
Additional payments [5]	–
Total remuneration	**3,975,181**
All members of Executive Management (9) [8]	
Fixed base salary and performance-related component	4,821,531
Fringe benefits	261,138
Total remuneration	**5,082,669**

1 Eight active members and three members who stepped down in 2018.
2 The former CEO was released from her duties from 10 June 2018; continued salary payments were made until 31 December 2018.
3 A decision regarding the approval (entitlement and calculation) of the entire performance-related component for the former CEO, consisting of the variable salary component and payment from the account for variable remuneration, will not be reached until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.
4 Additional fringe benefits include: first-class GA travelcard or company car, mobile phone and premiums for risk insurance policies.
5 No agreements exist regarding possible severance payments.
6 Seven active members and one member who stepped down in 2018.
7 A decision regarding the approval (entitlement and calculation) of the entire performance-related component for the former Head of PostBus, consisting of the variable salary component and payment from the account for variable remuneration, will not be reached until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.
8 Including the one member who stepped down in 2018 and the remuneration for the interim CEO solution. Due to this change in personnel, the total remuneration is not directly comparable with the prior year.

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. KPMG AG was re-elected as auditor for 2018. The statutory auditors will change for the 2019 financial year. Rolf Hauenstein has been the Head Auditor from KPMG AG in charge of the work since 2016.

The fee agreed upon for the 2018 audit and the fees for services provided in the financial year 2018 total 4 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 Services Organization Act.

Consolidated income statement

Group | Income statement

CHF million	Notes	2017 [1]	2018
Revenue	8	7,768	7,465
of which interest income as per effective interest method		814	719
Other operating income	10	239	226
Total operating income	7, 8	**8,007**	**7,691**
Personnel expenses	11, 12	–3,989	–3,866
Resale merchandise and service expenses	13	–1,559	–1,616
Expenses for financial services	9	–163	–172
Depreciation and impairment	21–23	–467	–360
Other operating expenses	14	–1,168	–1,176
Total operating expenses		**–7,346**	**–7,190**
Operating profit	7	**661**	**501**
Financial income	15	24	24
Financial expenses	16	–48	–49
Net income from associates and joint ventures	27	–10	35
Group profit before tax		**627**	**511**
Income taxes	17	–145	–106
Group profit		**482**	**405**
Group profit attributable to			
Swiss Confederation (owner)		482	407
Non-controlling interests		0	–2

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

Consolidated statement of comprehensive income

Group | Statement of comprehensive income

CHF million	Notes	2017 [1]	2018
Group profit		**482**	**405**
Other comprehensive income			
Revaluation of employee benefit obligations	12	2,084	81
Change in unrealized gains/losses from fair value reserves in equity instruments FVTOCI			26
Change in deferred income taxes	17	–414	–20
Items not reclassifiable in the consolidated income statement, after tax	25	**1,670**	**87**
Change in currency translation reserves		19	–11
Change in share of other comprehensive income from associates and joint ventures		–4	1
Change in unrealized gains/losses from fair value reserves in debt instruments FVTOCI			–169
Gains/losses from fair value reserves in debt instruments FVTOCI reclassified to the income statement			0
Change in fair value reserves from available-for-sale financial assets, net		–42	
Unrealized gains/losses from cash flow hedges			287
Realized gains/losses from cash flow hedges reclassified to the income statement			–244
Net change in hedging reserves from cash flow hedges		–109	
Change in deferred income taxes	17	23	25
Reclassifiable items in consolidated income statement, after tax	25	**–113**	**–111**
Total other comprehensive income		**1,557**	**–24**
Total comprehensive income		**2,039**	**381**
Total comprehensive income attributable to			
Swiss Confederation (owner)		2,039	381
Non-controlling interests		0	0

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

Consolidated balance sheet

Group | Balance sheet

CHF million	Notes	01.01.2017[1]	31.12.2017[1]	31.12.2018
Assets				
Cash		2,262	2,536	2,081
Amounts due from banks	18	37,571	38,379	36,688
Interest-bearing amounts due from customers	18	417	360	543
Trade accounts receivable	18	735	736	762
Contract assets		255	254	261
Other receivables	18	1,211	1,389	1,352
Inventories	19	78	67	59
Non-current assets held for sale	20	1	1	25
Financial assets	18	79,248	79,366	78,307
Investments in associates and joint ventures	27	144	138	153
Property, plant and equipment	21	2,272	2,106	2,083
Investment property	22	246	290	304
Intangible assets and goodwill	23	476	500	518
Current income tax assets		5	10	10
Deferred income tax assets	17	1,624	1,157	1,056
Total assets		**126,545**	**127,289**	**124,202**
Liabilities				
Customer deposits (PostFinance)	18	110,477	113,195	111,141
Other financial liabilities	18	3,475	2,144	1,608
Trade accounts payable	18	305	301	302
Contract liabilities		240	295	291
Other liabilities	18	1,527	1,367	897
Provisions	24	503	572	485
Employee benefit obligations	12	5,080	2,626	2,611
Current income tax liabilities		8	14	19
Deferred income tax liabilities	17	186	192	116
Total liabilities		**121,801**	**120,706**	**117,470**
Share capital		1,300	1,300	1,300
Capital reserves		2,279	2,279	2,279
Retained earnings		3,169	3,453	3,752
Profits and losses recorded directly in other comprehensive income		–2,004	–449	–599
Equity attributable to the owner		**4,744**	**6,583**	**6,732**
Non-controlling interests		0	0	0
Total equity	25	**4,744**	**6,583**	**6,732**
Total equity and liabilities		**126,545**	**127,289**	**124,202**

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

Consolidated statement of changes in equity

Group | Statement of changes in equity

CHF million	Notes	Share capital	Capital reserves	Retained earnings	Gains and losses recorded directly in other comprehensive income	Equity attributable to the owner	Non-controlling interests	Total
Balance as at 1.1.2017 reported		**1,300**	**2,279**	**3,306**	**–2,004**	**4,881**	**0**	**4,881**
Adjustment to the recognition of income from direct and networked transport	2			12		12		12
Adjustment to compensatory payments under subsidy law	2			–149		–149		–149
Balance as at 1.1.2017 adjusted		**1,300**	**2,279**	**3,169**	**–2,004**	**4,744**	**0**	**4,744**
Group profit				482		482	0	482
Other comprehensive income	25				1,557	1,557	0	1,557
Total comprehensive income				**482**	**1,557**	**2,039**	**0**	**2,039**
Dividends	25			–200		–200	–	–200
Adjustments in connection with disposals				2	–2	–	–	–
Total transactions with the owner				**–198**	**–2**	**–200**	**–**	**–200**
Balance as at 31.12.2017 adjusted		**1,300**	**2,279**	**3,453**	**–449**	**6,583**	**0**	**6,583**
Balance as at 31.12.2017 reported		**1,300**	**2,279**	**3,483**	**–449**	**6,613**	**0**	**6,613**
Adjustment to recognition of income from direct and networked transport	2			14		14		14
Adjustment to compensatory payments under subsidy law	2			–44		–44		–44
Balance as at 1.12.2017 adjusted		**1,300**	**2,279**	**3,453**	**–449**	**6,583**	**0**	**6,583**
Changeover effect from the first application of IFRS 9 after tax	2			92	–126	–34	–	–34
Balance as at 1.1.2018 adjusted		**1,300**	**2,279**	**3,545**	**–575**	**6,549**	**0**	**6,549**
Group profit				407		407	–2	405
Other comprehensive income	25				–24	–24	0	–24
Total comprehensive income				**407**	**–24**	**383**	**–2**	**381**
Dividends	25			–200		–200	–	–200
Capital increase from non-controlling interests							2	2
Total transactions with the owner				**–200**		**–200**	**2**	**–198**
Balance as at 31.12.2018		**1,300**	**2,279**	**3,752**	**–599**	**6,732**	**0**	**6,732**

Consolidated cash flow statement

Group | Cash flow statement

CHF million	Notes	2017 [1,2]	2018
Group profit before tax		627	511
Interest expense/(income) and dividends		–869	–710
Depreciation and impairment	18, 21–23	472	365
Net income from associates and joint ventures		10	–35
Net gain on disposal of property, plant and equipment	10, 14	–28	–41
Net increase/(decrease) in provisions		–301	67
Other non-cash expenses/(income)		–115	122
Change in net current assets:			
(Increase) in receivables, inventories and other assets		–163	–29
(Decrease in) accounts payable and other liabilities		–72	–564
Items from financial services:			
Change in customer deposits (PostFinance)/interest-bearing amounts due from customers		2,772	–2,236
Change in other financial liabilities, derivatives		–997	–291
Change in financial assets		–253	
Change in financial assets FVTPL including derivatives			358
Acquisition of financial assets at amortized cost			–26,775
Disposal and reimbursement of financial assets at amortized cost			27,763
Acquisition of financial assets FVTOCI			–629
Disposal and reimbursement of financial assets FVTOCI			51
Interest and dividends received		1,042	897
Interest paid		–56	–56
Income taxes paid		–128	–77
Cash flow from operating activities		**1,941**	**–1,309**
Purchases of property, plant and equipment	21	–279	–274
Acquisition of investment property	22	–29	–24
Purchases of intangible assets (excl. goodwill)	23	–63	–41
Purchases of subsidiaries, net of cash and cash equivalents acquired	27	–15	–60
Purchases of associates and joint ventures	27	–8	–13
Purchases of other financial assets		–252	–48
Proceeds from disposal of property, plant and equipment	21	55	62
Proceeds from disposal of investment property	22	1	0
Disposal of intangible assets (excl. goodwill)	23	–	1
Disposal of subsidiaries, net of cash proceeds	27	4	0
Proceeds from disposal of associates and joint ventures	27	0	–
Proceeds from disposal of other financial assets		29	18
Dividends received (excl. financial services)		3	9
Interest received (excl. financial services)		7	7
Cash flow from investing activities		**–547**	**–363**

Continued

CHF million	Notes	2017 [1,2]	2018
Increase/(Decrease) in other financial liabilities		–	51
Increase/(Decrease) in other financial liabilities		–353	–311
Interest paid (excl. financial services)		–15	–14
Payment from capital increase of non-controlling interests		–	2
Dividends paid to the owner	25	–200	–200
Cash flow from financing activities		**–568**	**–472**
Foreign exchange gains/(losses) on cash and cash equivalents		6	–2
Change in cash and cash equivalents		**832**	**–2,146**
Cash and cash equivalents at 1 January		39,633	40,465
Cash and cash equivalents at the end of the reporting period		**40,465**	**38,319**
Cash and cash equivalents include:			
Cash		2,536	2,081
Amounts due from banks with an original term of less than 3 months		37,929	36,238

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 In the interests of transparency, clarifications have been made to the disclosure of the cash flow from operating activities as part of the introduction of IFRS 9. Additions and disposals of financial assets (financial services business) are now disclosed separately according to measurement category.

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 7, 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 Services 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 FVTOCI 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 9, 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)

IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have been applied at Swiss Post since 1 January 2018. Since 1 January 2018, various amendments to existing International Financial Reporting Standards (IFRS) and interpretations have also been applied that have no material impact on the result or financial situation of the Group.

The impacts of the introduction of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the consolidated financial reporting are explained below. The only impact on equity as at 1 January 2018 was due to the introduction of IFRS 9 Financial Instruments.

IFRS 9 Financial Instruments

The requirements set out in IFRS 9 concern the recognition and measurement of financial assets and financial liabilities and of contract assets. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. In the previous year, financial instruments were recognized in accordance with IAS 39. The relevant accounting policies are set out in the Financial Report 2017, Note 3, Consolidation methods and accounting policies. Due to the introduction of IFRS 9, the prior-year figures have not been adjusted.

The IFRS 9 project provides clarifications regarding the cash flow statement. Additions and disposals of financial assets (financial services business) are now disclosed separately according to measurement category in cash flow from operating activities.

Classification of financial assets and financial liabilities

The previous IAS 39 categories for financial assets of “Financial instruments held to maturity”, “Loans and receivables”, and “Available for sale”, cease to exist. IFRS 9 introduces a new classification and measurement approach for financial assets.

Debt instruments

The classification and measurement approach for debt instruments is driven by the business model applicable for the management of the debt instruments provided that the financial instruments fulfil the cash flow conditions (see page 86). IFRS 9 consists of three main classification categories for debt instruments:
– Amortized cost
– FVTOCI (fair value through other comprehensive income)
– FVTPL (fair value through profit or loss)

A debt instrument is initially recognized at fair value plus transaction costs directly attributable to the purchase or the issue, provided that it is not assigned to the FVTPL category. In this case, the transaction costs are recognized in profit or loss. Items are entered according to the trade date accounting principle. Debt instruments in the amortized cost category are therefore measured at amortized cost. Debt instruments in the FVTPL or FVTOCI categories are measured at fair value through the income statement or in other comprehensive income. Interest income from financial assets in the amortized cost and FVTOCI categories is recorded in the income statement 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. Book gains/losses on debt instruments in the FVTOCI category are transferred from other comprehensive income to the income statement after their repayment or sale.

Business model

Swiss Post differentiates between its core and non-core portfolio. The core portfolio aims to generate interest income to cover the interest expense of deposit products. The core portfolio consists of interest-bearing capital market investments, money market transactions and associated hedging transactions. The non-core portfolio is used to generate supplementary income. Investments are also made outside the traditional interest business, for instance in shares or funds.

Swiss Post defines the business models as follows:

Financial instruments for achieving contractual cash flows (held to collect) – at amortized cost

Debt instruments in the core and non-core portfolios intended for generating contractual cash flows and for holding positions to maturity.

The following sales are compatible with the business model:
– Sales made as a result of increased risk of default (credit risk)
– Sales are only made in isolated cases (even if material) or they are individually and jointly immaterial (even if frequent)
– Sales are made close to the maturity of the debt instruments and the sales proceeds essentially match the outstanding contractual cash flows.

Financial instruments for achieving contractual cash flows and sales revenue (held to collect and sell) – FVTOCI

Debt instruments in the core and non-core portfolios intended for generating contractual cash flows and sales revenue.

Other business models – FVTPL

Financial instruments that are not held in the “held to collect” or “held to collect and sell” business models are held in one of the following business models: “held for trading” or “management of financial instruments based on fair value”.

Cash flow conditions
The fair value of a debt instrument is defined the first time it is used as principal. Interest is defined as compensation for the time value of money, as compensation for the credit risk entered into and other general lending risks taken.

Swiss Post takes into account the terms of the contract for the financial instrument when assessing whether the contractual cash flows solely lead to payments of principal and interest. This also involves assessing whether the financial asset includes a contractual provision which could influence the date or the amount of contractual cash flows. A provision of this kind could result in non-compliance with this test. Swiss Post takes the following points into account in its evaluation:
– Conditional events which could influence the amount and the date of cash flows
– Components with a leverage effect
– Early repayment clauses and extension provisions
– Provisions according to which cash flows from the financial asset may only be realized by pre-defined assets of the debtor (non-recourse asset arrangements)
– Components with an impact on the time value of money (e.g. regular redefinition of the interest rate where the definition period does not correspond to the definition frequency)

If the contractual cash flows change substantially, there is an indication that previous cash flows will expire. In this case, the previous financial asset will be derecognized and a new financial asset will be recognized at fair value. If the contractual cash flows of an adjusted financial asset have not changed substantially and the instrument was previously assigned to the amortized cost or FVOCI category, the asset is not derecognized. In this case, Swiss Post recalculates the gross carrying amount and enters the difference between the previous and the new carrying amounts as an adjustment gain/loss in the income statement. If the contractual cash flows are adjusted due to financial difficulties experienced by the debtor, the difference identified between the old and new carrying amounts is recorded in addition to impairment losses.

Financial liabilities
The current requirements of IAS 39 for the classification and measurement of financial liabilities are largely retained under IFRS 9. Consequently, no adjustments are necessary for Swiss Post.

Financial liabilities are usually measured at amortized cost. In the majority of cases (e.g. customer deposits in postal, savings and investment accounts, medium-term notes) this corresponds to the face value. Derivative financial instruments are measured at fair value.

Swiss Post derecognizes a financial liability if the contractual cash flows change substantially. At the same time, a new financial liability is recognized at fair value. Any difference between the carrying amount of the previous and the new financial liabilities is recorded in the income statement.

Netting
Financial assets and financial liabilities are presented on a net basis if Swiss Post is entitled to offset the amounts against each other and has the intention to settle or collect the net amount or to collect the asset and settle the liability at the same time.

Income and expenditure are only shown on a net basis if explicitly permitted by IFRS or in the case of gains and losses arising from a group of similar transactions such as that of Swiss Post’s trading activities.

Equity instruments
Under IFRS 9 equity instruments are assigned either as FVTPL or FVTOCI (FVTOCI option) depending on the business model. As a rule, interests in start-ups are classified as FVTPL, whereas all other interests are measured at FVTOCI. These mainly consist of companies operating in the area of financial infrastructure.

The fair value of infrastructure equipment is verified annually. The carrying amount is adjusted if sufficient information is available to establish a new fair value and if the change is material in nature. If there are no indications of any changes in fair value, the carrying amount is maintained. Changes in the fair value of these investments are recognized in other comprehensive income; there is no reclassification to the income statement on derecognition. At the same time, the fair value reserves accrued are reclassified from the equity item “Gains and losses recorded directly in other comprehensive income” to retained earnings. Dividend income is recorded in the income statement.

The mandatory FVTPL classification in accordance with IFRS 9 is applied for all other equity instruments. Changes in fair value and dividend income are recognized in the income statement.

Transfer as at 1 January 2018
After analysing its financial instruments, Swiss Post has reclassified investment funds as FVTPL. Financial assets are classified either at amortized cost or FVTOCI in accordance with the business model applied.

The following table shows the transfer of carrying amounts from the previous categories in accordance with IAS 39 to the new categories as per IFRS 9 as at 1 January 2018.

Reclassification and remeasurement as of 1.1.2018 with previous year for comparison CHF million	IAS 39 categories	Carrying amount, financial instruments as per IAS 39 31.12.2017	Remeasurements due to new classification	Remeasurements due to ECL remeasurement	Carrying amount, Financial instruments as per IFRS 9 1.1.2018 [1]
Assets					
Cash	Loans and receivables	2,536			2,536
Amounts due from banks	Loans and receivables	38,379			38,379
Interest-bearing amounts due from customers	Loans and receivables	360		– 1	359
Trade accounts receivable	Loans and receivables	736			736
Contract assets	Loans and receivables	254			254
Other receivables [2]	Loans and receivables	868			868
Total amortized cost: cash and receivables		**43,133**	**–**	**– 1**	**43 132**
Financial assets					
Bonds	Held to maturity	39,655			
Bonds	Available for sale	13,905			
Loans	Loans and receivables	15,992			
Total amortized cost: financial assets		**69,552**	**– 145** [3]	**96** [4]	**69,503**
Financial assets					
Bonds [5]	Available for sale	8,431			8,431
Shares	Available for sale	111			111
Total FVTOCI: financial assets		**8,542**	**–**	**–**	**8,542** [5]
Financial assets					
Shares	Available for sale	7			7
Funds	Available for sale	1,221			1,221
Positive replacement values	FVTPL	44			44
Total FVTPL: financial assets		**1,272**	**–**	**–**	**1,272**
Total financial assets as at 1.1.2018					**79,317**

1 The names of the new IFRS 9 categories can be found in the relevant total lines.
2 Excludes accruals and deferrals for tax and other liabilities, contract liabilities, receivables and liabilities relating to taxes, social insurance schemes and dividends, as these are not financial instruments.
3 The –145 million francs comprises the reclassification of –94 million francs from "available for sale" to the "amortized cost" category, the release of –76 million francs in 2016 from "available for sale" to the category reclassified "held to maturity" securities and the reclassification of +25 million francs of the fair value hedge due to the reclassification of the underlying transaction from "available for sale" to "amortized cost".
4 The ECL remeasurement was carried out on the newly determined total sum of financial assets, measured at amortized cost (62 million francs of bonds and 34 million francs of loans).
5 ECL on FVTOCI bonds are recorded in other comprehensive income and are not included in the carrying amount shown. Their value stood at 4 million francs as at 1 January 2018. The positive effect of 92 million francs (rounded) on retained earnings resulting from the application of the new impairment model shown on page 91 under "Transfer as at 1 January 2018" comprises ECL adjustments on the following positions: financial assets at amortized cost of +96 million francs, FVTOCI bonds of –4 million francs and interest-bearing amounts due from customers of –1 million francs.

Reclassification and remeasurement
as of 1.1.2018 with previous year for comparison

CHF million	IAS 39 categories	Carrying amount, financial instruments as per IAS 39 31.12.2017	Remeasurements due to new classification	Remeasurements due to ECL remeasurement	Carrying amount, Financial instruments as per IFRS 9 1.1.2018[1]
Liabilities					
Debt capital					
Customer deposits (PostFinance)	Other financial liabilities	113,195			113,195
Other financial liabilities[2]	Other financial liabilities	1,409			1,409
Trade accounts payable	Other financial liabilities	554			554
Other liabilities[3]	Other financial liabilities	612			612
Total amortized cost: customer deposits (PostFinance) and other financial liabilities		**115,770**	**–**	**–**	**115,770**
Other financial liabilities					
Negative replacement values	FVTPL	729			729
Deferred purchase price payments (earn-outs)	FVTPL	7			7
Total FVTPL: other financial liabilities		**736**	**–**	**–**	**736**

1 The names of the new IFRS 9 categories can be found in the relevant total lines.
2 Includes amounts due to banks and other financial liabilities (leases, repurchase transactions, bonds and other).
3 Excludes accruals and deferrals for tax and other, contract liabilities, receivables and liabilities relating to taxes, social insurance schemes and dividends, as these are not financial instruments.

Reclassifications
As at 1 January 2018, bonds with a fair value of around 13.9 billion francs previously classified as available for sale were reclassified as measured at amortized cost since they meet the conditions for the held to collect business model. The valuations of around 94 million francs in other comprehensive income were released to financial assets (effect of around 19 million francs from adjustment of deferred taxes). The accumulated changes in fair value hedges of 25 million francs to hedge interest rate risk were reclassified from other comprehensive income to financial assets “at amortized cost”.

Under IAS 39 bonds from the “available for sale” category were reclassified as “held to maturity” in 2016. These securities have been assigned to the “amortized cost” category since 1 January 2018. The amount reclassified in other comprehensive income in 2016 was released to financial assets as at 1 January 2018. As a result, equity as at 1 January 2018 decreased by around 76 million francs (effect of around 15 million francs from adjustment of deferred taxes).

As at 31 December 2017, existing investment funds with a carrying amount of 1.2 billion francs fail to fulfil the cash flow conditions in accordance with IFRS 9 and do not qualify as equity instruments. Their classification in the FVTPL category is mandatory from 1 January 2018. The accrued gains/losses of around 23 million francs were transferred from other comprehensive income to retained earnings on the changeover date (effect of around 3 million francs from adjustment of deferred taxes).

From 1 January 2018, the 58 million francs of equity instruments classified as “available for sale” at amortized cost in accordance with IAS 39 are measured at FVTOCI (around 52 million francs of strategic investments in relation to the infrastructure in the PostFinance segment) or subject to mandatory FVTPL classification (corporate venturing of around 5 million francs in the PostFinance segment and various minor interests of around 1 million francs in other segments).

From 1 January 2018, the 60 million francs of equity instruments classified as “available for sale” measured at fair value (market price) in accordance with IAS 39 are measured at FVTOCI (around 59 million francs of strategic investments in relation to the infrastructure in the PostFinance segment) or at FVTPL (various minor interests of around 1 million francs in the PostFinance segment).

Impairment losses (ECL) on debt instruments and contract assets in accordance with IFRS 15
IFRS 9 replaces the retrospective model of incurred credit loss as per IAS 39 with a forward-looking model of expected credit loss (ECL). The new model requires an assessment of how the development

of economic factors will influence the need for impairment losses. Historical and future input factors such as default probabilities, credit loss ratios and credit exposure at the time of default are taken into account in particular. The impairment model applies to debt instruments and contract assets measured at amortized cost and to debt instruments measured at FVTOCI.

Depending on the change in credit risk since acquisition, each financial instrument belongs to one of three levels. Depending on the level, the impairment loss matches the expected loss over the next year (level 1) or the expected losses over the remaining term to maturity of an instrument (levels 2–3).

Calculation method and allocation to levels
12-month expected credit losses (level 1):
The expected losses over the next year depend on the exposure of the position for the relevant year included in the default risk, on the probability of default of the instrument due to economic trends, and on an expected loss given default.

Lifetime expected credit losses: (levels 2–3):
The lifetime expected losses depend on the probability of default of the position due to economic trends over the remaining term to maturity, on its future exposure included in the default risk, and on an expected loss given default.

Allocation of the positions in the three levels
At the time of acquisition, an instrument with intrinsic value is allocated to level 1. A transition to level 2 takes place if there has been a significant increase in credit risk since initial recognition. There is a significant increase in credit risk if the current rating of a position is below a defined threshold. The threshold applied depends on the original rating of the position. The assigned rating corresponds to the rating issued by recognized rating agencies. If no such rating exists, the ratings of non-recognized rating agencies such as Credit Suisse Group Ltd, UBS AG, Zürcher Kantonalbank, etc. are used. Due to the exponential nature of the probability of default, the relative change in the probability of default must be higher, the better the rating at the time an instrument is acquired. A payment delay of more than 30 days also serves as a criterion for a move to level 2. In addition, a dedicated committee assesses whether there is a significant rise in credit risk for positions under special consideration, leading to a reclassification to level 2. This affects the following positions: those that have a non investment-grade rating, those whose spread exceeds a defined value, those that are lower tier 2 positions or those that do not have an external rating. If an event of default is present on the balance sheet date, the position is allocated to level 3. An event of default is present if Swiss Post assumes that there is a strong probability that the debtor will be unable to meet their payment obligations in full and as agreed, if a D rating (default) applies or if the liability is more than 90 days overdue from the counterparty.

If a position has been allocated to levels 2 or 3, this can again be transferred to level 1 or 2 as soon as the criteria for that level have been satisfied.

Parameters for measuring expected credit loss
The expected credit loss of an instrument is measured using the following parameters: default probability, credit loss ratio and credit exposure at the time of default. As PostFinance has not recorded any bond defaults in the past and investments are primarily made in highly rated bonds, there are no internal default time series available in order to estimate default probabilities on this basis. For this reason, default probabilities are derived from migration matrices from external sources. These derived probabilities are adjusted periodically based on the expected economic trends. The model parameters for the credit loss rate are derived from various external sources by means of an expert opinion. Credit exposure at the time of default generally corresponds to amortized cost or forecasted amortized cost plus outstanding interest.

In addition to financial assets, other assets which qualify as financial instruments subject to the impairment model in accordance with IFRS 9 include amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable, contract assets, receivables from leases and certain other receivables. Impairment losses for expected credit losses are also estimated on financial guarantees and credit commitments issued (payment transactions and credit cards).

Amounts due from banks fall within the scope of the ECL model. The ECL for these receivables are measured based on the default risk of outstanding loans or their credit rating.

Impairment losses are calculated on interest-bearing amounts due from customers and associated limits on a collective basis. The portfolios used were generated on the basis of the characteristics applied in product management. Receivables are allocated to the first level on initial recognition. They are allocated to levels 2 or 3 when the overdue period defined for the relevant level has been exceeded. The default rate used to determine the calculation of expected loss is calculated using historical data for a switch to level 2 or level 3. On the balance sheet date the previously calculated default probability is verified in order to determine whether an adjustment is needed on the basis of current and forward-looking information.

The simplified approach permitted in accordance with IFRS 9 is applied to determine expected credit loss on trade accounts receivable, contract assets, receivables from leases and other receivables. A historical default rate is calculated for each item in the balance sheet at accounting unit level. An additional risk premium is recorded to take into account future changes in debtor solvency. Bandwidths apply when calculating expected defaults on overdue receivables.

Presentation

Impairment losses for expected loan defaults on financial assets in the category “at amortized cost” are presented as a deduction from the gross carrying amount. In the case of debt instruments held in the FVTOCI category, the carrying amount corresponds to fair value. Impairment losses for these debt instruments are recorded directly in equity in other comprehensive income instead of reducing the carrying amount of the instruments. A financial asset is definitively derecognized once there are firm indications that it is no longer recoverable.

Transfer as at 1 January 2018

The first-time adoption of the new impairment model on financial instruments had a positive effect of 92 million francs (rounded) on retained earnings, including impairment on FVTOCI bonds. This had an equivalent opposing effect resulting in 4 million francs of gains and losses recorded directly in other comprehensive income. See the reclassification and remeasurement table on pages 88 to 89.

The following overview shows impairment losses as at 31 December 2017 under the impairment model in accordance with IAS 39 and the effects of the first-time adoption of the new impairment model as per IFRS 9 as at 1 January 2018.

Reconciliation of impairment losses on financial instruments from IAS 39 as at 31.12.2017 to IFRS 9 as at 1.1.2018

CHF million	
Cash	–
Amounts due from banks	48[1]
Interest-bearing amounts due from customers	5
Trade accounts receivable	10
Other receivables[2]	2
Financial assets	
Held to maturity	69
Loans	35
Available for sale (bonds)	–
Financial guarantees and credit commitments[3]	–
Impairment losses as per IAS 39 as at 31.12.2017	**169**
Effects of the first-time adoption of IFRS 9 as at 1.1.2018	
Cash	–
Amounts due from banks	–
Interest-bearing amounts due from customers	1
Trade accounts receivable	0
Contract assets	–
Other receivables[2]	–
Financial assets	
Amortized cost	
Bonds	–62
Loans	–34
FVTOCI	
Bonds	4
Financial guarantees and credit commitments[3]	0
Impairment losses as per IFRS 9 as at 1.1.2018	**78**

1 Impairment losses on outstanding positions prior to the transition to IFRS 9 were allocated directly to level 3.
2 Excludes accruals and deferrals for tax and other liabilities, contract liabilities, receivables and liabilities relating to taxes, social insurance and dividends.
3 Concerns the payment transaction and credit card business (off-balance sheet). Impairment losses are recognized as provisions in the balance sheet.

Effects on equity

Equity CHF million	Effects arising from the application of IFRS 9 as at 1.1.2018
Gains and losses recorded directly in other comprehensive income (fair value reserves)	
Carrying amount as per IAS 39 as at 31.12.2017	**–449**
Reclassification of fund units from available for sale to FVTPL	–23
Reclassification of bonds from available for sale to amortized cost	–145
ECL on bonds FVTOCI on the changeover date	4
Release of deferred taxes in OCI from IFRS 9 reclassification	38
Carrying amount as per IFRS 9 as at 1.1.2018	**–575**
Retained earnings	
Carrying amount as per IAS 39 as at 31.12.2017	**3,483**
Other adjustments not related to the introduction of IFRS 9	–30
Reclassification of fund units from available for sale to FVTPL	23
Initial application of the ECL model in accordance with IFRS 9 for financial instruments	92
Deferred taxes on reclassified fund units	–3
Adjustment of deferred taxes for initial application of the ECL approach	–20
Carrying amount as per IFRS 9 as at 1.1.2018	**3,545**

The reclassification of financial assets from the available for sale category to the amortized cost category also has the following effects:

Effects on the reclassification of gains and losses recorded directly in other comprehensive income from the available for sale category CHF million	
Fair value as at 31.12.2018	13,042
Fair value gains/(losses) that would have been recognized in other comprehensive income in 2018 if financial assets had not been reclassified	–166

Hedge accounting
Swiss Post applied the hedge accounting requirements in accordance with IFRS 9 for the first time as at 1 January 2018. It is no longer necessary to conduct time-consuming retrospective effectiveness tests. The effectiveness of the hedging relationship is however constantly measured on a prospective basis. Changes to existing hedging relationships take place by adjusting the hedging ratio (rebalancing). In addition, aggregated risks can be recognized in a single hedging position. There are no transition effects at Swiss Post resulting from the application of the new hedge accounting provisions.

Transition
Swiss Post is taking advantage of the option to waive the adjustment of comparative figures for 2017 in relation to classification and measurement as permitted by the standard. Figures for the comparison period 2017 were drawn up according to the accounting principles valid until 31 December 2017.

IFRS 15 Revenue from Contracts with Customers
The new standard IFRS 15, Revenue from Contracts with Customers, took effect on 1 January 2018. In the previous year, revenue was recognized in accordance with IAS 18 and IAS 11. The relevant accounting policies are set out in the Financial Report 2017. The new standard defines when and how much revenue from contracts with customers should be recognized. It comprises a principle-based, five-stage model which is applicable to all contracts with customers. Swiss Post has changed its accounting method in accordance with the transitional provisions of IFRS 15 and has decided to adopt a full retrospective application. The comparative figures have been adjusted accordingly. The changes mainly affect the balance sheet. Contract assets and liabilities are now recognized in the balance sheet. Previously, contract assets were recognized in other receivables and contract liabilities were recognized in trade accounts payable. In addition, downpayments to suppliers for trade accounts

receivable are now recognized in other receivables. The adoption of the requirements of the new standard regarding the date and amount of revenue generated will have no major influence at Swiss Post in relation to the current accounting principles in accordance with IAS 18. Net revenue from logistics services, net revenue from resale merchandise and income from financial services previously represented separate lines in the consolidated income statement. They have now been combined into a single line, Revenue. The figures have not changed. More detailed information is required in the notes. Details of the breakdown of revenue can be found in Note 8, Revenue.

The effects of the retroactive changes on the consolidated balance sheet as at 1 January 2017 and 31 December 2017 are shown on the following pages.

Accounting changes

Changes in the disclosure of revenue and expenses for financial services (digital goods) and receivables and liabilities from the credit card business

PostFinance modified the disclosure of expenses and income from trading with digital goods in 2018. These items are now shown on a net basis in commission income on other services instead of in profit/loss on services. In addition, receivables and liabilities from the credit card business are now disclosed on a gross basis as other receivables on the assets side and as customer deposits (PostFinance) on the liabilities side. These modifications have no effect on the result. The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

The effects of the retroactive changes on the 2017 consolidated income statement, on the balance sheet as at 1 January 2017 and 31 December 2017 and on the 2017 cash flow statement are shown on the following pages.

Changes in the disclosure of income from vehicle rental

Post Company Cars modified the disclosure of income from vehicle rental in 2018. This income is now recognized in other operating income. It was previously reported as revenue. This modification has no effect on the result. The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

The effect of the retroactive change on the 2017 consolidated income statement is shown on the following pages.

Changes in the balance sheet disclosure of services provided and received in the international letter and parcel business

In the fourth quarter of 2018, PostMail modified the balance sheet disclosure of services provided and received in the international letter and parcel business whose scope and / or price has not yet been definitively determined. These services were previously recognized in trade accounts receivable or payable. They are now disclosed in contract assets or other liabilities. Advance payments received or made for such services are no longer disclosed in contract liabilities or other receivables, but are deducted from contract assets or other liabilities. These modifications have no effect on the result. The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

The effects of the retroactive changes on the consolidated balance sheet as at 1 January 2017 and 31 December 2017 and on the 2017 cash flow statement are shown on the following pages.

Adjustment of interest in the cash flow statement

On account of the changes to the cash flow statement associated with the introduction of IFRS 9, it has emerged that interest and dividends received (financial services) can be presented more accurately in the cash flow statement in connection with net interest income. The prior-year figures were also adjusted as a result of this reclassification.

The effect of the retroactive change on the 2017 consolidated cash flow statement is shown on the next few pages.

Reimbursement of compensatory payments made to PostBus under subsidy law

During an audit of accounting of services for the purposes of reporting under subsidy law, the Federal Office of Transport (FOT) found evidence of accounting practices that do not comply with the law, resulting in a reimbursement of state compensatory payments for the years 2007 to 2018. Against this background, a sum of 78.3 million francs was deducted from net revenue from logistics services in the 2017 financial statements for the possible reimbursement of compensatory payments for the years 2007 to 2015 within the regional passenger transport segment. Also charged to this net revenue were provisions of 30 million francs recognized for estimated possible reimbursements for the years 2016 and 2017, in connection with the transfer pricing concept not yet approved by the FOT, which has been applicable since 1 January 2016. In the segment disclosure, the above-mentioned amounts were included in operating income for the PostBus segment. The reimbursements recorded were the subject of ongoing clarifications and could not be conclusively determined at the time the 2017 consolidated financial statements were drawn up.

Based on the results of the FOT audit, Swiss Post initiated enquiries by independent experts concerning financial reporting under subsidy law at the Swiss Post subsidiary PostBus Switzerland Ltd. The external enquiry report into the PostBus case published in mid-June 2018 and the independent expert evaluation for the period from 2007 to 2015 confirm the unlawful reclassifications during this time. On the basis of the transfer pricing concept applicable since 1 January 2016, and given the clarifications, reimbursements of excessively high compensatory payments also had to be recognized in the balance sheet for the years 2016 to 2018.

Based on these findings, there was an error under IAS 8.5 which needed to be corrected retroactively in the 2017 consolidated financial statements.

In parallel with the enquiries, Swiss Post also reviewed the unlawfully received compensatory payments and entered into negotiations with the FOT with the aim of reaching an agreement to reimburse the unlawfully received compensatory payments which could be implemented with all purchasers.

On 21 September 2018 Swiss Post signed a framework agreement concerning the reimbursement of PostBus compensatory payments with the FOT and the Conference of Cantonal Directors of Public Transport (CPT). In this agreement the parties agreed on the measurement basis and the calculation method and recorded the following reimbursement sums: 106 million francs for the period from 2007–2015 (passenger transport, ordered transport and local transport) and default interest of around 27 million francs as well as 16 million francs for the 2016 period. These sums totalling 149 million francs were recognized in retained earnings as at 1 January 2017. Reimbursements of 18 million francs were agreed for the full year 2017. In order to disclose these reimbursements correctly in the adjusted income statement for 2017, the originally posted provisions of 105 million francs as at end-2017 needed to be corrected. This resulted in a net effect for correction of 87 million francs. In addition, the default interest of 19 million francs posted in the second half of 2017 was reversed. The adjustment of 44 million francs in retained earnings as at 31 December 2017 has follow-up effects arising from the restatement.

On 18 December 2018, Swiss Post, the FOT and the CPT announced that the quorum set out in the framework agreement of 21 September 2018 had been significantly exceeded as at 14 December 2018. Since then, the Confederation and all 24 cantons affected have signed an individual agreement with PostBus Switzerland Ltd. Under the terms of the framework agreement, Swiss Post will also reimburse compensatory payments received prior to 2007 amounting to 17 million francs. This amount was recorded in other operating expenses in 2018.

The effects of the retroactive changes on the 2017 consolidated income statement, on the balance sheet as at 1 January 2017 and 31 December 2017 and on the 2017 cash flow statement are shown on the following pages.

Modification of the disclosure of income from direct and networked traffic

In 2018 PostBus modified the disclosure of income from direct and networked traffic in order to accurately reflect the course of business.

The effects of this error under IAS 8.5 on the 2017 consolidated income statement on the balance sheet as at 1 January 2017 and 31 December 2017 and on the 2017 cash flow statement are shown on the following pages.

The following tables illustrate the effects of the changes resulting from the introduction of IFRS 15, reclassifications at PostFinance and Post Company Cars, the modification of interest in the cash flow statement and the restatements at PostBus and PostMail:

Group | Income statement
1.1. to 31.12.2017

CHF million	Reported		Adjustment	Adjusted
Revenue	7,702	./. digital goods	– 11	
		./. vehicle rental	– 11	
		+ compensatory payments under subsidy law	+ 87	
		+ direct and networked traffic	+ 1	7,768
Other operating income	228	+ vehicle rental	+ 11	239
Expenses for financial services	–174	+ digital goods	+ 11	– 163
Financial expenses	–67	+ compensatory payments under subsidy law	+ 19	– 48

Group | Balance sheet
1.1.2017

CHF million	Reported		Adjustment	Adjusted
Interest-bearing amounts due from customers	405	+ credit card business	+ 12	417
Trade accounts receivable	1,027	./. downpayments (IFRS 15)	– 98	
		./. int. letter and parcel business	– 194	735
Contract assets	–	+ contract assets (IFRS 15)	+ 96	
		+ int. letter and parcel business	+ 147	
		+ direct and networked traffic	+ 12	255
Other receivables	1,250	+ downpayments (IFRS 15)	+ 98	
		./. contract assets (IFRS 15)	– 96	
		./. credit card business	0	
		./. int. letter and parcel business	– 41	1,211
Customer deposits (PostFinance)	110,465	+ credit card business	+ 12	110,477
Trade accounts payable	803	./. contract liabilities (IFRS 15)	– 287	
		./. int. letter and parcel business	– 211	305
Contract liabilities	–	+ contract liabilities (IFRS 15)	+ 287	
		./. int. letter and parcel business	– 47	240
Other liabilities	1,251	+ compensatory payments under subsidy law	+ 106	
		+ int. letter and parcel business	+ 170	1,527
Provisions	460	+ compensatory payments under subsidy law	+ 43	503
Retained earnings	3,306	./. compensatory payments under subsidy law	– 149	
		+ direct and networked traffic	+ 12	3,169

Group | Balance sheet

31.12.2017

CHF million	Reported		Adjustment	Adjusted
Interest-bearing amounts due from customers	348	+ credit card business	+ 12	360
Trade accounts receivable	1,099	./. downpayments (IFRS 15)	– 102	
		./. int. letter and parcel business	–261	736
Contract assets	–	+ contract assets (IFRS 15)	+ 60	
		+ int. letter and parcel business	+ 180	
		+ direct and networked traffic	+ 14	254
Other receivables	1,413	+ downpayments (IFRS 15)	+ 102	
		./. contract assets (IFRS 15)	– 60	
		./. credit card business	– 1	
		./. int. letter and parcel business	– 65	1,389
Customer deposits (PostFinance)	113,184	+ credit card business	+ 11	113,195
Trade accounts payable	929	./. contract liabilities (IFRS 15)	–375	
		./. int. letter and parcel business	–253	301
Contract liabilities	–	+ contract liabilities (IFRS 15)	+ 375	
		./. int. letter and parcel business	– 80	295
Other liabilities	1,149	+ compensatory payments under subsidy law	+ 31	
		+ int. letter and parcel business	+ 187	1,367
Provisions	559	+ compensatory payments under subsidy law	+ 13	572
Retained earnings	3,483	./. compensatory payments under subsidy law	– 44	
		+ direct and networked traffic	+ 14	3,453

Group | Cash flow statement

1.1. to 31.12.2017

CHF million	Reported		Adjustment	Adjusted
Group profit before tax	520	+ compensatory payments under subsidy law	+ 106	
		+ direct and networked traffic	+ 1	627
Interest expense / (income) and dividends	–1,022	+ adjustment of interest	+ 153	– 869
Net increase / (decrease) in provisions	–271	./. compensatory payments under subsidy law	– 30	– 301
(Increase) / decrease in receivables, inventories and other assets	–220	+ credit card business	+ 1	
		./. direct and networked traffic	– 2	
		+ int. letter and parcel business	+ 58	–163
(Decrease) / increase in accounts payable and other liabilities	61	./. compensatory payments under subsidy law	– 75	
		./. int. letter and parcel business	– 58	–72
Change in customer deposits (PostFinance) / interest-bearing amounts due from customers	2,773	./. credit card business	– 1	2,772
Interest and dividends received (financial services)	1,195	./. adjustment of interest	– 153	1,042

Outlook

Certain new IFRSs or supplements thereto enter into force for financial years beginning on or after 1 January 2018:

Standard	Title	Valid from
IFRS 16	Leases	1.1.2019
IFRIC 23	Uncertainty over Income Tax Treatments	1.1.2019
Miscellaneous	Annual improvements to IFRSs, 2015–2017 Cycle	1.1.2019
IAS 19 and IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1.1.2019
IAS 28	Long-term interests in associates or joint ventures which are not recognized in the balance sheet according to the equity method follow the requirements of IFRS 9	1.1.2019
IFRS 3	Definition of a Business	1.1.2020
IAS 1 and IAS 8	Definition of Material	1.1.2020
IFRS 17	Insurance Contracts	1.1.2021

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 standard on leases which enters into force as at 1 January 2019 will have an impact on accounting at Swiss Post. The changes resulting from IFRS 16 – Leases on the consolidated financial reporting are explained below.

IFRS 16 Leases

IFRS 16 Leases replaces the previous standard on lease accounting, IAS 17 Leases, and its interpretations. Swiss Post will apply the standard as at 1 January 2019. The changeover to IFRS 16 will be carried out according to the modified retrospective approach; comparative figures from the previous years will not be adjusted. An analysis conducted as part of the Group-wide project on the initial application of IFRS 16 showed that the new standard will have material effects on the consolidated financial statements and the presentation of the assets, liabilities and financial position of Swiss Post.

Balance sheet: IFRS 16 introduces a uniform approach to lease accounting for lessees, according to which all leases are to be reported in the balance sheet as assets for the usage rights to the leased assets, and as liabilities for the payment obligations received. Use will be made of the simplified application rules for low-value leasing assets (replacement value of less than 5,000 francs) and for short-term leases (duration of less than twelve months). The accounting provisions for lessors remain largely unchanged, however, particularly with regard to the classification of leases in accordance with IAS 17, which continues to be required.

In the case of leases previously classed as operating leases in accordance with IAS 17, the lease liability is recognized with the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate on the initial date of application. As a rule, the right of use for the leased asset is measured as the lease liability plus the initial direct costs. Downpayments and liabilities for the previous financial year are also taken into account. There will be no change in retained earnings on the initial date of application. After identifying its current leases, Swiss Post is expecting a one-off balance sheet extension of 780 million francs to 820 million francs in 2019 due to the initial application of IFRS 16. Debt increases due to the above-mentioned balance sheet extension.

Income statement: contrary to the previous disclosure of expenditure from "Operating leases", depreciation on usage rights and interest expenses from the accumulation of interest on lease liabilities will be recognized in future. The expected positive bandwidth on operating profit in 2019 is between 5 and 7 million francs.

Cash flow statement: the changes in the disclosure of leasing expenditure from "Operating leases" will result in an improvement in cash flow from operating activities and a deterioration in cash flow from financing activities.

3 | Consolidation methods and accounting policies

IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have been applied at Swiss Post since 1 January 2018. The resulting changes in consolidation methods and accounting policies are described in Note 2, Basis of accounting, Revised and new International Financial Reporting Standards (IFRSs), IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

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.

Investments 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 "Investments 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 of less than 20 percent are presented as financial assets in the FVTPL category or, in the case of strategic long-term interests, as FVTOCI.

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 26, 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 FVTOCI 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 revenue from contracts with customers

Revenue from contracts with customers is realized when control over an item or a service is transferred to the customer. Revenue is measured on the basis of the contractually agreed transaction price, i.e. revenue is recognized which is equal to the consideration Swiss Post can expect to receive in exchange for the transfer of goods or the provision of services (performance obligations assumed).

Performance obligations are met either on a specific date or over a period of time. When performance obligations are met over a period of time, the performance progress and hence the pro rata revenue recognition specific to the contract is determined either on an input basis (recognition of revenue on the basis of the efforts of the company to meet their performance obligations) or on an output basis (recognition of revenue on the basis of the direct determination of value of the products or services transferred so far in relation to the outstanding contractually agreed products or services).

Swiss Post earns revenue from contracts with customers in connection with logistics services, the sale of resale merchandise and financial services and the commission business.

Revenue from logistics services

PostMail

Addressed letters generate the largest proportion of revenue at PostMail. They include priority items, non time-critical individual items and bulk mailings as well as letters with proof of delivery. Customers pay for services when handing over consignments to Swiss Post on the basis of the published list prices. Swiss Post issues periodic invoices to customers who submit consignments regularly. The standard payment term is 30 days. The performance obligation is met when letters are delivered or, if they are undeliverable, when they are returned to the sender. Items are regarded as delivered if Swiss Post has handed them to the recipient or deposited them in the letter box or in another place specified for this purpose. The production time – between the acceptance and the delivery of items – is taken into account on the balance sheet date via accruals/deferrals.

Swiss Post Solutions

Swiss Post Solutions earns revenue from document solutions and the management of selected document-based business processes. These include mailroom services, document input processing and document output processing. Mailroom services mainly comprise the processing of physical postal items. Customers pay a fixed price per month/hour for basic services and a contractually agreed price for value-added services. In input processing, documents are sorted, scanned and processed in the system. In output processing, documents are printed, folded, packaged and delivered. Customers pay for services on the basis of contractually agreed unit prices. The payment term is usually 30 days. The performance obligation is met with the provision of the service over the performance period.

PostLogistics

National parcels generate the largest proportion of revenue at PostLogistics and include all the services in the national parcel and express business, particularly PostPac Priority and PostPac Economy. Private customers pay for services when handing over parcels on the basis of the published list prices. Services provided for business customers are invoiced monthly according to the contractually agreed parcel prices. The standard payment term is 30 days. The performance obligation is met when the parcels are delivered. Items are regarded as delivered if Swiss Post has notified the recipient, handed them to the recipient or deposited them in the letter box or in another place specified for this purpose. The production time – between the acceptance and the delivery of parcels – is taken into account on the balance sheet date via accruals/deferrals.

PostBus

PostBus is a franchised transport business and provides passenger transport services for the Swiss Confederation, cantons and municipalities. Each concession is issued for ten years and entitles PostBus to offer regular journeys for the commercial transport of passengers. Services are ordered by the public sector every two years and annual tender agreements are drawn up with the company that is awarded the tender for the advertised routes. PostBus undertakes to operate the routes in accordance with the agreement and is allowed to use public sector stops. In exchange for the services provided, PostBus receives a proportion of passenger revenue each month, as well as quarterly compensatory payments from the public sector for uncovered costs in accordance with the agreement. The performance obligation is met on a linear basis over the performance period. The concession is treated in accordance with IFRIC 12 Service Concession Arrangements, and the resulting revenue including compensatory payments is recorded in accordance with IFRS 15 Revenue from Contracts with Customers.

Revenue from resale merchandise

PostalNetwork

Resale merchandise at PostalNetwork consists mainly of lotteries, stickers, mobile phones incl. accessories and gift cards. The products offered can be purchased in branches and in the online shop. If products are sold in a branch, the transaction is processed simultaneously, and both the payment and the fulfilment of the performance obligation take place on conclusion of the transaction. Sales in the online shop are usually paid for immediately on completion of the order. The payment term for payments by invoice is usually 30 days. In the case of purchases in the online shop, the performance obligation is met when the order is delivered to the customer.

Revenue from financial services and the commission business

PostFinance

Revenue from financial services and the commission business at PostFinance includes income from payments, savings, investments, retirement planning and financing services as well as commission income from the securities, investment and lending business. Customers pay for services on the basis of contractually agreed prices. The performance obligation is met either with the provision of the service over the performance period or on the date of the transaction.

Cash

Cash includes cash holdings in Swiss francs and foreign currencies as well as asset-side cash in transit (cash payments made at Swiss Post branches 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 are measured at amortized cost using the effective interest method, which usually corresponds to the face value. Amounts due from banks are comprised principally of current account balances, money market instruments and reverse repurchase transactions. In amounts due from banks, high cash reserves are held, which are mostly invested at the Swiss National Bank. Interest-bearing amounts due from customers consist of technically overdrawn postal accounts of postal account holders, reverse repurchase transactions with third parties and receivables from recourse factoring and reverse factoring (working capital management products from PostFinance). See also Note 2, Basis of accounting, Revised and new International Financial Reporting Standards (IFRSs), IFRS 9 Financial Instruments.

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recognized at amortized cost, which usually corresponds to the face value. See also Note 2, Basis of accounting, Revised and new International Financial Reporting Standards (IFRSs), IFRS 9 Financial Instruments.

Contract assets and liabilities

A contract asset is recognized if a performance obligation from a contract with a customer has been met, but an unconditional claim to consideration or a receivable does not yet exist. Contract assets equivalent to the expected consideration are recognized and checked for indications of impairment using the ECL model in accordance with IFRS 9.

A contract liability is recognized when a customer meets its contractual obligation by making the payment for the consideration they have been promised before Swiss Post has satisfied the corresponding performance obligation.

Inventories

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

Financial assets

See also Note 2, Basis of accounting, Revised and new International Financial Reporting Standards (IFRSs), IFRS 9 Financial Instruments.

Derivative financial instruments within risk management and hedge accounting

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 profit or loss 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 profit or loss in the result from trading activities. As soon as the hedged item has been recognized in profit or loss, 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 profit or loss.

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 correspond to the maximum amount the counterparty would lose in the event of default in performance by Swiss Post.

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.

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 or interest-bearing amounts due from customers (other). 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 and/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.

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 lives of items of property, plant and equipment	
Plots of land	indefinite
Operating property	20–60 years
Operating equipment	3–20 years
Machinery	3–15 years
IT equipment	3–10 years
Furnishings	3–20 years
Railway rolling stock	10–30 years
Other vehicles	3–15 years

Tenant fit-outs and installations in rented premises that are recognized as part of the cost of the assets 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 capitalized 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 and goodwill

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, intangible assets and goodwill)

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 profit or loss. The recoverable amount of goodwill is reviewed at least annually or if there are indications of impairment. An impairment is applicable where the carrying amount of the cash-generating unit to which the goodwill was assigned exceeds the recoverable amount.

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 item. Interest expenses are accounted for using the accrual-based accounting principle.

Other financial liabilities

Other financial liabilities comprise amounts due to banks (excluding amounts due to banks in postal and savings 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 salary 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 (actuarial reserves 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 actuarial reserves for active contributors and pensioners).

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.

Risk sharing characteristics are taken into account in two stages when determining financial assumptions. These characteristics limit the employer's share in the costs of future benefits and integrate the employee into the obligations to pay any additional contributions needed to correct underfunding. Both stages are incorporated directly into the calculation of defined employee benefit obligations (DBO) and therefore have an impact on future service cost in accordance with IAS 19. The assumptions are based on the formal regulations of the plan which, for a Swiss employee benefits plan, include the regulations of the employee benefits institution as well as the relevant laws, ordinances and directives on employee benefits, and above all the provisions contained in them regarding funding and measures to correct underfunding of employee benefits institutions.

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 Services Organization Act (PSOA), 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

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 for the years 2017 and 2018

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment (carrying amount as at 31 December 2018: 2,083 million francs, carrying amount as at 31 December 2017: 2,106 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 2018: 2,611 million francs, carrying amount as at 31 December 2017: 2,626 million francs) are calculated annually using the projected unit credit method. The calculations of employee benefit obligations are based on various actuarial assumptions such as expected salary and pension trends, the discount rate, or risk sharing characteristics which limit the employer's share in the costs of future benefits.

Fair values of financial instruments

Fair values of financial assets (carrying amount as at 31 December 2018: 78,307 million francs, carrying amount as at 31 December 2017: 79,366 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 FVTOCI (2017: 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. The discounted cash flow method or venture capital method is used to determine the fair value of unlisted equity instruments.

Expected credit losses

Expected credit losses (carrying amount as at 31 December 2018: 82 million francs, carrying amount as at 1 January 2018: 78 million francs) depend on several factors. The most important assumptions are:

– the general assessment of future economic development (even taking into account the weighting of various scenarios)
– the prompt recognition of significant changes in credit risks
– evaluations of the model parameters “probability of default” and “loss rates”

Goodwill

The discounted cash flow method is used annually to determine the recoverable amount of goodwill items (carrying amount as at 31 December 2018: 265 million francs, carrying amount as at 31 December 2017: 244 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.

5 | Risk management and risk assessment

Risk management (corporate risk management)

Organization

Swiss Post operates a comprehensive risk management system whose structure is based on ISO 31000:2018. It is applicable to all Swiss Post units and subsidiaries. Executive Management and the Board of Directors approve the risk strategy and define risk policy. The implementation of risk management lies with line management. Executive Board members of the different Group units are responsible for their own risk portfolio in order to identify, assess and control risks by taking appropriate measures.

The Group risk managers run the process, develop Group-wide risk management methods and ensure that all detectable risks are identified and recorded in full in the risk analysis and reporting systems and documented in the half-yearly report for Executive Management and the Board of Directors. The risk managers also monitor the necessary controls, measures and limits as well as the potential risks.

Swiss Post aims to take an integral and comprehensive 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 various 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 2020.

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 budgeted figures 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 99 percent.

Based on the latest calculations, the Group has an expected loss potential of –37.1 million francs in relation to the financial year 2019. The average expected loss potential compared to the prior-year period has therefore decreased by 4.8 million francs (expected loss potential in 2018: –41.9 million francs). The unexpected annual loss potential (VaR 99 percent) for the Group totals –476.3 million francs for 2019. Risks have therefore increased year-on-year (unexpected loss potential in 2018: –433.0 million francs). Overall, the results show that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group’s risk capacity is thereby guaranteed.

The largest loss potential with a short-term impact is due to shortfalls in the provision of services as well as project and legal risks. Positive effects could occur as a result of business optimization measures, customer acquisitions and the implementation of transformation projects.

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 influence the achievement of goals in 2021 are regarded as strategic risks and opportunities.

The most significant strategic risks include major project risks, higher intensity of competition, legal risks and declining volume trends. Changes in the regulatory framework and risks associated with data security 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.

Financial risk management in logistics

Following the introduction of the new standard IFRS 9 Financial Instruments, and due to the fundamentally different business models within Swiss Post Group, from 1 January 2018 financial risk management will be disclosed in two parts (logistics and PostFinance). The logistics part comprises all Swiss Post's business activities with the exception of the PostFinance segment. No directly comparable prior-year figures will be published for the figures required by the new standard. See also Note 2, Basis of accounting, Accounting changes, IFRS 9 Financial Instruments, effects of the transition from IAS 39 to IFRS 9.

The Swiss Post consolidated balance sheet as at 31 December 2018 and 2017 is broken down between the logistics and PostFinance business models as follows:

Condensed balance sheet, divided according to business model	31 December 2017			31 December 2018		
CHF million	PostFinance	Logistics	Group	PostFinance	Logistics	Group
Cash	2,113	423	2,536	1,958	123	2,081
Amounts due from banks	37,104	1,275	38,379	35,677	1,011	36,688
Interest-bearing amounts due from customers	360	–	360	543	–	543
Trade accounts receivable [1]	3	733	736	2	760	762
Contract assets [1,2]	49	205	254	9	252	261
Other receivables [1]	656	733	1,389	582	770	1,352
Financial assets						
Held to maturity	39,655	–	39,655			
Loans	15,939	53	15,992			
Available for sale	23,671	4	23,675			
Amortized cost				68,270	70	68,340
FVTPL including derivatives	44	0	44	1,211	12	1,223
FVTOCI equity instruments				137	10	147
FVTOCI debt instruments				8,597	–	8,597
Other assets [2]	1,259	3,010	4,269	1,199	3,009	4,208
Total assets	**120,853**	**6,436**	**127,289**	**118,185**	**6,017**	**124,202**
Customer deposits (PostFinance)	113,195	–	113,195	111,141	–	111,141
Other financial liabilities	843	1,301	2,144	552	1,056	1,608
Trade accounts payable [1]	34	267	301	30	272	302
Other liabilities [1,2]	6,781	4,868	11,649	6,462	4,689	11,151
Total equity and liabilities	**120,853**	**6,436**	**127,289**	**118,185**	**6,017**	**124,202**

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 Contract assets, other assets and other liabilities are not financial instruments. For the purposes of reconciliation with the balance sheet, they are reported here.

Risk management information on PostFinance can be found from page 117 onwards. The following explanations refer to financial risk management in the logistics business model.

Credit risks

Credit risks arising from the provision of logistics services include the default risk on cash holdings, amounts due from banks (current account balances, fixed-term deposits), trade accounts receivable, contract assets and other receivables, as well as on financial assets measured at amortized cost (loans to PostBus operators 30 million francs, other loans 41 million francs). The maximum credit risk corresponds to the amounts reported in the balance sheet.

Amounts resulting from impairment losses on cash holdings are immaterial. Impairment losses required for potential future defaults on current account balances, fixed-term deposits and amounts due from banks are calculated taking into account the historical probability of default and an estimation of the probability of default in the future. To calculate expected credit loss in the logistics business model, the same ECL model is applied as in the PostFinance business model.

The creditworthiness of major counterparties is constantly monitored. A limit is set for each counterparty for risk control purposes. The counterparty limit is recalculated at regular intervals. Outstanding amounts due from major counterparties are constantly monitored and documented on a weekly basis.

The trade accounts receivable recognized originate mainly from the invoicing of services to business customers by PostMail and PostLogistics. Long-standing, good business relationships exist with these customers. Around 40 percent of receivables are collected from the customer on the due date automatically by direct debit. The creditworthiness of all new customers and customers experiencing payment difficulties is determined by means of a creditworthiness check. Outstanding receivables are subsequently monitored on a permanent basis by the Finance Service Center. Customer-specific credit limits are set in order to minimize risks. Compliance with these limits is checked automatically on an ongoing basis. In the event of major payment delays, services are provided exclusively upon payment in advance.

The simplified approach permitted in accordance with IFRS 9 is applied to determine expected credit loss on trade accounts receivable, contract assets and other receivables. A historical default rate is calculated each year at accounting unit level for trade accounts receivable, contract assets and other receivables (financial instruments). An additional risk premium is recorded to take into account future changes in debtor solvency. Bandwidths apply when calculating expected defaults on overdue receivables. If a receivable is 1–90 days overdue, an impairment loss of a maximum of 10 percent of the receivable amount is recorded (91–180 days: up to max. 75 percent, 181–360 days: up to max. 100 percent and more than 360 days: up to max. 100 percent). Information from the dunning system (on customer payment behaviour and creditworthiness) and from the sales department (on the sector and the market) is taken into account to determine the impairment loss. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable.

No loans to PostBus operators or other loans to third parties have been defaulted on in the past. In the case of the PostBus operators, the operating materials are to be transferred at the nominal value in accordance with the Swiss Federal Office for Transport (FOT), i.e. the loans to PostBus operators are secured by the vehicle being financed. Nominal value corresponds to fair value. Consequently there can be no defaults in the case of loans to PostBus operators. In order to allow for default risks that cannot be perceived at present, from 1 January 2018 a flat-rate impairment loss of 0.1 percent is to be recognized on the nominal amount of loans to PostBus operators and other loans to third parties (principally to associates). Loans, including interest and amortization, are constantly monitored.

On the reference date the following impairment losses on financial instruments have been recognized in the logistics business model:

Logistics | Impairment losses on financial instruments

CHF million	31 December 2017 Gross	Impairment	Net	31 December 2018 Gross	Impairment	Net
Cash	423	–	423	123	–	123
Amounts due from banks	1,275	–	1,275	1,011	0	1,011
Trade accounts receivable [1]	743	–10	733	769	–9	760
Contract assets [1]	205	–	205	252	–	252
Other receivables [1,2]	138	–2	136	156	–2	154
Financial assets						
Loans	53	–	53			
Available for sale	4	–	4			
Amortized cost				72	–2	70
Total financial instruments	**2,841**	**–12**	**2,829**	**2,383**	**–13**	**2,370**

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes)
2 Excludes accruals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

The following receivables are overdue on the reference date:

Logistics | Overdue receivables

CHF million	31 December 2017 [1] 1–90 days	91–180 days	181–365 days	> 1 year	31 December 2018 1–90 days	91–180 days	181–365 days	> 1 year
Amounts due from banks	–	–	–	–	0	–	–	–
Trade accounts receivable [2]	73	9	2	4	59	8	6	5
Total receivables	**73**	**9**	**2**	**4**	**59**	**8**	**6**	**5**

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

Impairment losses on trade accounts receivable, other receivables and financial assets at amortized cost are broken down as follows between levels 1 to 3 as at 1 January and 31 December 2018:

Logistics | Impairment losses on financial instruments

CHF million	1.1.2018 Total	Stage 1	Stage 2	Stage 3	31.12.2018 Total	Stage 1	Stage 2	Stage 3
ECL on amounts due from banks	0	0	–	–	0	0	–	–
ECL on financial assets at amortized cost	0	0	–	–	–2	0	–	–2
The following impairments were calculated based on the simplified approach								
ECL on trade accounts receivable [1]	–10				–9			
ECL on other receivables [1]	–2				–2			

1 In each case, the figure matches the expected loss over the remaining term to maturity.

Liquidity risks

Liquidity risk refers to the risk that current and future payment obligations cannot be met on time in full. Liquidity management ensures that Swiss Post has sufficient liquidity available at all times to meet its payment obligations, even in stress situations, without losses or reputational damage.

Liquidity is monitored daily by Group Treasury and reported each month to the decision-makers at Group level. A Group cash flow plan is drawn up each quarter. The minimum level of liquidity (minimum liquidity / cash burn rate) is defined as cash expenses for the current month and the subsequent two months. The short-term cash flow planning is constantly updated and monitored. The following due dates exist for financial instruments in the logistics business model:

Logistics | Receivables by due date

CHF million	31 December 2017 Total	Due in up to 3 months	Due in over 3 months
Cash	423	423	–
Amounts due from banks	1,275	825	450
Trade accounts receivable [1]	733	730	3
Other receivables [1, 2]	136	–	136
Total receivables	**2,567**	**1,978**	**589**

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 Excludes accruals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

Logistics | Other financial liabilities

CHF million	On demand	Up to 1 year	1–5 years	Over 5 years	Total
31 December 2017					
Due to banks	6	0	–	–	6
Derivative financial instruments	–	1	0	–	1
Finance leases	15	–	–	–	15
Bonds	–	300	330	640	1,270
Other	1	3	3	2	9
Total other financial liabilities	**22**	**304**	**333**	**642**	**1,301**

Logistics | Due dates of financial instruments

31 December 2018 CHF million	0–3 months	4–12 months	1–5 years	over 5 years	None	Total
Financial assets						
Cash holdings	123	–	–	–	–	123
Amounts due from banks	661	200	150	–	–	1,011
Trade accounts receivable	753	5	2	0	–	760
Other receivables [1]	–	–	–	154	–	154
Financial assets						
Amortized cost	0	14	55	1	–	70
FVTPL incl. derivatives	2	0	–	2	8	12
FVTOCI equity instruments	0	–	–	–	10	10
Total financial assets	**1,539**	**219**	**207**	**157**	**18**	**2,140**
Financial liabilities						
Trade accounts payable	272	0	0	–	–	272
Other financial liabilities						
Liabilities relating to banks	52	–	–	–	–	52
Finance leases	5	2	8	9	–	24
Derivative financial instruments	–	1	0	–	–	1
Bonds [2]	–	125	205	640	–	970
Other	9	–	–	–	–	9
Total financial liabilities	**66**	**128**	**213**	**649**	**–**	**1,056**

1 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 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 this private placement is 0.83 percent.

Logistics | Cash value of the commitments from finance leases

	31 December 2017			31 December 2018		
CHF million	Nominal	Discount	Present value	Nominal	Discount	Present value
Due within 1 year	4	0	4	5	0	5
Due within 1 to 5 years	6	0	6	11	0	11
Due date longer than 5 years	5	0	5	8	0	8
Total	**15**	**0**	**15**	**24**	**0**	**24**

The other financial liabilities in cash flow from financing activities (Group perspective) are as follows:

Group | Other financial liabilities in cash flow from financing activities

CHF million	Due to banks	Derivative financial instruments	Finance leases	Repurchase transactions	Bonds	Other	Total
As at 1 January 2017	**850**	**269**	**7**	**723**	**1,270**	**356**	**3,475**
Cash flow from operating and investment activities	848	268	–	723	–	2	1,841
Cash flow from financing activities as at 1 January 2017	**2**	**1**	**7**	**–**	**1,270**	**354**	**1,634**
Cash changes	2	–	–4	–	–	–351	–353
Changes to scope of consolidation	–	–	2	–	–	0	2
Currency translation differences	0	–	1	–	–	0	1
Other non-cash changes	2	–	9	–	–	0	11
Cash flow from financing activities as at 31 December 2017	**6**	**1**	**15**	**–**	**1,270**	**3**	**1,295**
Cash flow from operating and investment activities	115	728	–	–	–	7	850
As at 31 December 2017	**120**	**729**	**15**	**–**	**1,270**	**10**	**2,144**
As at 1 January 2018	**120**	**729**	**15**	**–**	**1,270**	**10**	**2,144**
Cash flow from operating and investment activities	115	729	–	–	–	–	844
Cash flow from financing activities as at 1 January 2018	**5**	**–**	**15**	**–**	**1,270**	**10**	**1,300**
Cash changes	46	–	–6	–	–300	–	–260
Changes to scope of consolidation	1	–	4	–	–	1	6
Currency translation differences	0	–	–1	–	–	0	–1
Other non-cash changes	–	–	12	–	–	–1	11
Cash flow from financing activities as at 31 December 2018	**52**	**–**	**24**	**–**	**970**	**10**	**1,056**
Cash flow from operating and investment activities	74	480	–	–	–	–2	552
As at 31 December 2018	**126**	**480**	**24**	**–**	**970**	**8**	**1,608**

The customer deposits (PostFinance) reported under financial liabilities are included in cash flow from operating activities.

Foreign currency risks

Foreign currency risk is monitored by Group Treasury on an ongoing basis. Foreign currency risk is constantly reduced via cash transactions or foreign exchange forward contracts. Foreign currency is only held to settle current liabilities in foreign currencies. Monitoring takes place electronically; daily on the basis of balances transferred in real time. Subsidiaries with no electronic connection immediately transfer excess liquidity in all currencies to the Group.

The following currency balances show foreign currency exposure as at 31 December 2017 and 31 December 2018:

Logistics | Financial instruments by currency

31 December 2017 CHF million	Functional currency	Foreign currencies CHF	EUR	USD	GBP	Other	Total
Assets							
Cash	382	0	40	1	0	0	423
Receivables due from banks	1,264	1	9	1	0	0	1,275
Trade accounts receivable [1]	688	0	37	0	1	7	733
Other receivables [1, 2]	136	–	–	–	–	–	136
Financial assets	57	–	–	–	–	–	57
Held for trading and derivatives	0	–	–	–	–	–	0
Available for sale	4	–	–	–	–	–	4
Loans	53	–	–	–	–	–	53
Liabilities							
Other financial liabilities	1,301	–	–	–	–	–	1,301
Trade accounts payable [1]	244	0	12	1	0	10	267
Other liabilities [1, 2, 3]	0	–	–	–	–	–	0

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
3 Includes liabilities from refund claims.

Logistics | Financial instruments by currency

31 December 2018 CHF million	Functional currency	Foreign currencies CHF	EUR	USD	GBP	Other	Total
Assets							
Cash	97	0	25	1	0	0	123
Amounts due from banks	1,000	1	8	2	0	0	1,011
Trade accounts receivable	717	–	34	0	0	9	760
Other receivables [1]	154	–	–	–	–	–	154
Financial assets							
Amortized cost	35	–	2	33	–	–	70
Liabilities							
Other financial liabilities							
Derivative financial instruments	–	–	1	–	–	0	1
Other	1,055	–	–	–	–	–	1,055
Trade accounts payable	250	0	10	1	0	11	272

1 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

Interest rate risks

All financing and refinancing is monitored daily. Variable interest-bearing items are replicated. Net present value, duration and change in present value are calculated with a parallel shift in the yield curve of one basis point (DV01) for monthly treasury reporting. Interest rate risk is kept as low as possible.

Goods price risks

Goods price risks that are relevant to the Group are identified, evaluated and controlled via appropriate measures by risk management. Significant goods price risks include pressure on parcel margins at PostLogistics due to rising competition and the increase in fuel prices at PostBus.

Risk management at PostFinance

Business model and risk profile

PostFinance operates mainly in the fields of payment transaction services, the receipt of customer deposits, accounts and related services. It also handles customer securities trading, carries out investments in its own name, and manages other financial services on behalf of third parties. On account of its business model, PostFinance is exposed to the risks shown in the following table. PostFinance could suffer losses if these risks exacerbate. The specific business risks affecting PostFinance are described and managed using industry-standard tools and methods.

Risk category	Potential loss or negative impact
Financial risks [1]	
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time
– Liquidity risks	Insolvency
– Credit risks	Losses due to the default of counterparties
– Market risks	Losses in fair value to be charged to the income statement and OCI reserves
Strategic risks [2]	Losses mainly in terms of non-realized gains due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.
Operational risks [3]	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.

1 Risks from the investment and deposit business and from customer lending business.
2 Events which jeopardize the attainment of strategic goals.
3 The risk of losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events.

Governance and reporting

In formal terms, the business control and monitoring process and entire internal control system comply with the eight-level COSO II framework and “three lines of defence” concept. The COSO II framework incorporates risk management as well as risk control and monitoring. PostFinance also uses the ISO 31000 standard as a guideline.

The PostFinance Board of Directors assesses the company’s overall risk situation on a quarterly basis. Assisted by the Board of Directors’ Risk and Audit & Compliance Committees, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective internal control system (ICS) 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 capacity of PostFinance and the risk appetite of the Board of Directors.

With regard to risk management and control, the Board of Directors’ Audit & Compliance Committee is responsible for monitoring and assessing the efficiency of the ICS and the 2nd line of defence functions entrusted with its implementation. In doing so, it focuses on operational risks (including financial reporting risks). In terms of risk management and control, the Board of Directors’ Risk Committee is in charge of evaluating capital and liquidity planning and of ensuring whether PostFinance has an appropriate risk management system comprising effective processes. In doing so, it focuses on financial risks and balance sheet controlling.

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 throughout the institution meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up directives and guidelines and by establishing limits in individual risk categories and by defining requirements for risk monitoring reports.

If limits are exceeded, the relevant official body is informed promptly so that decisions can be made on the measures to be taken. The Executive Board ensures that a consistent approach is adopted when limits are exceeded by defining an escalation process. The Chief Risk Officer is a member of the Executive Board and is responsible for ensuring that Risk Control and all other subordinated control entities perform the tasks entrusted to them.

The business units which represent the 1st line of defence carry out this function by managing risks in day-to-day business and, in particular, by monitoring, controlling and reporting on such risks.

The Risk Management department at PostFinance provides support to the Executive Board and to the committees mandated for this purpose, as the non profit-oriented unit of the 1st line of defence 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 Management department submits weekly and monthly reports to the Executive Board on the risk measurement results and the extent to which limits are used. This enables it to decide on the necessary control measures, if any, with regard to financial risks. The monthly reports are also discussed as a standard agenda item in the Board of Directors' Risk Committee meetings.

The units which represent the 2nd line of defence are control entities which are independent of the business units assuring the 1st line of defence. As an independent control entity, the Risk Control department defines appropriate instruments to identify, measure, evaluate and control the financial, strategic and operational risks entered into by PostFinance. It also provides support to risk managers in applying these instruments. As an independent control entity, it monitors the established risk profile across all risk categories and provides a central overview of the entire risk situation of PostFinance.

The Compliance department provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations, and assists with associated staff training. Compliance is responsible for assessing the compliance risk and reports significant information to the Board of Directors and Executive Board on a regular basis. Security & Shared Services provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations related to security, and assists with associated staff training. Security & Shared Services is responsible for assessing the security risk and reports significant information to the PostFinance Board of Directors and Executive Board on a regular basis.

Risk Control, Compliance, and Security & Shared Services together submit a quarterly report to the Executive Board and Board of Directors which gives a complete picture of the general risk situation. This report contains information about the progression of the risk profile (compliance with risk capacity, risk limits and risk appetite, changes in compliance and security risks), top risks and significant risk-related events, as well as details of the activities of the three units on the 2nd line of defence. Facts of major importance are reported by Risk Control, Compliance, and Security & Shared Services to PostFinance's Board of Directors promptly and on an ad-hoc basis.

As part of the 3rd line of defence, Internal Audit is responsible for risk monitoring and for overseeing the 1st and 2nd lines of defence. It reports directly to the Board of Directors of PostFinance Ltd.

Risk measurement methods

Risk category	Potential loss or negative impact	Method of risk description and/or control
Financial risks		
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time	Absolute and relative sensitivity limits for equity Implementation of multi-period dynamic revenue analyses
– Liquidity risks	Insolvency	Compliance with the minimum regulatory requirements for the liquidity coverage ratio (LCR) Holding of cash reserves to cover liquidity requirements in stress situations
– Credit risks	Losses due to the default of counterparties	Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level
– Market risks	Losses in fair value to be charged to the income statement and OCI reserves	VaR limits for fair value effects on the income statement and equity
Strategic risks	Losses mainly in terms of non-realized profits due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.	Quantification of gross risk by evaluating the expected loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks.
Operational risks	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.	Quantification of gross risk by evaluating the expected loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks and operational top risks.

PostFinance measures and monitors financial risks both at individual portfolio level and with regard to the overall balance sheet. Risks are limited by means of a multi-dimensional limit system. A variety of methods of differing degrees of complexity are used to measure financial risks. In concrete terms, they include 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). The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

PostFinance uses a range of industry-standard tools to measure and monitor operational and strategic risks. Strategic and operational risks are assessed on the basis of a risk matrix containing both quantitative and qualitative dimensions. Gross risks and residual risks are evaluated by means of probability of occurrence and extent of loss. Near-losses subject to reporting or losses incurred are recorded in a company-wide loss database. In addition, 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 to obtain a good overview of the company's entire risk situation and to define appropriate measures to mitigate risk. The measures decided on to minimize operational and strategic risks are monitored on a centralized basis by Risk Control. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Stress testing

The Risk Management department regularly carries out an inverse stress test to identify developments which could pose a particular threat to PostFinance. This test identifies scenarios in which a specific measure of risk takes on extremely unfavourable values. The results of the inverse stress tests are discussed by the Executive Board and the Board of Directors on a regular basis.

As well as being used for control purposes, stress tests are also applied in the Risk Control department as a monitoring tool for recognizing significant (new) risks, to determine risk concentrations and to verify the appropriateness of risk appetite in stress situations.

Financial risk management at PostFinance

An overview of the breakdown of the financial instruments reported in the Swiss Post consolidated balance sheet as at 31 December 2018 and 2017 between the PostFinance and the logistics business models (other companies) is given on page 110.

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, as well as the possible effect on the result from interest operations in the income statement, resulting mainly from maturity mismatches. 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 maturities of money and capital market investments are determined on the basis of the target present value sensitivity of equity, and used to define the maturity transformation strategy. 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 sensitivity covers the net effect of an adverse 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 shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other.

Absolute change in the present value of equity

CHF million	31.12.2017	31.12.2018
Shift of +100 basis points in the yield curve	–29	
Shift of –100 basis points in the yield curve		–76

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance’s future interest income. In addition, dynamic income simulations are carried out for 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. Dynamic income simulations are carried out by the Risk Management department. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

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. On 31 December 2018, this sight deposit balance stood at 35,239 million francs (previous year: 36,362 million francs).

To limit the credit risks taken, each year the PostFinance Board of Directors sets a maximum figure not to be exceeded with regard to regulatory minimum equity to cover credit risks. It also determines directives on the investment rating structure, limits potential country risks and delegates responsibility for approving major counterparty limits to the Board of Directors' Risk Committee. Investments are only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

In addition to the portfolio limits defined by the Board of Directors, the credit risks associated with investment activities are restricted by the Executive Board by setting counterparty limits and other investment regulations.

Specifications for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems. By means of analyses of balance sheet key figures and early warning indicators, publicly accessible ratings in the limit systems are examined critically and limits derived from them, taking into account the current portfolio. Qualitative criteria are also taken into account in the evaluation for high-risk counterparties. The Risk Management department is responsible for developing and applying internal limit systems. These limit systems are approved and released by the Executive Board at least once a year. Changes in a counterparty's creditworthiness or of relevant key figures result in the immediate adjustment of the directives. Compliance with prescribed limits is monitored on an ongoing basis and is verified by the Treasury department before the closing of each transaction.

The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the counterparties. An overview of three largest counterparties as at 31 December 2017 and 31 December 2018 is given below:

Breakdown of the largest counterparties [1]

CHF million	31.12.2017	31.12.2018
Pfandbriefbank schweizerischer Hypothekarinstitute AG, Zurich	9,316	9,763
Pfandbriefzentrale der schweizerischen Kantonalbanken AG, Zurich	7,850	7,748
Swiss Confederation, Berne	2,744	2,464

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 2017 and 31 December 2018 is given below:

Summary of main country exposures [1]

CHF million	31.12.2017	31.12.2018
Switzerland	46,630	46,799
USA	5,364	5,639
France	4,609	3,709

1 Includes amounts due from banks (excluding secured loans) and financial assets; based on nominal values.

The Risk Management department informs the Executive Board of the extent to which limits are used in monthly reports. It submits risk control proposals where limits have been exceeded, resulting from adjustments to counterparty limits.

As an integral part of credit risk management, the limit systems are subjected to regular checks by Risk Control, Internal Auditing and the statutory audit from the mandated auditing company.

Credit risks arising from customer transactions are of secondary importance at PostFinance, and are due to account overdraft limits proposed in connection with payment transaction services, and to the range of credit cards available. The credit risks taken are established and monitored by means of product-specific processes. The Executive Board issues general directives on credit checks and authorizations for approving individual limits.

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. Concentrations of securities received (with the exception of cash collateral) are measured, monitored and reported to the Executive Board on a monthly basis. In addition, collateral from securities lending transactions is subject to stress testing.

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.

Impairment and analysis of loan quality
On the reference date the following impairment losses on financial instruments have been recognized in the PostFinance business model:

PostFinance | Value adjustments on financial instruments

	31 December 2017			31 December 2018		
CHF million	Gross	Impairment	Net	Gross	Impairment	Net
Cash	2,113	0	2,113	1,958	0	1,958
Amounts due from banks	37,152	–48	37,104	35,724	–47	35,677
Interest-bearing amounts due from customers	365	–5	360	551	–8	543
Trade accounts receivable	3	–	3	2	–	2
Contract assets	49	–	49	9	–	9
Other receivables [1]	485	0	485	406	0	406
Financial assets						
Held to maturity	39,724	–69	39,655			
Loans	15,974	–35	15,939			
Available for sale	23,671		23,671			
Amortized cost				68,281	–11	68,270
FVTOCI debt instruments				8,597	–3 [2]	8,594
Total financial instruments	**119,536**	**–157**	**119,379**	**115,528**	**–69**	**115,459**

1 Excludes accruals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 The impairment loss is reported and carried forward in other comprehensive income. This means that the net holdings differ from the carrying amount.

Following the introduction of IFRS 9 on 1 January 2018, impairment is calculated using an expected credit loss model. The new approach is forward looking in accordance with the new IFRS 9 standard and takes into account expectations regarding future trends in the business cycle.

As explained above with regard to the logistics business model, the simplified approach permitted in accordance with IFRS 9 is applied to determine expected credit loss on trade accounts receivable, contract assets and other receivables. Overall, these impairments are not material in nature in the PostFinance business model.

As at 31 December 2018 ECL levels are broken down as follows within amounts due from banks, interest-bearing receivables, financial assets and financial guarantees:

PostFinance | Analysis of credit liquidity — 31 December 2018

CHF million	12-month expected credit losses (level 1)	Expected credit losses over remaining term to maturity (level 2)	Expected credit losses over remaining term to maturity (level 3)	Total
Amortized cost				
Amounts due from banks	35,677	–	47	35,724
Value adjustments	0	–	–47	–47
Carrying amount	**35,677**	**–**	**–**	**35,677**
Interest-bearing amounts due from customers	540	4	7	551
Value adjustments	–2	–2	–4	–8
Carrying amount	**538**	**2**	**3**	**543**
Bonds and loans				
AAA to AA-	50,556	–	–	50,556
A+ to A-	12,428	–	–	12,428
BBB+ to BBB-	4,708	–	–	4,708
BB+ to B-	153	–	–	153
Unrated	432	–	4	436
Total	**68,277**	**–**	**4**	**68,281**
Value adjustments	–7	–	–4	–11
Carrying amount	**68,270**	**–**	**0**	**68,270**
FVTOCI				
Debt instruments				
AAA to AA-	1,570	–	–	1,570
A+ to A-	4,161	–	–	4,161
BBB+ to BBB-	2,866	–	–	2,866
Total	**8,597**	**–**	**–**	**8,597**
Value adjustments	–3	–	–	–3
Financial guarantees	**87**	**–**	**–**	**87**

Value adjustments on financial guarantees issued are included in other provisions and were immaterial in nature as at 31 December 2018.

PostFinance | Changes in value adjustments on financial instruments CHF million	Amounts due from banks	Interest-bearing amounts due from customers	Other receivables	Held to maturity	Loans
As at 1 January 2017	**69**	**5**	**0**	**105**	**36**
Reversal of impairment	–2	0	–	–36	–1
Disposals	–19	–	–	–	–
As at 31 December 2017	**48**	**5**	**0**	**69**	**35**

PostFinance | Overdue receivables	31 December 2017 [1]			
CHF million	1–90 days	91–180 days	181–365 days	> 1 year
Interest-bearing amounts due from customers	350	3	4	6
Total receivables	**350**	**3**	**4**	**6**

1 Excludes individual value adjustments.

In the 2018 reporting period there were no material changes in ECL on financial assets at amortized cost and FVTOCI. Reclassifications within the three levels were immaterial in nature.

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 2017 or 31 December 2018. Both the Swiss Framework Contract 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 framework contract applicable to securities lending transactions, as well as agreements for Triparty Collateral Management (TCM) between SIX Ltd, third parties and PostFinance.

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements	Financial assets with offsetting agreements			Unrecognized offsetting options		
31.12.2017, CHF million	Financial assets before offsetting (gross)	Offsetting with financial liabilities	Financial assets after offsetting (net)	Financial liabilities	Collateral received	Financial assets after consideration of offsetting options
Item in the balance sheet						
Positive replacement values	44	–	44	–	–3	41
Reverse repurchase transactions	24	–	24	–	–25	–

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements	Financial liabilities with offsetting agreements			Unrecognized offsetting options		
31.12.2017, CHF million	Financial liabilities before offsetting (gross)	Offsetting with financial assets	Financial liabilities after offsetting (net)	Financial assets	Collateral issued	Financial liabilities after consideration of offsetting options
Item in the balance sheet						
Negative replacement values	729	–	729	–	–650	79
Securities lending and similar agreements	3,192	–	3,192	–	–3,523	–

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements

31.12.2018, CHF million	Financial assets with offsetting agreements			Unrecognized offsetting options		
	Financial assets before offsetting (gross)	Offsetting with financial liabilities	Financial assets after offsetting (net)	Financial liabilities	Collateral received	Financial assets after consideration of offsetting options
Item in the balance sheet						
Positive replacement values	102	–	102	–	–15	87
Reverse repurchase transactions	21	–	21	–	–22	–

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements

31.12.2018, CHF million	Financial liabilities with offsetting agreements			Unrecognized offsetting options		
	Financial liabilities before offsetting (gross)	Offsetting with financial assets	Financial liabilities after offsetting (net)	Financial assets	Collateral issued	Financial liabilities after consideration of offsetting options
Item in the balance sheet						
Negative replacement values	479	–	479	–	–370	109
Securities lending and similar agreements	4,532	–	4,532	–	–4,903	–

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	31.12.2017	31.12.2018
Receivables		
Receivables from cash collateral in reverse repurchase transactions		
of which recognized in amounts due from banks	24	21
of which recognized in interest-bearing amounts due from customers	–	–
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	–	–
of which recognized in financial liabilities – other financial liabilities	–	–
Securities cover		
Own lent securities or securities provided as collateral for borrowed securities in repurchase transactions		
of which securities for which an unrestricted right to dispose of or pledge was granted	3,192	4,532
of which recognized in financial assets – held to maturity/amortized cost	2,698	4,453
of which recognized in financial assets – available for sale/FVTOCI debt instruments	494	79
Borrowed securities or securities received as collateral for lent securities as part of securities lending and reverse repurchase transactions	3,548	4,925

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.

Liquidity in the short term

CHF million	31.12.2017	31.12.2018
Liquidity Coverage Ratio (LCR)	194%	176%

The LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

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 maturities remaining as per the balance sheet date.

PostFinance | Maturities

31 December 2017 CHF million	0–3 months	4–12 months	1–5 years	over 5 years	Total
Financial assets					
Cash holdings	2,113	–	–	–	2,113
Amounts due from banks	37,127	–	–	–	37,127
Interest-bearing amounts due from customers	336	–	–	–	336
Financial assets (without derivatives)					
Held-to-maturity	2,161	5,989	22,418	9,089	39,657
Available-for-sale	320	433	7,439	14,141	22,333
Loans	1,066	1,205	5,184	8,480	15,935
Total non-derivative financial assets	**43,123**	**7,627**	**35,041**	**31,710**	**117,501**
Derivative financial instruments for trading purposes					
Outflow	–806	–145	–12	–	–963
Inflow	811	148	12	–	971
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–663	–24	–100	–36	–823
Inflow	671	5	27	8	711
Total derivative financial assets	**13**	**–16**	**–73**	**–28**	**–104**
Financial liabilities					
Postal accounts	71,760	–	–	–	71,760
Savings and investment accounts	41,852	–	–	–	41,852
Cash bonds for customers	4	9	73	7	93
Total customer deposits	**113,621**	**9**	**73**	**7**	**113,710**
Liabilities relating to banks	115	–	–	–	115
Other financial liabilities	12	–	–	–	12
Total other financial liabilities (excluding derivatives)	**127**	**–**	**–**	**–**	**127**
Issued financial guarantee contracts	–	–	31	–	31
Irrevocable credit commitments	722	–	–	–	722
Total off-balance-sheet positions	**722**	**–**	**31**	**–**	**753**
Total non-derivative financial liabilities	**114,470**	**9**	**104**	**7**	**114,590**
Derivative financial instruments for trading purposes					
Outflow	–1,055	–300	–12	–	–1,367
Inflow	1,043	296	12	–	1,351
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–872	–424	–1,600	–562	–3,458
Inflow	834	356	1,267	441	2,898
Total derivative financial liabilities	**–50**	**–72**	**–333**	**–121**	**–576**

PostFinance | Maturities

31 December 2018 CHF million	0–3 months	4–12 months	1–5 years	over 5 years	Total
Financial assets					
Cash holdings	1,958	–	–	–	1,958
Amounts due from banks	35,703	–	–	–	35,703
Interest-bearing amounts due from customers	551	–	–	–	551
Financial assets (without derivatives)					
Amortized cost	2,324	7,494	30,886	27,446	68,150
FVTOCI debt instruments	–	315	4,832	3,432	8,579
Total non-derivative financial assets	**40,536**	**7,809**	**35,718**	**30,878**	**114,941**
Derivative financial instruments for trading purposes					
Outflow	–1,955	–525	–59	–	–2,539
Inflow	1,972	532	59	–	2,563
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–652	–29	–114	–26	–821
Inflow	658	7	30	6	701
Total derivative financial assets	**23**	**–15**	**–84**	**–20**	**–96**
Financial liabilities					
Postal accounts	71,923	–	–	–	71,923
Savings and investment accounts	39,129	–	–	–	39,129
Cash bonds for customers	2	6	68	3	79
Money market investments for customers	10	–	–	–	10
Total customer deposits	**111,064**	**6**	**68**	**3**	**111,141**
Liabilities relating to banks	74	–	–	–	74
Total other financial liabilities (excluding derivatives)	**74**	**–**	**–**	**–**	**74**
Issued financial guarantee contracts	0	28	59	–	87
Irrevocable credit commitments	723	–	–	–	723
Total off-balance sheet positions	**723**	**28**	**59**	**–**	**810**
Total non-derivative financial liabilities	**111,861**	**34**	**127**	**3**	**112,025**
Derivative financial instruments for trading purposes					
Outflow	–640	–178	–62	–	–880
Inflow	635	175	62	–	872
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–742	–396	–1,437	–1,495	–4,070
Inflow	698	324	1,085	1,268	3,375
Total derivative financial liabilities	**–49**	**–75**	**–352**	**–227**	**–703**

Market risks

PostFinance does not keep a trading book, and uses the market risk, standardized approach in accordance with art. 86 CAO to determine minimum equity for market risks. To limit the market risks taken, each year the PostFinance Board of Directors sets a maximum figure not to be exceeded with regard to regulatory minimum equity to cover market risks.

According to PostFinance's business model, market risks are expressed by increased volatility in the short term in the income statement and in other comprehensive income (OCI). PostFinance is exposed to market risks for two reasons:

– Open foreign currency items and changes in value arising from foreign currency derivatives affect the volatility of the income statement (foreign currency risks)
– Changes in the value of instruments that are recognized at fair value (including equity positions, fund investments in the banking book, fixed-interest items available for sale and the related hedging instruments) have an effect on the volatility of OCI and possibly of the income statement.

Market risks are modelled according to value at risk and limited in the income statement and OCI by the Board of Directors. To measure market risks, the risk factors that have an impact on the present value of the relevant item are assigned to each item. The change in present value is modelled according to the change in the allocated risk factors. A functional correlation between the item value and the associated risk factors must also be defined. The stochasticity of all relevant risk factors over the next 250 days is determined on the basis of probability distribution assumptions. Corresponding market data time series are used to calibrate the probability distributions. The distribution of changes to IFRS OCI and the IFRS income statement over a one-year period can be determined with the help of the functional correlation established between risk factors and portfolio items. Value at risk is then determined on the basis of the 95 percent quantile. The Risk Management department measures market risks on a weekly basis. It informs the Executive Board of the extent to which limits are used and submits risk control proposals.

The following table shows the breakdown of market risks determined as at 31 December 2018 and 31 December 2017 respectively. The prior-year figures are not comparable due to the introduction of the new accounting standard IFRS 9 Financial Instruments and the associated changes in the methods for determining market risks.

Value at risk from market risks

CHF million	31.12.2017	31.12.2018
Income statement value at risk, aggregated	84	63
Income statement value at risk from foreign currency risks	31	4
Income statement value at risk from equity price risks	6	–
Income statement value at risk from credit spread risks	41	43
Income statement value at risk from interest rate risks	6	16
OCI value at risk, aggregated	1,207	370
OCI value at risk from foreign currency risks	10	0
OCI value at risk from equity price risks	–4	–8
OCI value at risk from credit spread risks	179	140
OCI value at risk from interest rate risks	1,022	238

The following table shows the foreign currency exposure of the PostFinance business model as at 31 December 2017 and 31 December 2018:

PostFinance | Financial instruments by currency

31 December 2017 CHF million	Functional currency	Foreign currencies EUR	USD	GBP	Other	Total
Assets						
Cash	1,975	138	–	–	–	2,113
Amounts due from banks	36,995	57	36	2	14	37,104
Interest-bearing amounts due from customers	352	1	7	0	0	360
Trade accounts receivable	3	–	–	–	–	3
Other receivables [1]	388	73	23	0	1	485
Financial assets	65,284	10,179	3,766	0	80	79,309
Held for trading and derivatives	14	12	17	0	1	44
Held to maturity	37,815	1,522	318	–	–	39,655
Available for sale	11,527	8,634	3,431	–	79	23,671
Loans	15,928	11	–	–	–	15,939
Liabilities						
Customer deposits (PostFinance)	110,119	2,540	434	53	49	113,195
Other financial liabilities	228	599	16	0	0	843
Trade accounts payable	34	0	0	0	–	34
Other liabilities [1]	12	0	0	0	–	12

1 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

PostFinance | Financial instruments by currency

31 December 2018 CHF million	Functional currency	Foreign currencies EUR	USD	GBP	Other	Total
Assets						
Cash	1,839	119	–	–	–	1,958
Amounts due from banks	35,604	34	4	22	13	35,677
Interest-bearing amounts due from customers	532	8	3	0	0	543
Trade accounts receivable	2	–	–	–	–	2
Other receivables [1]	304	70	29	0	3	406
Financial assets	62,938	10,675	2,960	–	294	76,867
Amortized cost	62,938	3,725	1,368	–	239	68,270
FVTOCI debt instruments	–	6,950	1,592	–	55	8,597
Liabilities						
Customer deposits (PostFinance)	108,159	2,490	398	46	48	111,141
Other financial liabilities	70	4	–	–	–	74
Trade accounts payable	27	3	0	–	–	30
Other liabilities [1]	10	0	0	0	0	10

1 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

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.

Strategy
The strategy applied throughout the company for responding to operational risks is based on the banking standard and guarantees risk capacity and compliance with regulatory requirements. The tasks, competencies and responsibilities relating to active risk management and transparent reporting are clearly assigned. A good understanding of risk and a risk culture are widespread and well established within PostFinance.

Process and organization
PostFinance operates an operational risk management system that is controlled centrally by the Risk Control department. It is based on the COSO II framework and ISO 31000 standard, as well as taking into account the “three lines of defence” concept. The Risk Control department defines the risk management process for PostFinance and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools (e.g. company-wide loss database) and instruments (e.g. self risk assessment) and acts as an independent interface between line management and the Executive Board and Board of Directors. Each unit has its own decentralized risk manager who is responsible for coordinating its organizational unit and for recording unit losses. The Executive Board and Board of Directors define the top risks at PostFinance across all the risk categories each year on the basis of the principal individual risks periodically identified and by means of regular surveys conducted amongst members of the Executive Board (number of current top risks: Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Derivative financial instruments and hedge accounting (Group)

Swiss Post acquires derivative financial instruments predominantly for hedging purposes. PostFinance holds derivative financial instruments to manage current or future interest rate risks and to manage foreign currency risks. The derivatives held comprise interest rate swaps, cross-currency interest rate swaps and FX forwards. In the logistics business model, individual derivatives are held to hedge foreign currency risks.

Hedge accounting is applied at PostFinance only. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in replacement value or cash flows attributable to the hedged items.

Use of derivative financial instruments at PostFinance
PostFinance uses derivative financial instruments exclusively to hedge interest and currency risks.

The bond market in Swiss francs is not sufficient to cover PostFinance’s investment requirements. It therefore invests in foreign currency bonds. As a general rule, two methods are used to hedge the foreign currency risks taken. A proportion of the foreign currency bonds refinanced in Swiss francs are hedged by means of cross-currency interest rate swaps (CCIRS). The advantage of this hedging approach or method is that the amounts of all future cash flows (coupons, nominal value repayment) are already known in Swiss francs on the date of conclusion of the transaction. However, the above-mentioned method rules out the diversification benefits associated with the varying amounts and performance of term spreads of different foreign currency yield curves. The second method is used to take advantage of diversification potential and access bond markets on which CCIRS are only available with high illiquidity discounts. The currency risks of certain foreign currency bonds are hedged by means of a currency overlay of rolling short-term foreign exchange forward contracts (FX forwards).

The foreign currency risks arising from mandates are hedged on a rolling basis using FX forwards.

Interest rate swaps are used to control duration on the assets side. In principle, interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

Types of hedged items and hedging transactions
PostFinance mainly uses hedge accounting on bond positions (hedging of interest and currency risks by means of interest rate / interest rate currency swaps).

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 records the relationship between the hedging instrument and the hedged item as soon as 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.

Effectiveness measurement:
Hedging is deemed to be highly effective if the following criteria are essentially met:
– Hedging is considered to be highly effective upon its initial recognition (on a prospective basis via regression analysis).
– 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.

Ineffectiveness
Any ineffective parts of the hedging relationship between the hedging instrument and the underlying transaction are recorded in the income statement on an accrual basis. Swiss Post analyses the fair value of the hedged item to determine the ineffectiveness using the hypothetical derivative method. The terms of the hypothetical derivative match the decisive terms of the hedged item and there is a fair value of zero at the beginning of the hedging relationship.

Derivatives entered into on behalf of customers of PostFinance are disclosed in the following overview as derivatives held for trading.

Group | Overview of derivative financial instruments

CHF million	31 December 2017 Positive fair values	31 December 2017 Negative fair values	31 December 2018 Positive fair values	31 December 2018 Negative fair values
Cash flow hedges				
Currency				
Cross-currency swaps	26	614	68	366
Other				
Completed non-settled transactions	0	–	0	–
Fair value hedges				
Currency risk				
Foreign exchange forward contracts	9	5	–	–
Interest rate and currency risk				
Interest rate swaps	–	93	–	102
Derivatives for hedging, excluding application of hedge accounting				
Currency risk				
Foreign exchange forward contracts	5	13	30	6
Derivatives for trading purposes				
Currency risk				
Foreign exchange forward contracts	4	4	4	5
Total derivative financial instruments	**44**	**729**	**102**	**479**

Cash flow hedges

PostFinance uses cash flow hedge accounting to hedge the volatility of cash flows from interest-bearing instruments that can be predicted with a high degree of probability. Cash flow hedge accounting is used in particular to hedge fixed income instruments in foreign currencies via cross-currency interest rate swaps (in EUR, USD, GBP and JPY).

PostFinance | Contract volumes for cash flow hedges

CHF million	Total	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31 December 2017					
Currency risk					
Cross-currency swaps	7,831	–	–	3,049	4,782
Other					
Completed non-settled transactions	25	25	–	–	–
31 December 2018					
Currency risk / Interest risk					
Cross-currency interest rate swaps	8,413	–	303	4,743	3,367
Other					
Completed non-settled transactions	13	13	–	–	–

Positive replacement values are reported on the balance sheet in financial assets, while negative replacement values are recognized in other financial liabilities.

The following amounts were recognized from designated hedging instruments in the consolidated balance sheet and income statement:

On 1 January 2018, the hedging reserves stood at 131 million francs after tax. 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 (5 million francs) and the foreign currency share (248 million francs of gains) are transferred to the income statement (recycled in the result from trading activities, see also Note 9, Net income from financial services). Thus the residual fair value change of the hedging instruments remains in the hedging reserves.

PostFinance | Change in hedging instruments

31 December 2018 CHF million	Positive replacement values	Negative replacement values	Change in fair value in the year under review which was used for disclosure of ineffectiveness	Change in fair value of the hedging instrument, recorded in other comprehensive income	Ineffectiveness recorded in income statement	Net amount reclassified from other comprehensive income to income statement
Currency risk/Interest risk						
Cross-currency interest rate swaps	68	366	287	287	–	–244
Other						
Completed non-settled transactions	0	–	0	0	–	–

In the course of the reporting period, the following effects arose from designated underlying transactions (item in the balance sheet: financial assets):

PostFinance | Effects of hedged items in cash flow hedging

31 December 2018 CHF million	Change in fair value in the year under review which was used for disclosure of ineffectiveness	Hedging reserves
Currency risk		
FVTOCI		
Bonds	–287	–123

The hedging reserves in other comprehensive income underwent the following change in the reporting period:

PostFinance | Hedging reserves

CHF million	2018
Balance at 1 January	**–131**
Change in fair value of hedging instruments	
Currency risk	287
Other	0
Net amount reclassified from cash flow hedging reserve to income statement	
Currency risk	–244
Change in deferred income taxes	–9
Balance at 31 December	**–97**

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

PostFinance | Cash flows (not discounted)

CHF million	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31 December 2017				
Cash inflows	12	29	153	60
Cash outflows	–37	–97	–449	–171
31 December 2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in value of interest-sensitive assets and assets exposed to foreign currency risks. Fair value hedge accounting is used in particular to hedge fixed income instruments via interest rate swaps and shares in a foreign currency. Hedging transactions are carried out for the currencies EUR, USD, GBP and JPY.

PostFinance | Contract volumes for fair value hedges

CHF million	Total	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31 December 2017					
Currency risk					
Foreign exchange forward contracts	1,222	1,222	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,125	269	–	1,466	390
31 December 2018					
Currency risk					
Foreign exchange forward contracts	–	–	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238

Positive replacement values are reported on the balance sheet in financial assets, while negative replacement values are recognized in other financial liabilities.

The following amounts were recognized from designated hedging instruments in the consolidated balance sheet and income statement:

PostFinance | Net income from fair value hedges

CHF million	2017	2018
Fair value hedges for interest rate risks		
Gain/(loss) on hedging instrument	37	–7
Gain/(loss) on hedged activities or those which are allocated to the hedged risk	–37	7
Net gain/(loss) corresponding to the ineffective share of the fair value hedges	**–**	**–**
Fair value hedges for foreign currency risks		
Gain/(loss) on hedging instrument	53	–
Gain/(loss) on hedged activities or those which are allocated to the hedged risk	–43	–
Net gain/(loss) corresponding to the ineffective share of the fair value hedges	**10**	**–**

PostFinance | Change in fair value hedge

31 December 2018 CHF million	Positive replacement values	Negative replacement values	Change in fair value in year under review which was used for disclosure of ineffectiveness	Ineffectiveness recorded in income statement
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–

In the course of the reporting period, the following amounts arose from designated underlying transactions (item in the balance sheet: financial assets):

PostFinance | Effects of hedged items in cash flow hedging

31 December 2018 CHF million	Carrying amount of hedged item	Accumulated expenses or income from fair value hedge adjustments that were recorded in the carrying amount of the hedged item	Change in fair value which was used for disclosure of ineffectiveness
Interest rate and currency risk			
Amortized cost			
Bonds	1,494	36	11
Loans	1,160	50	–4

Internal control system

Swiss Post 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. 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.

Capital management at Swiss Post and PostFinance Ltd

Swiss Post endeavours to achieve a solid equity base (fully paid-in share capital and reserves), taking into account the objectives set by the owner. It also considers constraints such as observing a set level of maximum net debt and increasing the company's value. The continued existence of the company should be ensured at all times, and the resources implemented should result in appropriate income.

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 970 million francs (31 December 2017: 1,270 million francs), Swiss Post meets this objective and gives the company financial leeway. Customer deposits and financial investments 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.

The appropriation of profit is determined by legal provisions, by the goals set by the Federal Council, 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.

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 199.

6 | 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 2017 and 31 December 2018:

Fair values and carrying amounts of financial instruments and other assets	31 December 2017		31 December 2018	
CHF million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets				
Available for sale				
Bonds	22,336	22,336		
Shares	60	60		
Funds	1,221	1,221		
FVTOCI				
Shares			147	147
Bonds			8,597	8,597
FVTPL mandatory				
Shares			9	9
Bonds			5	5
Funds			1,107	1,107
Positive replacement values	44	44	102	102
Financial assets not measured at fair value				
Financial assets				
Held to maturity	39,655	40,971		
Amortized cost				
Bonds			52,935	53,680
Loans	15,992	16,671	15,405	15,624
Financial liabilities measured at fair value				
Other financial liabilities				
Negative replacement values	729	729	479	479
Deferred purchase price payments (earn-out)	7	7	4	4
Financial liabilities not measured at fair value				
Other financial liabilities				
Private placements	1,270	1,344	970	1,014
Other assets not measured at fair value				
Investment property	290	441	305	483

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.

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.

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. As a rule, 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 not based on observable 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	31 December 2017				31 December 2018			
CHF million	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available for sale								
Bonds	22,336	18,467	3,866	3				
Shares	60	60	–	–				
Funds	1,221	0	1,221	–				
FVTOCI								
Shares					147	69	68	10
Bonds					8,597	7,997	600	–
FVTPL mandatory								
Shares					9	–	1	8
Bonds					5	–	1	4
Funds					1,107	–	1,107	–
Positive replacement values	44	0	44	–	102	0	102	–
Held to maturity [1]	40,971	32,998	7,973	–				
Amortized cost								
Bonds					53,680	44,095	9,585	–
Loans [2]	16,671	–	16,660	11	15,624	–	15,579	45
Negative replacement values	729	1	728	–	479	1	478	–
Deferred purchase price payments (earn-out)	7	–	–	7	4	–	–	4
Private placements	1,344	–	1,344	–	1,014	–	1,014	–

1 Financial assets held to maturity are recognized at amortized cost using the effective interest method.
2 In the case of the loans to PostBus companies (30 million francs, 31.12.2017: 45 million francs) and "Other" (45 million francs, 31.12.2017: 11 million francs), the fair values on the balance sheet date correspond approximately to the carrying amounts given in the balance sheet.

Interests amounting to around 58 million francs were measured at amortized cost in "available-for-sale" shares as at 31 December 2017. The overviews above (Carrying amounts and fair values of financial instruments and other assets/Fair value of financial instruments and other assets) therefore do not include the values of these interests as at 31 December 2017.

The value of the loans (mainly to associates) and bonds assigned to level 3 corresponds to the carrying amount. This represents a reasonable estimate of fair value.

The equity instruments disclosed as shares FVTOCI in level 3 are strategic long-term investments. The fair value of these interests is determined on the basis of the DCF valuation method. If the financial information needed for a DCF valuation is not available, fair value is determined using the capitalized earnings method. In a few cases (minor interests), acquisition costs less impairment losses are used as a reasonable estimate of fair value for simplification purposes.

Level 3 financial assets with mandatory FVTPL classification and level 3 financial assets FVTOCI underwent the following changes in 2018:

Fair value hierarchy: changes in level 3 CHF million	FVTPL mandatory	FVTOCI	Amortized cost loans
As at 1.1.2018	**3**	**1**	**11**
Gains/losses recorded in the income statement	0	–	0
Additions	10	9	34
Disposals	–1	–	0
As at 31.12.2018	**12**	**10**	**45**

There were no reclassifications within this level as at 31 December 2018 (previous year: 45 million francs of available-for-sale financial assets reclassified from level 2 to level 1). Reclassifications between the different levels are carried out at the end of each reporting period.

The fair value measurements of investment properties were carried out exclusively by independent or internal experts with the necessary expertise.

– Property: PostParc (investment property)
  As at 31 December 2018, 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 is based on a risk-compliant real interest rate of 3.6 percent, also taken from the database of the evaluator (previous year: 3.8 percent).

  As at 31 December 2018, the fair value determined for the PostParc stands at around 348 million francs (previous year: 342 million francs).

– Property: Bellinzona Autorimessa (investment property)
  As at 31 December 2018, 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: 6.4 percent (previous year: 6.4 percent).

  As at 31 December 2018, the fair value determined for the Autorimessa in Bellinzona stands at around 11 million francs (previous year: around 10 million francs).

– Property: Interlaken (investment property)
  As at 31 December 2018, 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 sustainable tenancy terms
  – The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator.
  – The discounting is based on a risk-compliant real interest rate of 3.9 percent, also taken from the database of the evaluator (previous year: 3.9 percent).

  As at 31 December 2018, the fair value determined stands at around 18 million francs (previous year: 18 million francs).

– Property: Zurich 50 Oerlikon (investment property under construction)
  As at 31 December 2018, 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 is based on a risk-compliant real interest rate of 4.2 percent, also taken from the database of the evaluator (previous year: 4.5 percent).

  As at 31 December 2018, the fair value determined stands at around 42 million francs (previous year: 34 million francs).

– Property: Frauenfeld 1 (investment property under construction)
  As at 31 December 2018, 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 is based on a risk-compliant real interest rate of 3.9 percent, also taken from the database of the evaluator (previous year: 4.2 percent).

  As at 31 December 2018, the fair value determined stands at around 29 million francs (previous year: 19 million francs).

– Property: Dübendorf (investment property under construction)
  As at 31 December 2018, 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 sustainable tenancy terms
  – The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator.
  – The discounting is based on a risk-compliant real interest rate of 3.2 percent, also taken from the database of the evaluator (previous year: 3.2 percent).

  As at 31 December 2018, the fair value determined stands at around 19 million francs (previous year: 18 million francs).

– Property: Zurich 26 (investment property)
  As at 31 December 2018, 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 sustainable tenancy terms
– Average capitalization rate: 3.1 percent (property managed as investment property for the first time, no prior-year figure available)

As at 31 December 2018, the fair value determined stands at around 16 million francs.

7 | 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 27, 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
PostalNetwork	Sales channel for postal products/services and additionally for third-party products for private customers and small and medium-sized enterprises.
Logistics market	
PostLogistics	E-commerce, national/international parcels, freight and warehousing, customs clearance, the transport of valuables, Innight/Express/Courier/SameDay in Switzerland and cross-border
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 function units (e.g. Real Estate, Informatics, 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.

State compensatory payments

PostBus received compensation of 202 million francs from the Swiss Confederation (previous year: 202 million francs), 194 million francs from cantons (previous year: 195 million francs) and 5 million francs from municipalities (previous year: 5 million francs) for providing legally required public passenger transport services. This compensation is included in net revenue from logistics services.

During an audit of accounting of services for the purposes of reporting under subsidy law, the Federal Office of Transport (FOT) found evidence of accounting practices that do not comply with the law, resulting in a reimbursement of state compensatory payments for the years 2007 to 2018. The financial effects and their impact on the consolidated financial statements are explained on page 95 ff.

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 2017, the segment assets of PostFinance fell by 2,606 million francs to 117,874 million francs, particularly with regard to amounts due from banks and financial assets. The decrease is due to lower customer deposits and other financial liabilities on the liabilities side. The segment liabilities of PostFinance decreased by 2,514 million francs to 112,528 million francs in comparison with 31 December 2017.

More information

Other 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 31.12.2017 CHF million	Notes	PostMail	Swiss Post Solutions	Postal-Network	Post-Logistics	Post-Finance [1]	PostBus [2]	Other [3]	Consolida-tion	Group
Revenue										
from customers		2,621	514	435	1,314	1,967	882	35		7,768
from other segments		151	31	661	261	9	3	360	–1,476	–
Other operating income		7	6	6	43	100	40	494	–457	239
Total operating income [4, 5]		**2,779**	**551**	**1,102**	**1,618**	**2,076**	**925**	**889**	**–1,933**	**8,007**
Operating profit [4, 5]		**315**	**25**	**–159**	**117**	**549**	**19**	**–201**	**–4**	**661**
Net financial income [5]	15, 16									–24
Net income from associates and joint ventures	27	27	0	–	–3	–36	0	2		–10
Income taxes	17									–145
Group profit [5]										**482**
Segment assets [5]		670	298	518	992	120,480	630	3,454	–1,105	125,937
Associates and joint ventures	27	84	–	–	2	42	3	7		138
Unallocated assets [6]										1,214
Total assets [5]										**127,289**
Segment liabilities [5]		697	164	568	884	115,042	497	2,465	–1,105	119,212
Unallocated liabilities [6]										1,494
Total liabilities [5]										**120,706**
Investment in property, plant and equipment, intangible assets and investment property	21–23	20	13	7	79	84	64	104		371
Depreciation and amortization	21–23	48	13	9	69	82	48	151		420
Impairment	5, 21–23	–	–	–	10	30	1	10		51
Reversal of impairment	5, 21–23	–	–	–	–	37	–	–		37
Other non-cash (expenses)/income [5]		4	–14	–10	–10	–78	–57	–361		–526
Headcount [7]		15,736	6,585	5,435	5,281	3,475	3,261	2,543		42,316

1 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.
2 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.
3 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).
4 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
5 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
6 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.
7 The average is expressed in terms of full-time equivalents (excluding trainees).

Result by region

Up to or as at 31.12.2017 CHF million	Notes	Europe	Americas	Asia	Consoli-dation	Group	Switzer-land	Interna-tional and cross-border	Consoli-dation	Group
Revenue from customers [2]		7,681	87	–		7,768	6,646	1,122		7,768
Operating profit [1, 2]		656	3	2		661	579	82		661
Segment assets [2]		125,880	55	5	–3	125,937	125,304	661	–28	125,937
Investment in property, plant and equipment, intangible assets and investment property	21–23	370	1	0		371	358	13		371

1 Operating profit by segment is reported before management, licence fees and net cost compensation.
2 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes)

Result by business segment

Up to or as at 31.12.2018 CHF million	Notes	PostMail	Swiss Post Solutions	PostalNetwork	PostLogistics	PostFinance[1]	PostBus[2]	Other[3]	Consolidation	Group
Revenue										
from customers		2,585	544	399	1,369	1,617	915	36		7,465
from other segments		134	31	644	249	10	3	450	−1,521	–
Other operating income		2	8	2	60	77	36	440	−399	226
Total operating income[4]		**2,721**	**583**	**1,045**	**1,678**	**1,704**	**954**	**926**	**−1,920**	**7,691**
Operating profit[4]		**388**	**31**	**−94**	**145**	**220**	**−58**	**−127**	**−4**	**501**
Net financial income	15, 16									−25
Net income from associates and joint ventures	27	20	–	–	16	−1	0	0		35
Income taxes	17									−106
Group profit										**405**
Segment assets		745	329	511	722	117,874	784	3,504	−1,567	122,902
Associates and joint ventures	27	102	–	–	21	24	3	3		153
Unallocated assets[5]										1,147
Total assets										**124,202**
Segment liabilities		686	222	533	620	112,528	619	2,657	−1,567	116,298
Unallocated liabilities[5]										1,172
Total liabilities										**117,470**
Investment in property, plant and equipment, intangible assets and investment property	21–23	23	9	5	94	55	68	85		339
Depreciation and amortization	21–23	40	15	7	71	69	49	85		336
Impairment	5, 21–23	–	2	2	2	3	20	–		29
Reversal of impairment	5, 21–23	–	–	–	–	1	–	–		1
Other non-cash (expenses)/income		−3	−12	−2	−8	−63	−73	−290		−451
Headcount[6]		14,979	6,789	4,753	5,400	3,333	3,354	3,024		41,632

1 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.
2 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.
3 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).
4 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
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 31.12.2018 CHF million	Notes	Europe	Americas	Asia	Consolidation	Group	Switzerland	International and cross-border	Consolidation	Group
Revenue from customers		7,371	94	0		7,465	6,302	1,163		7,465
Operating profit[1]		499	1	1		501	419	82		501
Segment assets		122,849	58	4	−9	122,902	122,237	737	−72	122,902
Investments in property, plant and equipment, intangible assets and investment property	21–23	339	0	0		339	328	11		339

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

8 | Revenue

Breakdown of net revenue from contracts with customers

Up to or as at 31.12.2017 CHF million	PostMail	Swiss Post Solutions	PostalNetwork	PostLogistics	PostFinance	PostBus	Other	Consolidation	Group
Net revenue from contracts with customers									
of which logistics services	2,772	545	660	1,549	–	884	395	–1,460	5,345
of which resale merchandise	–	–	436	26	–	1	–	–7	456
of which financial services and commission business	–	–	–	–	680	–	–	–4	676
Total net revenue from contracts with customers [1]	**2,772**	**545**	**1,096**	**1,575**	**680**	**885**	**395**	**–1,471**	**6,477**
Other revenue from financial services									1,291
Total revenue									**7,768**
Other operating income [1]									239
Total operating income [1]									**8,007**

Up to or as at 31.12.2018 CHF million	PostMail	Swiss Post Solutions	PostalNetwork	PostLogistics	PostFinance	PostBus	Other	Consolidation	Group
Net revenue from contracts with customers									
of which logistics services	2,719	575	643	1,593	–	916	486	–1,507	5,425
of which resale merchandise	–	–	400	25	–	2	–	–5	422
of which financial services and commission business	–	–	–	–	686	–	–	–6	680
Total net revenue from contracts with customers	**2,719**	**575**	**1,043**	**1,618**	**686**	**918**	**486**	**–1,518**	**6,527**
Other revenue from financial services									938
Total revenue									**7,465**
Other operating income									226
Total operating income									**7,691**

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

Future revenue from remaining performance obligations

The total transaction price arising from performance obligations that exist as at 31 December 2018 and have not yet been met stands at 635 million francs (prior year: 1,397 million francs). 238 million francs of this amount is expected to be recorded as revenue in the next year, 215 million francs within two to three years and 182 million francs in more than three years. It includes contracts whose original term was expected to last more than one year. It does not include future revenue from performance obligations for which Swiss Post is entitled to receive consideration from a customer which corresponds directly to the value of the service already provided to the customer by Swiss Post.

Revenue recorded from contract balances

Less than –0.5 million francs of revenue was recorded in the reporting period (prior year: –7 million francs) from performance obligations met in prior periods (e.g. due to changes in the transaction price or a reassessment of the performance obligation fulfilled). An additional 268 million francs (prior year: 217 million francs) of revenue was recorded during the reporting period which had been included in the balance of contract liabilities at the beginning of the period.

9 | 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.

Net income from financial services

CHF million	2017	2018
Interest income on amounts due from banks	0	
Interest income on securities lending and reverse repurchase transactions	1	
Interest income on interest-bearing amounts due from customers	20	
Interest income on financial instruments – amortized cost, incl. effects from hedging transactions	848	663
Interest income on financial assets FVTOCI, incl. effects from hedging transactions		47
Dividend income on financial assets	55	60
Interest and dividend income	**924**	**770**
Interest expense for customer deposits (PostFinance)	–40	
Interest expense for amounts due to banks	0	
Interest expense on repurchase transactions	0	
Interest expense on other financial instruments	–6	
Interest expense on financial instruments – amortized cost		–53
Interest expense	**–46**	**–53**
Net interest and dividend income	**878**	**717**
Impairment/reversal of impairment on amounts due from banks, interest-bearing amounts due from customers and financial assets	36	–3
Net interest and dividend income, net of impairment/reversal of impairment	**914**	**714**
Commission income on lending business	16	18
Commission income on securities and investment business	47	59
Commission income on other services	71	78
Commission expenses	–46	–49
Net income from services	483	468
Net services and commission income	**571**	**574**
Net trading income FVTPL and mandatory	235	177
Net income from the disposal of available-for-sale financial assets	101	
Net income from the disposal of financial assets FVTOCI		0
Losses on payment transactions	–9	–11
Other fees and duties	–8	–8
Net income from financial services	**1,804**	**1,446**
Reported in Note 8 Revenue and in the consolidated income statement:		
Net revenue from contracts with customers, financial services and commission business	676	680
Other revenue from financial services	1,291	938
Expenses for financial services [1]	–163	–172

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

In 2018 interest income from the deposit-taking business of 43 million francs (prior year: 33 million francs) was generated. Interest expense from financial assets stands at 16 million francs (prior year: 6 million francs).

10 | Other operating income

Other operating income

CHF million	2017	2018
Rental income	92	86
Profits on the sale of property, plant and equipment	38	45
Other income [1]	109	95
Total other operating income	**239**	**226**

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

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.

11 | Personnel expenses

Composition

Breakdown

CHF million	Notes	2017	2018
Wages and salaries		3,162	3,079
Social security benefits		345	341
Employee benefit expenses	12	373	347
Other personnel expenses		109	99
Total personnel expenses		**3,989**	**3,866**

Headcount

Headcount

Number of employees [1]	2017	2018
Employees at Swiss Post Group (excluding trainees)	42,316	41,632
Trainees at Swiss Post Group	2,127	2,018

1 Average expressed in terms of full-time equivalents.

12 | 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 (40,397 active contributors and 37,452 pensioners as at 31 December 2018). 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, insurees 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. Insurees 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 (OPA) and its regulations of execution must be taken into account. The OPA 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 2018, the rate is 1.00 percent (previous year: 1.00 percent).

Due to plan arrangements and the legal provisions of the OPA, 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.

The benefits paid by the Swiss Post pension fund exceed the statutory minimum level. The standard retirement age is 65. The pension paid is calculated on the basis of the conversion rate, which is applied to the retirement assets saved by each insured person by the date of retirement. The conversion rate currently applicable for retirement at the age of 65 is 5.10 percent. The saved retirement assets are made up of the employer and employee contributions paid into the individual savings account of each insured person, together with any interest credited to the retirement assets. The interest rate applicable to retirement assets is determined by the Foundation Board each year.

At its meeting on 19 April 2017, the Foundation Board of the Swiss Post pension fund decided to decrease the technical interest rate from 2.25 percent to 1.75 percent, to reduce conversion rates from 5.35 percent to 5.10 percent, and to provide funding, in particular for compensation measures, as at 1 January 2018. In addition to this compensation reserve, supplementary age-dependent compensation will be granted to older insured persons (born in 1959 or earlier) who have nearly reached retirement age. The Swiss Post pension fund will be responsible for financing the compensation reserve and the age-dependent supplementary compensation. Swiss Post also made a one-off payment of 100 million francs. As well as providing around 400 million francs needed to finance the increase in insurance cover for pensioners, it therefore provided around 500 million francs for the change in basis. The revaluation of the net obligation, with the current fair values of benefit plan assets on the date of the plan amendment and the current actuarial assumptions, taking risk sharing aspects into account, was recognized in other comprehensive income. Without taking risk sharing characteristics into account, the plan amendment would result in a negative past service cost of 188 million francs for actively insured persons in the income statement for the financial year 2017.

Swiss Post Group believes there to be a strong likelihood that the Swiss Post pension fund will need to implement further measures in the future. The latest measures taken in the Swiss Post pension fund have prompted Swiss Post Group to adjust the 2017 assumptions for the measurement of employee benefit obligations in accordance with IAS 19 as at 30 April 2017.

Combined with the resolution by the Swiss Post pension fund on 19 April 2017 to decrease the technical interest rate and hence the conversion rates as at 1 January 2018, the change in estimates represented a reduction in employee benefit expenses of 45 million francs as at 31 December 2017.

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	2017	2018
Discount rate	0.50	0.50

Actuarial assumptions at 31 December

Percent	2017	2018
Discount rate	0.50	0.75
Expected change in salaries	1.00	1.00
Pension indexation	0.00	0.00
Interest on retirement assets	1.00	1.00
Staff turnover	3.41	3.40
Lump-sum capital withdrawal ratio	25.00	25.00
Employee share of funding gap	25.00	25.00
Years		
Current average life expectancy for a man/woman aged 65	22/24	23/25

The financial assumptions related to risk sharing are taken into account in two stages: with the implicit assumption of a future pension equal to the discount rate, the regulatory recurring contributions are insufficient to ensure the correct funding of the regulatory benefits promised by the Swiss Post pension fund. This results in a structural funding gap. In its assessment, Swiss Post anticipates that the measures taken by the Swiss Post pension fund so far are insufficient to cover the funding deficits that can be expected in the future. For the purpose of the actuarial calculations, it was assumed during the first stage that the Foundation Board would decide on measures to correct this funding gap in line with the formal regulations (reduction in the conversion rate to 4.89 percent; expected compensation of 75 percent of the reduction calculated in relation to the retirement assets available). This assumption involves taking a technical interest rate of 1.5 percent as a basis and is conditional on a gradual reduction in future pensions at the age of 65 over ten years being decided on by the Foundation Board. Even assuming a future reduction in benefits, there is still a structural funding gap, which is divided mathematically between the employer and the employee in a second stage. It is assumed that the employer's obligation is legally restricted to 50 percent and effectively limited to 75 percent of the funding gap. The statutory provisions for correcting underfunding and the specific past conduct and measures taken by both the employer and the Foundation Board form the basis for this assumption. The assumption of a reduction in benefits and the restriction of the employer's share in the funding gap resulted in a decrease of 1,121 million francs in employee benefit obligations as at 30 April 2017, which has been recognized under adjustments to economic assumptions in other comprehensive income as a change in estimate. Of this, 364 million francs represent the reduction in benefits assumed in the first stage. The effect of restricting the employer's share in the obligation in the second stage amounted to 757 million francs.

The estimate process to establish the financial assumptions, taking risk sharing aspects into account, was modified in the 2017 financial year and first applied as at 30 April 2017, in order to provide a more realistic picture of the costs of the employee benefits plan to be expected by the company in the future. Given the current low interest rates, the non-consideration of risk sharing aspects results in an inaccurate representation of the net obligation recognized in the balance sheet and in an unrealistically high negative past service cost in the event of plan amendments.

Long-term employee benefits are shown and described under Note 24, Provisions and contingent liabilities.

Employee benefit expenses

Employee benefit expenses

CHF million	2017	2018
Current service cost	590	558
Service cost to be recognized	0	0
Employee contributions	–223	–218
Administrative costs	9	9
Additional employee benefits	1	3
Other plans, reclassifications	–4	–5
Total employee benefit expenses recognized in personnel expenses	**373**	**347**
Interest expense arising from employee benefit obligations	98	100
Interest income on assets	–78	–88
Total net interest expense recognized in financial expenses	**20**	**12**
Total employee benefit expenses recognized in the income statement	**393**	**359**

Revaluation elements recorded in the statement of comprehensive income

CHF million	2017	2018
Actuarial losses		
due to the adjustment of demographic assumptions	–	0
due to the adjustment of economic assumptions	–1,409	–528
due to experience adjustments	157	113
Income from plan assets (excluding interest income)	–830	330
Other	–2	4
Total revaluation gains recorded in other comprehensive income (OCI)	**–2,084**	**–81**
Total employee benefit expenses	**–1,691**	**278**

With regard to the adjustments outlined above, as a result of the Foundation Board decision in relation to the Swiss Post pension fund (reduction in the technical interest rate and reduction in the conversion rate) and the agreed compensation measures as at 1 January 2018 together with the introduction of risk-sharing characteristics, employee benefit expenses for 2017 decreased by 45 million francs and employee benefit obligations declined by 824 million francs as at 31 December 2017. For 2018, employee benefit expenses fell by 47 million francs and employee benefit obligations declined by 756 million francs as at 31 December 2018 due to the application of risk sharing characteristics.

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	31.12.2017	31.12.2018
Present value of employee benefit obligations including assets set aside	19,428	18,710
Benefit plan assets at fair value	–16,814	–16,113
Shortfall	**2,614**	**2,597**
Employee benefit obligations excluding assets set aside	11	5
Total recognized employee benefit obligations arising from defined benefit plans	**2,625**	**2,602**
Employee benefit obligations arising from other benefit plans	1	9
Total recognized employee benefit obligations	**2,626**	**2,611**

Performance of recognized employee benefit obligations from defined benefit plans

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

CHF million	2017	2018
Balance at 1 January	**5,078**	**2,625**
Employee benefit expenses arising from defined benefit plans	398	363
Revaluation gains recognized in other comprehensive income	–2,084	–85
Employer contributions	–767	–300
Pension payments by the employer	–1	–1
Translation differences	1	0
Balance at 31 December	**2,625**	**2,602**
of which:		
current, i.e. payments falling due within the next twelve months	309	295
non-current	2,316	2,307

Change in employee benefit obligations

Change in employee benefit obligations

CHF million	2017	2018
Balance at 1 January	**20,934**	**19,439**
Current service cost	590	558
Interest expense arising from employee benefit obligations	98	100
Actuarial (gains)/losses	–1,252	–415
Company acquisitions, disposals or transfers	–15	–
Additional employee benefits	1	3
Benefits paid from plan assets	–918	–969
Pension payments by the employer	–1	–1
Plan amendments	–	0
Translation differences	2	0
Balance at 31 December	**19,439**	**18,715**
Employee benefit obligations including assets set aside	19,428	18,710
Employee benefit obligations excluding assets set aside	11	5
Total employee benefit obligations	**19,439**	**18,715**

Change in plan assets

Change in fair value of plan assets CHF million	2017	2018
Balance at 1 January	**15,856**	**16,814**
Interest income on assets	79	88
Income from plan assets (excluding interest income)	830	–330
Employee contributions	223	218
Employer contributions	767	300
Benefits paid from plan assets	–918	–969
Administrative costs	–9	–9
Company acquisitions, disposals or transfers	–12	–
Translation differences	–2	1
Balance at 31 December	**16,814**	**16,113**

Asset categories

Asset allocation	31 December 2017			31 December 2018		
CHF million	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds	4,891	2,280	7,171	5,398	1,876	7,274
Shares	4,954	–	4,954	3,752	–	3,752
Real estate	8	1,811	1,819	9	2,017	2,026
Alternative investments	371	1,442	1,813	341	1,460	1,801
Qualified insurance paper	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–
Cash and cash equivalents	–	1,057	1,057	–	1,260	1,260
Total	**10,224**	**6,590**	**16,814**	**9,500**	**6,613**	**16,113**

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. OPA 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.

Sensitivities

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 2017 and 2018:

Sensitivity of pension obligations to changes in actuarial assumptions

		Resulting change in present value			Resulting change in present value	
CHF million	Deviation	31.12.2017	31.12.2018	Deviation	31.12.2017	31.12.2018
Discount rate	+0.25 percentage point	–528	–486	–0.25 percentage point	566	521
Expected change in salaries	+0.25 percentage point	65	60	–0.25 percentage point	–63	–59
Interest on retirement assets	+0.25 percentage point	114	104	–0.25 percentage point	–111	–102
Pension indexation	+0.25 percentage point	383	359	–0.25 percentage point	–	–
Employee share of funding gap	+10.00 percentage point	–261	–239	–10.00 percentage point	261	239
Life expectancy at age 65	+1 year	721	676	– 1 year	–723	–678

Information on employer contributions

The following table shows the employer contributions for the previous financial year, as well as the expected contributions for 2019.

Employer contributions

CHF million	Effective	Expected
2018	300	309
2019		295

Maturity profile of the defined employee benefit obligation

The weighted average term of the defined employee benefit obligation is 15.3 years as at 31 December 2018 (previous year: 15.7 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

CHF million	Nominal payment of benefits (estimation)
2019	983
2020	961
2021	954
2022	940
2023	926
2024–2028	4,477

13 | Resale merchandise and service expenses

Resale merchandise and service expenses

CHF million	2017	2018
Working materials, semi-finished and finished goods	38	38
Resale merchandise expenses	386	356
Service expenses	181	214
Compensation paid to PostBus operators	331	336
Compensation paid to forwarding companies	336	350
Compensation paid for international postal traffic	142	135
Temporary employees	145	187
Total resale merchandise and service expenses	**1,559**	**1,616**

14 | Other operating expenses

Other operating expenses

CHF million	2017	2018
Premises	213	198
Maintenance and repairs of property, plant and equipment	226	234
Energy and fuel	63	76
Operating materials	60	59
Consulting, office and administrative expenses	256	277
Marketing and communications	110	94
Loss on disposal of property, plant and equipment	6	3
Other expenses	234	235
Total other operating expenses	**1,168**	**1,176**

15 | Financial income

Financial income

CHF million	Notes	2017	2018
Interest income on financial assets at amortized cost	5	7	8
Foreign currency gains		14	14
Other financial income		3	2
Total financial income		**24**	**24**

Income from the financial services business is recorded as revenue.

16 | Financial expenses

Financial expenses

CHF million	Notes	2017 [1]	2018
Interest expense on financial liabilities at amortized cost		14	13
Interest expense for employee benefit obligations	12	20	12
Foreign currency losses		8	18
Other financial expenses		6	6
Total financial expenses		**48**	**49**

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

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

17 | Income taxes

Income taxes recognized in the income statement

CHF million	2017	2018
(Expense) for current income taxes	–63	–43
(Expense) for deferred income taxes	–82	–63
Total (expense) for income taxes recognized in the income statement	**–145**	**–106**

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

Income taxes recorded in other comprehensive income

CHF million	2017	2018
Revaluation of employee benefit obligations	–414	–15
Fair value reserves of equity instruments FVTOCI	–	–5
Fair value reserves of debt instruments FVTOCI	1	34
Hedging reserves	22	–9
Total income taxes recorded in other comprehensive income	**–391**	**5**

Deferred taxes relating to balance sheet items

Deferred taxes relating to balance sheet items	31 December 2017			31 December 2018		
CHF million	Deferred tax assets	Deferred tax liabilities	Net assets/(liabilities)	Deferred tax assets	Deferred tax liabilities	Net assets/(liabilities)
Financial assets	34	–85	–51	25	–21	4
Investments in subsidiaries, associates and joint ventures	2	–90	–88	2	–81	–79
Property, plant and equipment	218	–3	215	213	–3	210
Intangible assets	253	–1	252	207	–1	206
Other liabilities	1	0	1	2	0	2
Provisions	51	–10	41	47	–4	43
Employee benefit obligations	512	–	512	513	–	513
Other balance sheet items	1	–3	–2	2	–6	–4
Deferred taxes arising from temporary differences	**1,072**	**–192**	**880**	**1,011**	**–116**	**895**
Tax assets recognized for loss carryforwards	85		85	45		45
Deferred tax assets/liabilities, gross	**1,157**	**–192**	**965**	**1,056**	**–116**	**940**
Deferred tax assets/liabilities, prior year	–1,624	186	–1,438	–1,157	192	–965
Changeover effect from the first application of IFRS 9:						
Deferred taxes recorded in retained earnings				–	3	3
Deferred taxes recorded in gains and losses recorded directly in other comprehensive income				–	–37	–37
Deferred taxes recorded in other comprehensive income	–23	414	391	24	–29	–5
Changes in the composition of the Group	1	–2	–1	2	–1	1
Deferred taxes recognized in the income statement	**–489**	**406**	**–83**	**–75**	**12**	**–63**

Deferred tax assets of 1,056 million francs (previous year: 1,157 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 116 million francs (previous year: 192 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 2018, temporary differences in relation to interests amounted to 75 million francs (previous year: 10 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	31 December 2017			31 December 2018		
CHF million	Recognized	Not recognized	Total	Recognized	Not recognized	Total
Maturing within 1 year	16	5	21	14	0	14
Maturing in 2 to 6 years	32	6	38	100	20	120
Maturing in more than 6 years	349	5	354	75	37	112
Total unused loss carryforwards	**397**	**16**	**413**	**189**	**57**	**246**

The decrease in capitalized unused loss carryforwards is mainly due to the partial use of loss carryforwards registered at Post CH Ltd for 2017. These loss carryforwards were essentially attributable to the contribution paid in 2017 to help stabilize the financial situation at the Swiss Post pension fund.

Tax loss carryforwards of 57 million francs (previous year: 16 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 14.3 percent (previous year: 11.5 percent). The 2.8 percent increase in the Group tax rate is mainly due to the effect of lower dividends distributed within the Group.

Reconciliation from Group profit before tax to provision for income taxes accounted for CHF million	2017 [1]	2018
Group profit before tax	627	511
Weighted average tax rate	11.5%	14.3%
Tax expense at weighted average tax rate	**72**	**73**
Reconciliation with expenses for income taxes accounted for:		
Effect of change in tax status/tax rates	0	0
Effect of investments/impairment of goodwill	142	27
Effect of back taxes and tax refunds from previous years	–4	2
Effect of change in impairment for deferred income tax assets	–1	5
Effect of fiscally non-relevant income/expenses	–54	–8
Effect of loss carryforwards	1	8
Other effects	–11	–1
Expenses for income taxes accounted for	**145**	**106**

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

18 | Financial assets and liabilities

Carrying amounts

31 December 2017 CHF million	FVTPL held for trading	Held to maturity	Available for sale	Loans and receivables	Other at amortized cost	Total
Cash holdings				2,536		2,536
Amounts due from banks				38,379		38,379
Interest-bearing amounts due from customers				360		360
Trade accounts receivable				736		736
Other receivables				1,389		1,389
Financial assets	44	39,655	23,675	15,992		79,366
Derivatives	44					44
Bonds		39,655	22,336			61,991
Shares			118			118
Loans				15,992		15,992
Other			1,221			1,221
Total financial assets	**44**	**39,655**	**23,675**	**59,392**	**–**	**122,766**
Customer deposits (PostFinance)					113,195	113,195
Other financial liabilities	729				1,415	2,144
Derivatives	729					729
Finance leases					15	15
Private placements					1,270	1,270
Other					130	130
Trade accounts payable					301	301
Other liabilities					1,368	1,368
Total financial liabilities	**729**	**–**	**–**	**–**	**116,279**	**117,008**

Carrying amounts

31 December 2018 CHF million	FVTPL, incl. derivatives	FVTOCI, debt instruments	FVTOCI, equity instruments	Amortized cost	Total
Cash holdings				2,081	2,081
Amounts due from banks				36,688	36,688
Interest-bearing amounts due from customers				543	543
Trade accounts receivable				762	762
Other receivables				1,352	1,352
Financial assets	1,223	8,597	147	68,340	78,307
Derivatives	102				102
Bonds	5	8,597		52,935	61,537
Shares	9		147		156
Funds	1,107	0			1,107
Loans				15,405	15,405
Total financial assets	**1,223**	**8,597**	**147**	**109,766**	**119,733**
Customer deposits (PostFinance)				111,141	111,141
Other financial liabilities	480			1,128	1,608
Derivatives	480				480
Finance leases				24	24
Private placements				970	970
Other				134	134
Trade accounts payable				302	302
Other liabilities				897	897
Total financial liabilities	**480**	**–**	**–**	**113,468**	**113,948**

Receivables from PostFinance's working capital management services (factoring) are reported in interest-bearing amounts due from customers (as at 31 December 2018: 32 million francs, as at 31 December 2017: 16 million francs) and other receivables (as at 31 December 2018: 1 million francs, as at 31 December 2017: none).

PostFinance's interests in connection with the processing of payments and securities transactions and long-term strategic interests in other segments are disclosed in FVTOCI, equity instruments. As these equity instruments were not acquired in order to generate short-term profits, they are reported in equity through other comprehensive income (FVTOCI option). Dividend income from these interests amounts to less than one million francs in the current year. These infrastructure investments were classified as available for sale until 31 December 2017, see also Note 2, Basis of accounting, IFRS 9 Financial Instruments, Reclassifications.

A minor interest from the FVTOCI category (PostFinance) was sold in the reporting period. The cumulative gain (less than one million francs) was reclassified from other comprehensive income to retained earnings within equity.

19 | Inventories

Inventories

CHF million	31.12.2017	31.12.2018
Resale merchandise	31	26
Fuel and operating materials	22	19
Production materials	14	13
Work in progress and finished goods	0	1
Impairment loss for inventories which are not easily marketable	0	0
Total inventories	**67**	**59**

20 | 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

CHF million	Notes	Investments in associates	Property, plant and equipment	Total
As at 1 January 2017		**–**	**1**	**1**
Additions arising from reclassifications in accordance with IFRS 5	21	–	16	16
Disposals		–	–16	–16
As at 31 December 2017		**–**	**1**	**1**
As at 1 January 2018		**–**	**1**	**1**
Additions arising from reclassifications in accordance with IFRS 5	21, 27	24	16	40
Disposals		–	–16	–16
As at 31 December 2018		**24**	**1**	**25**

Information on fair values can be found in Note 6, Fair value disclosures.

21 | Property, plant and equipment

Investment commitments for property, plant and equipment amount to 120 million francs (previous year: 85 million francs).

As at 31 December 2018, 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 2018.

Property, plant and equipment

2017 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 1.1.2017	**5,074**	**89**	**1,164**	**789**	**9**	**7,125**
Additions to the consolidated Group	0	–	0	4	–	4
Additions	–3 [1]	100	47	110	33	287
Disposals	–254	–1	–72	–50	–4	–381
Reclassifications	44	–115	13	3	–17	–72
Disposals arising from reclassifications (IFRS 5)	–	–	0	–58	0	–58
Currency translation differences	1	–	3	9	0	13
As at 31.12.2017	**4,862**	**73**	**1,155**	**807**	**21**	**6,918**
Cumulative amortization						
As at 1.1.2017	**3,736**	**–**	**716**	**401**	**–**	**4,853**
Depreciation	186	–	106	83	–	375
Impairment	8	–	9	–	0	17
Disposals	–246	–	–66	–45	–	–357
Reclassifications	–42	–	0	0	–	–42
Disposals arising from reclassifications (IFRS 5)	–	–	–	–42	–	–42
Currency translation differences	1	–	3	4	–	8
As at 31.12.2017	**3,643**	**–**	**768**	**401**	**0**	**4,812**
Carrying amount as at 1.1.2017	**1,338**	**89**	**448**	**388**	**9**	**2,272**
Carrying amount as at 31.12.2017	**1,219**	**73**	**387**	**406**	**21**	**2,106**
of which assets in leasing	0	–	0	20	–	20

1 Includes around 2 million francs for 2017 from subsidies for railway track installations.

Property, plant and equipment

2018 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 1.1.2018	**4,862**	**73**	**1,155**	**807**	**21**	**6,918**
Additions to the consolidated Group	8	–	1	5	–	14
Additions	0 [1]	66	53	117	50	286
Disposals	–143	–3	–51	–38	–1	–236
Reclassifications	39	–48	34	–3	–33	–11
Disposals arising from reclassifications (IFRS 5)	–3	–	–	–55	–	–58
Currency translation differences	–1	–	–2	–5	0	–8
As at 31.12.2018	**4,762**	**88**	**1,190**	**828**	**37**	**6,905**
Cumulative amortization						
As at 1.1.2018	**3,643**	**–**	**768**	**401**	**0**	**4,812**
Depreciation	88	–	100	85	–	273
Impairment	–	–	–	0	5	5
Disposals	–134	–	–46	–35	–	–215
Reclassifications	–5	–	2	–3	–	–6
Disposals arising from reclassifications (IFRS 5)	–2	–	–	–40	–	–42
Currency translation differences	–1	–	–2	–2	–	–5
As at 31.12.2018	**3,589**	**–**	**822**	**406**	**5**	**4,822**
Carrying amount as at 1.1.2018	**1,219**	**73**	**387**	**406**	**21**	**2,106**
Carrying amount as at 31.12.2018	**1,173**	**88**	**368**	**422**	**32**	**2,083**
of which assets in leasing	0	–	0	31	–	31

1 Includes less than one million francs from subsidies for railway track installations for 2018.

22 | Investment property

Investment property

CHF million	2017 Investment property	2017 Investment property under construction	2017 Total	2018 Investment property	2018 Investment property under construction	2018 Total
Acquisition cost						
Balance at 1 January	**248**	**7**	**255**	**290**	**37**	**327**
Additions	–1	30	29	–	24	24
Disposals	–8	–1	–9	–2	0	–2
Reclassifications	51	1	52	23	–14	9
Balance at 31 December	**290**	**37**	**327**	**311**	**47**	**358**
Cumulative amortization						
Balance at 1 January	**9**	**–**	**9**	**37**	**–**	**37**
Depreciation	10	–	10	13	–	13
Impairment	3	–	3	–	–	–
Disposals	–8	–	–8	–2	–	–2
Reclassifications	23	–	23	6	–	6
Balance at 31 December	**37**	**–**	**37**	**54**	**–**	**54**
Carrying amount as at 1 January	**239**	**7**	**246**	**253**	**37**	**290**
Carrying amount as at 31 December	**253**	**37**	**290**	**257**	**47**	**304**

The following amounts from investment property were recognized in the result:
- Rental income: 20 million francs (previous year: 18 million francs)
- Direct operating expenses (incl. depreciation) that generated rental income during the reporting period: 21 million francs (previous year: 22 million francs)

On 31 December 2018, there were no restrictions on the saleability or transfer of earnings and proceeds from any sale.

There are investment commitments for investment property of 14 million francs (previous year: 15 million francs).

23 | Intangible assets and goodwill

Intangible assets and goodwill				2017				2018
CHF million	Goodwill [1]	Other intangible assets	Other intangible assets under construction	Total	Goodwill [1]	Other intangible assets	Other intangible assets under construction	Total
Acquisition cost								
Balance at 1 January	**256**	**317**	**139**	**712**	**275**	**347**	**171**	**793**
Additions to the consolidated Group	16	5	0	21	27	22	–	49
Additions	–	13	50	63	–	30	11	41
Disposals	–	–10	–1	–11	–	–14	0	–14
Reclassifications	–	18	–17	1	0	173	–171	2
Currency translation differences	3	4	0	7	–3	–2	–	–5
Balance at 31 December	**275**	**347**	**171**	**793**	**299**	**556**	**11**	**866**
Cumulative amortization								
Balance at 1 January	**28**	**208**	**0**	**236**	**31**	**242**	**20**	**293**
Depreciation	–	35	–	35	–	50	–	50
Impairment	2 [2]	5	20	27	2 [2]	17	–	19
Disposals	–	–10	–	–10	–	–13	–	–13
Reclassifications	–	–	–	–	–	19	–19	0
Currency translation differences	1	4	–	5	1	–2	–	–1
Balance at 31 December	**31**	**242**	**20**	**293**	**34**	**313**	**1**	**348**
Carrying amount as at 1 January	**228**	**109**	**139**	**476**	**244**	**105**	**151**	**500**
Carrying amount as at 31 December	**244**	**105**	**151**	**500**	**265**	**243**	**10**	**518**

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 27, Subsidiaries, Investments in associates and joint ventures).
2 See following table "Goodwill by segment".

Other intangible assets essentially comprise purchased standard and banking software.

Investment commitments for intangible assets amount to one 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 and tested in the fourth quarter of each year for impairment. A cash-generating unit is usually a company.

The goodwill refers to the following segments or cash-generating units:

Goodwill by segment [1]

CHF million	31 December 2017 Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other	31 December 2018 Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other
SPS Germany-Group	27	–	–	27	–	–	40	–	–	40	–	–
SPS USA-Group	35	–	–	35	–	–	35	–	–	35	–	–
Swiss Post Solutions AG	29	–	–	29	–	–	29	–	–	29	–	–
Swiss Post Solutions Ltd	23	–	–	23	–	–	22	–	–	22	–	–
Swiss Post Solutions SAS	1	–	–	1	–	–	1	–	–	1	–	–
PostMail segment	67	67	–	–	–	–	68	68	–	–	–	–
SAT Group	9	–	9	–	–	–	9	–	9	–	–	–
BPS Group	13	–	13	–	–	–	14	–	14	–	–	–
notime Group	–	–	–	–	–	–	9	–	9	–	–	–
PostLogistics	27	–	27	–	–	–	27	–	27	–	–	–
Société d'Affrètement et de Transit S.A.T. SA	2	–	2	–	–	–	2	–	2	–	–	–
Bächle Logistics GmbH [2]	–	–	–	–	–	–	1	–	1	–	–	–
Other cash-generating units	11	–	8	–	3	–	8	–	6	–	2	–
Total	**244**	**67**	**59**	**115**	**3**	**–**	**265**	**68**	**68**	**127**	**2**	**–**

1 Information is now disclosed according to cash-generating units. The presentation for the previous year has been adjusted accordingly.
2 Goodwill of 2 million francs was impaired.

The recoverable amount of a cash-generating unit is based on a calculation of its value in use via the discounted cash flow method, in turn based on the strategic financial planning approved by the management. The calculation of value in use reflects the future cash flows for the next two to five years, discounted to present value at the weighted average cost of capital (WACC), and an estimated residual value. This does not include any growth component. WACC is determined using the capital asset pricing model and comprises weighted equity costs and borrowing costs. The return on 30-year government bonds of the country in which the cash-generating unit operates is taken as the risk-free interest rate.

The following discount rates were used per cash-generating unit to determine the recoverable amount of goodwill.

Discount rates [1]	WACC before taxes [2]	
Percent	2017	2018
SPS Germany-Group	10.7	9.9
SPS USA-Group	15.6	13.0
Swiss Post Solutions AG	8.7	8.4
Swiss Post Solutions Ltd	10.1	9.6
Swiss Post Solutions SAS	12.3	10.5
PostMail segment	8.9	8.8
SAT Group	15.0	12.9
BPS Group	10.8	10.5
notime Group	–	10.5
PostLogistics	7.4	6.2
Société d’Affrètement et de Transit S.A.T. SA	14.9	14.0
Bächle Logistics GmbH	–	12.2
Other cash-generating units	9.6	9.7

1 Information is now disclosed according to cash-generating units. The presentation for the previous year has been adjusted accordingly.
2 Weighted average cost of capital before taxes, WACC.

The discount rates include specific risk premiums depending on the risk assessment of the relevant cash-generating unit. The expected future cash flows and the assumptions applied are based on historical data from both internal and external sources of information.

Results of the verification of the recoverable amount of goodwill

At 31 December 2018, impairment losses totalling 2 million francs (prior year: 2 million francs) had to be recognized on goodwill.

All other goodwill items remain recoverable as at 31 December 2018. The recoverable amount (value in use) of these cash-generating units exceeds the carrying amount on the date of measurement. Swiss Post believes that no reasonably possible changes would result in a material assumption that the carrying amount of the cash-generating units exceeds the recoverable amount.

24 | Provisions

Provisions

CHF million	Other long-term employee benefits	Restructuring	Claims incurred	Litigation risks	Other	Total
As at 1 January 2017	**285**	**29**	**23**	**10**	**156**	**503**
Recognition	4	48	32	6	58	148
Present value adjustment	1	–	–	–	0	1
Use	–27	–9	–7	0	–15	–58
Reversal	–3	0	–3	–2	–14	–22
Reclassifications	0	–	–	–	–	0
Currency translation differences	–	0	–	0	0	0
As at 31 December 2017	**260**	**68**	**45**	**14**	**185**	**572**
of which short term	27	24	19	8	77	155
As at 1 January 2018	**260**	**68**	**45**	**14**	**185**	**572**
Additions to the consolidated Group	–	–	–	–	0	0
Recognition	11	32	13	2	59	117
Present value adjustment	1	–	–	–	–	1
Use	–28	–23	–14	–1	–18	–84
Reversal	0	–12	–3	–6	–10	–31
Reclassifications	–	–	–	0	–90	–90
Currency translation differences	–	0	–	0	0	0
As at 31 December 2018	**244**	**65**	**41**	**9**	**126**	**485**
of which short term	27	17	20	5	17	86

Provisions of 32 million francs were recognized for planned and communicated restructuring plans (previous year: 48 million francs). The amount consists of benefits due based on the collective employment contract redundancy plan as well as additional benefits. In the previous year, other provisions were recognized for the removal of asbestos from the real estate portfolio, onerous contracts and outstanding obligations arising from business activities and excess compensatory payments received. In connection with the signing of the framework agreement concerning the reimbursement of PostBus compensatory payments with the FOT and the Conference of Cantonal Directors of Public Transport (CPT), other provisions (CHF 90 million) were reclassified to other liabilities in the reporting period.

Contingent liabilities: guarantees and guarantee obligations

There were no guarantees or guarantee obligations at the end of 2018.

Contingent liabilities: 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 37 million francs (previous year: 50 million francs).

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.

The following parameters were applied:

Assumptions for the calculation		Loyalty bonuses		Staff vouchers
as at	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Discount rate	0.25%–0.50%	0.50%	0.75%	0.75%
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	9.27%	8.88%	3.49%	3.42%
Average remaining service in years	9.31	9.39	11.21	11.26

Change in other long-term employee benefits

Other long-term employee benefits		Loyalty bonuses		Staff vouchers
CHF million	2017	2018	2017	2018
Balance at 1 January	**118**	**102**	**164**	**154**
Accrued claims	9	8	4	4
Benefits paid	–22	–21	–5	–5
Interest on employee benefit obligations	0	0	1	1
Income from plan amendments	–2	–	–	–
(Gains)/losses resulting from changes in assumptions	–2	–1	–7	–
Actuarial (gains)/losses	1	0	–3	–2
Balance at 31 December	**102**	**88**	**154**	**152**

In addition to loyalty bonuses, sabbaticals and staff vouchers, other benefits amounting to 4 million francs (previous year: 4 million francs) are also included in provisions for other long-term employee benefits.

Other long-term employee benefits recognized in the income statement

Expenses recognized in the income statement		Loyalty bonuses		Staff vouchers
CHF million	2017	2018	2017	2018
Accrued claims	9	8	4	4
Interest on employee benefit obligations	0	0	1	1
Income from plan amendments	–2	–	–	–
Actuarial (gains)/losses	–1	0	–10	–2
Total expenses for other long-term employee benefits	**6**	**8**	**–5**	**3**

25 | 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 Services Organization Act on 26 June 2013 with retroactive effect to 1 January 2013. The Confederation remains the full owner of Swiss Post.

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

Gains 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 FVTOCI (2017: available for sale), which are caused mainly by fluctuations in capital market interest rates. The cumulative gains/losses from the sale of debt instruments are transferred to the income statement. In the case of equity instruments held within the FVTOCI option, a reclassification to retained earnings is undertaken on the date of sale. Until the end of 2017, the cumulative gains/losses from equity instruments available for sale were 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 profit or loss 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 June 2018 decided to pay a dividend totalling 200 million francs (previous year: 200 million francs). The dividend was paid on 27 June 2018.

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 2018 financial year. This corresponds to a dividend of 153.85 francs per share. Further details can be found in the Swiss Post Ltd annual financial statements.

Other comprehensive income includes the following:

Group | Gains and losses recorded directly in other comprehensive income CHF million	Notes	Revaluation of employee benefit obligations	Fair value reserves	Hedging reserves	Currency translation reserves	Other gains and losses	Equity attributable to the owner	Non-controlling interests	Total
Balance as at 1.1.2017		**–2,256**	**364**	**–44**	**–76**	**8**	**–2,004**	**0**	**–2,004**
Revaluation of employee benefit obligations	12	2,084	–	–	–	–	2,084	–	2,084
Change in deferred income taxes	17	–414	–	–	–	–	–414	–	–414
Items not reclassifiable in the consolidated income statement, after tax		**1,670**	**–**	**–**	**–**	**–**	**1,670**	**–**	**1,670**
Change in currency translation reserves		–	–	–	19	–	19	0	19
Change in share of other comprehensive income from associates and joint ventures		–	–	–	–	–4	–4	–	–4
Change in fair value reserves from available-for-sale financial assets, net		–	–42	–	–	–	–42	–	–42
Change in hedging reserves, net		–	–	–109	–	–	–109	–	–109
Change in deferred income taxes	17	–	1	22	–	–	23	–	23
Reclassifiable items in income statement, after tax		**–**	**–41**	**–87**	**19**	**–4**	**–113**	**0**	**–113**
Other comprehensive income		**1,670**	**–41**	**–87**	**19**	**–4**	**1,557**	**0**	**1,557**
Adjustments in connection with disposals		–2	–	–	–	–	–2	–	–2
Balance as at 31.12.2017		**–588**	**323**	**–131**	**–57**	**4**	**–449**	**0**	**–449**
Balance as at 31.12.2017		**–588**	**323**	**–131**	**–57**	**4**	**–449**	**0**	**–449**
Changeover effect from the first application of IFRS 9 after tax			–126				–126	–	–126
Balance as at 1.1.2018		**–588**	**197**	**–131**	**–57**	**4**	**–575**	**0**	**–575**
Revaluation of employee benefit obligations	12	81	–	–	–	–	81	–	81
Change in fair value reserves of equity instruments FVTOCI		–	26	–	–	–	26	–	26
Change in deferred income taxes	17	–15	–5	–	–	–	–20	–	–20
Items not reclassifiable in the income statement, after tax		**66**	**21**	**–**	**–**	**–**	**87**	**–**	**87**
Change in currency translation reserves		–	–	–	–11	–	–11	0	–11
Change in share of other comprehensive income from associates and joint ventures		–	–	–	–	1	1	–	1
Change in fair value reserves of debt instruments FVTOCI, net [1]		–	–169	–	–	–	–169	–	–169
Change in hedging reserves, net [1]		–	–	43	–	–	43	–	43
Change in deferred income taxes	17	–	34	–9	–	–	25	–	25
Reclassifiable items in consolidated income statement, after tax		**–**	**–135**	**34**	**–11**	**1**	**–111**	**0**	**–111**
Other comprehensive income		**66**	**–114**	**34**	**–11**	**1**	**–24**	**0**	**–24**
Balance as at 31.12.2018		**–522**	**83**	**–97**	**–68**	**5**	**–599**	**0**	**–599**

1 Additional information can be found in the consolidated statement of comprehensive income.

26 | 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	31.12.2017	31.12.2018
Future commitments under operating leases due in		
Less than 1 year	78	91
1 to 5 years	173	195
Over 5 years	79	83
Future payment commitments under operating leases	**330**	**369**
Minimum lease payments	143	142
Conditional lease payments	8	8
Lease expenses for the period	**151**	**150**
Income from sub-letting in the past financial year	25	24
Future income from sub-letting	38	43

Payments arising from operating leases relate mainly to rent for the postal 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 postal 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 41 million francs in the reporting period (previous year: 39 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	31.12.2017	31.12.2018
Future minimum lease payments due under agreements in		
Less than 1 year	75	77
1 to 5 years	193	194
Over 5 years	59	59
Total	**327**	**330**

27 | Subsidiaries, associates and joint ventures

The main majority interests of Swiss Post Ltd, as the Group's parent company, are in Post CH Ltd, PostFinance Ltd and PostBus Ltd.

Subsidiaries (scope of consolidation)

The companies listed below are fully consolidated.

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent as at 31.12.2017	Equity interest in percent as at 31.12.2018
Switzerland						
1	Presto Presse-Vertriebs AG	Berne	CHF	100	100	100
1	Epsilon SA	Lancy	CHF	100	100	100
1	Direct Mail Company AG	Basel	CHF	420	100	100
1	Direct Mail Logistik AG	Basel	CHF	100	100	100
1	ASMIQ AG (formerly IPO Input Processing Output Service AG)	Zurich	CHF	100	100	100
1	DMB Direct Mail Biel-Bienne AG [1]	Biel/Bienne	CHF	100	–	100
2	Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
4	Post Company Cars Ltd	Berne	CHF	100	100	100
4	PostLogistics Ltd	Dintikon	CHF	20,000	100	100
4	SecurePost Ltd	Oensingen	CHF	4,000	100	100
4	Swiss Post SAT Holding Ltd	Berne	CHF	2,000	100	100
4	Tele-Trans AG [2]	Basel	CHF	50	100	–
4	Botec Boncourt S.A.	Boncourt	CHF	200	100	100
4	Relatra AG	Tägerwilen	CHF	180	100	100
4	DESTINAS AG	Tägerwilen	CHF	140	100	100
4	JTB Holding AG [3]	Saillon	CHF	120	100	–
4	HAMIPO Holding AG	Saillon	CHF	100	100	100
4	Eden-Trans GmbH	Aadorf	CHF	100	100	100
4	Walli-Trans AG	Brig-Glis	CHF	100	100	100
4	BPS Speditions-Service AG	Pfungen	CHF	100	100	100
4	BPS Speditions-Service Basel AG, Arlesheim	Arlesheim	CHF	150	100	100
4	notime AG [4]	Zurich	CHF	222	–	51
4	notime (Schweiz) AG [4]	Zurich	CHF	100	–	51
5	PostFinance Ltd	Berne	CHF	2,000,000	100*	100*
5	Lendico Schweiz AG	Zurich	CHF	100	100	100
6	PostBus Switzerland Ltd	Berne	CHF	1,000	100	100
6	PubliBike AG	Fribourg	CHF	200	100	100
6	PostBus Ltd	Berne	CHF	1,100	100*	100*
6	PostBus Mobility Solutions Ltd	Berne	CHF	1,100	100	100
6	PostBus Production Ltd	Berne	CHF	1,100	100	100
6	PostBus Vehicles Ltd	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 [5]	Berne	CHF	100,000	20*/80	20*/80
1–7	Post CH Ltd	Berne	CHF	500,000	100*	100*

* Equity interest is held by Swiss Post Ltd.
1 Acquisition of non-controlling interest (50 percent, now fully consolidated).
2 Merged with BPS Speditions-Service Basel AG, Arlesheim.
3 Merged with HAMIPO Holding AG.
4 Shares (51 percent) acquired, and capital increase of 43,000 francs.
5 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 = PostalNetwork
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent as at 31.12.2017	Equity interest in percent as at 31.12.2018
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
4	Trans-Euro GmbH	Weil am Rhein	EUR	25	100	100
4	Zollagentur Imlig GmbH	Rheinfelden Baden	EUR	25	100	100
4	Bächle Logistics GmbH 6	Villingen-Schwenningen	EUR	26	–	100
France						
2	Swiss Post Solutions SAS	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 SAS	Saint-Louis	EUR	38	100	100
4	Botec Sàrl	Fêche-l'Église	EUR	15	100	100
6	CarPostal France SAS	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 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	Foucherans	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 SAS	Sète	EUR	250	100	100
6	GR4 SAS 7	Crolles	EUR	200	48	48
6	Autocars et Transports Grindler SAS	Vif	EUR	250	100	100
6	Autocars Trans-Azur SAS	Salon-de-Provence	EUR	77	100	100
6	Transports Fontaimpe SAS 8	Digoin	EUR	40	–	–
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						
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.
6 Shares (100 percent) acquired.
7 Share of voting rights: around 56 percent.
8 Shares (100 percent) acquired, and merged with CarPostal Loire SARL.

Segment
2 = Swiss Post Solutions
4 = PostLogistics
6 = PostBus
7 = Other

Segment	Company	Domicile	Currency	Share capital in 000s	Equity interest in percent as at 31.12.2017	Equity interest in percent as at 31.12.2018
Slovakia						
2	Swiss Post Solutions s.r.o. [9]	Bratislava	EUR	15	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

9 Shares (100 percent) sold.

Segment
2 = Swiss Post Solutions

Additions and disposals of subsidiaries

Full year 2017

PostFinance Ltd, based in Berne, acquired a further 14.444 percent in Lendico Schweiz AG, based in Zurich, on 20 February 2017, in addition to the 24.445 percent already held. The remaining 61.111 percent was purchased on 20 November 2017. Since this date, Lendico Schweiz AG has no longer been accounted for in the consolidated financial statements using the equity method (38.889 percent), but reported as a fully consolidated subsidiary (100 percent). The company enables small and medium-sized enterprises (SME) to access crowd financing, and employs four members of staff.

Post CH Ltd, based in Berne, acquired 100 percent of the shares in Relatra AG and DESTINAS AG, both based in Kreuzlingen, on 11 April 2017. Both companies are located in Eastern Switzerland and operate in the areas of customs clearance, international transport and transshipment. They employ a total of 25 members of staff. The takeover strengthens Swiss Post's range of services in the areas of freight, express and international warehousing. It also enables Swiss Post to guarantee its presence in Eastern Switzerland on the busy border crossing between Kreuzlingen and Constance.

Post CH Ltd, based in Berne, acquired 100 percent of the shares in JTB Holding AG and HAMIPO Holding AG, both based in Saillon, and 20 percent of the shares in BPS Speditions-Service Basel AG, Arlesheim, based in Arlesheim, on 12 April 2017. Both holding companies are fully owned by BPS Speditions-Service AG, based in Pfungen, Walli-Trans AG, based in Brig-Glis, and Eden-Trans GmbH, based in Aadorf. BPS Speditions-Service AG holds the remaining 80 percent of the shares in BPS Speditions-Service Basel AG, Arlesheim. 50 percent of the shares in GSF Spedition Schweiz GmbH, based in Gütersloh (Germany) were acquired at the same time. The group mainly operates in international forwarding, and employs 25 members of staff. It offers additional services in customs clearance, express and warehousing.

CarPostal France SAS, based in Saint-Priest (France) acquired a 100 percent interest in Autocars Trans-Azur SAS, based in Salon-de-Provence (France), on 12 April 2017. 50 percent of the shares in SCI Les Romarins, based in Salon-de-Provence (France) were acquired at the same time. With the acquisition of Autocars Trans-Azur SAS, CarPostal France is expanding its presence in the region of Aix-en-Provence, Marseille and Arles. The company, which employs 50 members of staff, specializes in interurban transport and operates in the fields of scheduled routes, dial-a-ride buses, staff and school transport as well as occasional transport.

Swiss Post and SBB provide a standardized electronic identity for private individuals, companies and authorities in Switzerland. SwissSign AG, based in Opfikon, is responsible for the development and marketing of this standardized electronic identity. On 9 May 2017, Post CH Ltd sold 50 percent of its shares in SwissSign AG, based in Opfikon, to SBB. The joint venture SwissSign is therefore now equally owned by Swiss Post and SBB. SwissSign AG, based in Vaduz (Liechtenstein) was also integrated into the joint venture. For Swiss Post this means that the two companies it brought into the venture will no longer be fully consolidated as of May 2017, but will be reported in the consolidated financial statements in the context of the joint venture, SwissSign, using the equity method (50 percent).

Direct Mail Company AG, based in Basel, acquired 100 percent of the shares in IPO Input Processing Output Service AG, based in Bösingen, on 22 June 2017. IPO operates in the field of subscription management for small and medium-sized publishing houses. The acquisition enables PostMail to strengthen its position in the publishing business. The company employs eight members of staff.

Full year 2018

CarPostal Loire SARL, based in Montverdun (France), acquired 100 percent of the shares in Transports Fontaimpe SAS, based in Digoin (France), on 10 January 2018. The company, which employs 55 members of staff, operates the urban network in Digoin, three regional lines for the SNCF and various school bus routes for the Saône-et-Loire and Allier départements in France. It also offers leisure activities such as excursions.

Swiss Post Solutions s.r.o., based in Bratislava (Slovakia), was sold on 31 January 2018 (100 percent).

Post CH Ltd, based in Berne, acquired 51 percent of the shares in notime AG, based in Zurich, on 8 March 2018. 100 percent of the shares in notime (Schweiz) AG, also based in Zurich, were acquired at the same time. The start-up "notime" has developed a platform for same-day delivery to which online sellers can easily connect. It can be used to automate order bundling and route planning in cities on the same day. Swiss Post is positioning itself in a fast growing market and responding to customer demand for faster and more flexible delivery in urban areas. "notime" employs 424 members of staff (54 full-time equivalents).

Post CH Ltd, based in Berne, acquired 100 percent of the shares in Bächle Logistics GmbH, based in Villingen-Schwenningen (Germany), on 15 May 2018. The takeover will enable Swiss Post to respond to the fast growing cross-border transport market and establish a seamless connection to international logistics networks. As well as operating in the small consignment business, Bächle also handles partial or full loads in the direct transport sector. The company has a fleet of around 40 self-owned vehicles and employs around 100 members of staff.

Swiss Post Solutions GmbH, based in Bamberg (Germany), acquired the business process outsourcing HR processes business unit (payroll accounting, travel expense management and document processing) from the DXC Technology Group on 30 May 2018. The associated expansion of the service portfolio will help Swiss Post Solutions develop into an international provider of an integrated end-to-end portfolio with intelligent automation in document solutions. The takeover includes a customer base, licences, several investments and around 400 employees.

Post CH Ltd, based in Berne, acquired the remaining 50 percent of the shares in Direct Mail Biel-Bienne AG, based in Biel/Bienne, on 29 June 2018. Since this date, Direct Mail Biel-Bienne AG has no longer been accounted for in the consolidated financial statements using the equity method (50 percent), but reported as a fully consolidated subsidiary (100 percent). The company specializes in areas including products and services for the delivery of unaddressed items.

Assets and liabilities arising from acquisitions

The following assets and liabilities were newly consolidated, based on temporary figures, in connection with acquisitions of subsidiaries and parts of companies. Temporary figures were used because the acquisition balance sheets had not yet been fully audited as at 31 December 2018.

Assets and liabilities arising from acquisitions	Total fair value [1]	Total fair value [2]
CHF million	2017	2018
Cash and cash equivalents	14	1
Trade accounts receivable and other receivables	11	15
Inventories	–	1
Property, plant and equipment, intangible assets and financial assets	10	36
Other financial liabilities	–2	–8
Trade accounts payable	–6	–4
Provisions and other liabilities	–5	–10
Fair value of net assets	**22**	**31**
Goodwill	16	27
Badwill	–1	–
Cash and cash equivalents acquired [3]	–14	–1
Fair value of existing investments	0	0
Fair value of non-controlling interests	–	0
Purchase price payments falling due at a later date (earn-outs)	–9	0
Payment of liabilities from acquisitions in previous years	1	3
Net cash outflow for acquisitions	**15**	**60**

1 Composition: IPO Input Processing Output Service AG, Relatra AG, DESTINAS AG, JTB Holding AG, HAMIPO Holding AG, BPS Speditions-Service Basel AG, Arlesheim, BPS Speditions-Service AG, Eden-Trans GmbH, Walli-Trans AG, Lendico Schweiz AG, Autocars Trans-Azur SAS.
2 Composition: Transports Fontaimpe SAS, Direct Mail Biel-Bienne AG, notime AG, notime (Schweiz) AG, Bächle Logistics GmbH, company section DXC Technology Group.
3 Composition: cash and current amounts due from banks.

The acquisition costs for the companies acquired in 2018 amount to a total of 58 million francs. The purchase price payments (earn-outs) due at a later date amount to less than 0.5 million francs. The remaining amount was settled in liquid assets.

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.

The directly attributable acquisition expense amounts to around one million francs and is recognized in the income statement under “Other operating expenses”.

Since the acquisition date, the acquired companies and parts of companies have contributed 35 million francs to operating income and minus one million francs to operating profit.

Overall, the effects of these acquisitions on the consolidated financial statements are 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 CHF million	Total carrying amount [1] 2017	Total carrying amount [2] 2018
Cash and cash equivalents	0	0
Trade accounts receivable and other receivables	12	0
Inventories	–	–
Property, plant and equipment, intangible assets and financial investments	1	0
Other financial liabilities	–	–
Trade accounts payable	–1	0
Provisions and other liabilities	–3	0
Carrying amount of net assets disposed of	**9**	**0**
Cash and cash equivalents disposed of [3]	0	0
Net loss from disposals [4]	–1	0
Associate fair value addition	–4	–
Net cash inflow from disposals	**4**	**0**

1 Composition: SwissSign AG (CH), SwissSign AG (LI).
2 Composition: Swiss Post Solutions s.r.o.
3 Composition: cash and current amounts 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 less than 0.5 million francs in 2018.

Overall, the effects of these disposals on the consolidated financial statements are not material in nature.

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 as at 31.12.2017	Equity interest in percent as at 31.12.2018
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 [1]	Biel/Bienne	CHF	100	50	–
1	Asendia Holding Ltd [2]	Berne	CHF	125	50	40
1	Prime Data AG	Brugg	CHF	100	25	25
4	TNT Swiss Post GmbH [3]	Buchs (AG)	CHF	1,316	50	38
5	SIX Interbank Clearing AG	Zurich	CHF	1,000	25	25
5	Finform Ltd	Berne	CHF	100	50	50
5	TWINT Ltd [4]	Zurich	CHF	12,750	33	27
5	TONI Digital Insurance Solutions AG [5]	Schlieren	CHF	306	30	24
6	Sensetalbahn AG	Berne	CHF	2,888	34	34
7	SwissSign AG [6]	Opfikon	CHF	450	50	–
Germany						
4	GSF Spedition Schweiz GmbH	Gütersloh	EUR	25	50	50
5	Swiss Euro Clearing Bank GmbH [7]	Frankfurt am Main	EUR	30,000	25	–
5	moneymeets GmbH [8]	Cologne	EUR	81	20	26
5	moneymeets community GmbH [8]	Cologne	EUR	81	20	26
France						
6	SCI Les Romarins	Salon-de-Provence	EUR	150	50	50
Liechtenstein						
7	Liechtensteinische Post AG	Schaan	CHF	5,000	25	25

1 Acquisition of non-controlling interest (50 percent, now fully consolidated).
2 Capital increase with dilution (now 40 percent).
3 Capital increase with dilution (now 38 percent).
4 Capital increase with dilution (now 26.666 percent).
5 Capital increase with dilution (now 23.93 percent).
6 Capital increase with dilution (now 17 percent, significant influence no longer exists).
7 Disposal resulting from reclassifications as per IFRS 5.
8 Shares (5.78 percent) purchased.

Segment
1 = PostMail
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

Additions and disposals of associates and joint ventures

2017

Swiss Post Solutions GmbH, based in Bamberg (Germany) sold its interest (49 percent) in CF Card Factory GmbH, based in Hessisch Lichtenau (Germany), on 13 January 2017.

PostFinance Ltd, based in Berne, acquired a further 14.444 percent in Lendico Schweiz AG, based in Zurich, on 20 February 2017, in addition to the 24.445 percent already held. The remaining 61.111 percent was purchased on 20 November 2017. Since this date, Lendico Schweiz AG has no longer been accounted for in the consolidated financial statements using the equity method (38.889 percent), but reported as a fully consolidated subsidiary (100 percent). For more information, see page 174.

As part of the acquisition of 100 percent of the shares in JTB Holding AG and HAMIPO Holding AG, both based in Saillon, Post CH Ltd acquired 50 percent of the shares in GSF Spedition Schweiz GmbH, based in Gütersloh (Germany), on 12 April 2017. For more information, see page 174.

As part of the acquisition of a 100 percent interest in Autocars Trans-Azur SAS, based in Salon-de-Provence (France), CarPostal France SAS, based in Saint-Priest (France) acquired a 50 percent interest in SCI Les Romarins, based in Salon-de-Provence (France), on 12 April 2017. For more information, see page 174.

Swiss Post and SBB provide a standardized electronic identity for private individuals, companies and authorities in Switzerland. SwissSign AG, based in Opfikon, is responsible for the development and marketing of this standardized electronic identity. On 9 May 2017, Post CH Ltd sold 50 percent of its shares in SwissSign AG, based in Opfikon, to SBB. The joint venture SwissSign is therefore now equally owned by Swiss Post and SBB. SwissSign AG, based in Vaduz (Liechtenstein) was also integrated into the joint venture. For Swiss Post this means that the two companies will no longer be fully consolidated as of May 2017, but will be reported in the consolidated financial statements in the context of the joint venture, SwissSign, using the equity method (50 percent).

Post CH Ltd, based in Berne, acquired 25 percent in Prime Data AG, based in Brugg, on 15 May 2017.

Energie Logistik Schweiz (ELS) AG in liquidation, based in Berne, was deleted in the commercial register on 12 July 2017.

PostFinance Ltd, based in Berne, acquired 10.47 percent in TONI Digital Insurance Solutions AG, based in Schlieren, on 14 July 2017, and 19.54 percent on 15 December 2017. Since this date TONI Digital Insurance Solutions AG has been accounted for using the equity method (30.01 percent) in the consolidated financial statements.

2018

PostFinance Ltd, based in Berne, acquired a further 5.78 percent in both moneymeets GmbH and moneymeets community GmbH, based in Cologne (Germany), on 10 January 2018, in addition to the 20.39 percent already held. This gives PostFinance Ltd a 26.17 percent share in both companies.

SwissSign Group Ltd., based in Opfikon, was founded on 28 February 2018. SwissSign Group Ltd. will integrate the activities of the present-day SwissSign Ltd., based in Opfikon, and further develop the existing SwissID solution. SwissSign Ltd. was originally a subsidiary of Swiss Post, and became a joint venture between Swiss Post and SBB (50 percent share each) in May 2017. Post CH Ltd, based in Berne, holds 17 percent of the newly founded SwissSign Group Ltd. For Swiss Post, this means that SwissSign AG will no longer be reported in the consolidated financial statements using the equity method as of February 2018, but will be held as a financial asset. The shareholders of SwissSign Group Ltd. primarily consist of a mix of state-owned enterprises and companies from the financial and insurance sectors. Alongside Swiss Post are companies such as SBB, Swisscom, Credit Suisse, Raiffeisen, SIX, UBS, Zürcher Kantonalbank, Axa, Baloise, Helvetia, Mobiliar, Swiss Life, Vaudoise, Zürich, CSS and SWICA, which all form part of the wide-ranging group. With SwissID, the company will offer an open and simple system for electronic identification, which meets all legal data protection requirements.

Post CH Ltd, based in Berne, acquired the remaining 50 percent of the shares in Direct Mail Biel-Bienne AG, based in Biel/Bienne, on 29 June 2018. Since this date, Direct Mail Biel-Bienne AG has no longer been accounted for in the consolidated financial statements using the equity method (50 percent), but reported as a fully consolidated subsidiary (100 percent). For more information, see page 175.

On 3 September 2018, PostFinance Ltd, based in Berne, signed an agreement to sell its shares (25 percent) in Swiss Euro Clearing Bank GmbH, based in Frankfurt am Main (Germany). From this date, Swiss Euro Clearing Bank GmbH is no longer recognized using the equity method in the consolidated financial statements, but is reported under non-current assets held for sale in accordance with IFRS 5.

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 28, Transactions with related companies and parties).

Investments in associates and joint ventures

CHF million	Notes	2017	2018
Balance at 1 January		**144**	**138**
Additions		13	13
Disposals		–3	–5
Disposals resulting from reclassifications as per IFRS 5	20	–	–24
Dividends		–10	–2
Share of net profit (after taxes) recognized in the income statement		–10	35
Share of net profit (after taxes) recorded in other comprehensive income		–4	1
Currency translation differences		8	–3
Balance at 31 December		**138**	**153**

Comprehensive income from associates and joint ventures

Net income from associates and joint ventures

CHF million	2017	2018
Share of net profit (after taxes) recognized in the income statement	–10	35
Share of net profit (after taxes) recorded in other comprehensive income	–4	1
Comprehensive income from associates and joint ventures	**–14**	**36**

28 | 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	
CHF million	2017	2018	2017	2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Swiss Confederation	256 [1]	250 [1]	6	24	126	547	757	781
Swisscom	113	98	33	28	163	160	251	266
Swiss Federal Railways SBB	48	43	49	49	23	105	10	311
RUAG	1	1	0	0	0	0	2	2
SKYGUIDE	3	1	–	0	200	200	16	10
Companies with joint management or significant influence	**421**	**393**	**88**	**101**	**512**	**1,012**	**1,036**	**1,370**
Associates and joint ventures	**135**	**135**	**31**	**35**	**43**	**64**	**28**	**39**
Other related companies and parties	**2**	**1**	**3**	**6**	**0**	**0**	**71** [2]	**67** [2]

1 Includes compensation for public transport of 202 million francs for 2018 (previous year: 202 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, compensation including fringe benefits of 5.9 million francs (previous year: 5.9 million francs) and pension benefits of around 0.86 million francs (previous year: around 0.92 million francs) was paid to members of the management (Board of Directors and Executive Management). The performance-related component paid out to members of Executive Management in 2018 was based on target attainment in 2016 and 2017 and amounted to around 1.25 million francs (previous year: around 1.66 million francs). There are no loan agreements in place with members of the Board of Directors or Executive Management.

29 | 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	
Unit		31.12.2017	31.12.2018	31.12.2017	31.12.2018
1 euro	EUR	1.17	1.13	1.11	1.16
1 US dollar	USD	0.98	0.99	0.98	0.98
1 pound sterling	GBP	1.32	1.25	1.27	1.31

30 | Events after the reporting period

Due to the incidents in connection with unlawful subsidy payments at PostBus, the Swiss Post Board of Directors ordered a review of the PostBus strategy. As part of the new strategic focus, the sale of CarPostal France SAS, based in Saint-Priest (France) was also examined.

In mid-January 2019, the PostBus garage in the center of Chur suffered significant fire damage. Thanks to logistics and operational efforts, transport services were largely maintained. The building affected by the fire is a Post Real Estate Ltd commonhold property. The damage to the building is covered by building insurance. The twenty vehicles that were severely damaged as a result of the incident are insured at their technical fair value. The difference between the carrying amount and the technical insurance value is an amount in the low millions. This means that the financial loss incurred by Swiss Post is manageable.

Prior to the approval of the 2018 consolidated annual financial statements by Swiss Post Ltd's Board of Directors on 4 March 2019, no further 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.

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 78 to 182 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 2018 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 2018, 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 financial 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.

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	Regula Tobler
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, 4 March 2019

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

Swiss Post Ltd | Income statement

CHF million	2017	2018
Operating income		
Trade income	25	74
Income from interests	450	136
Total operating income	**475**	**210**
Operating expenses		
Personnel expenses	–4	–6
Other operating expenses	–63	–63
Depreciation of intangible assets	–67	–66
Total operating expenses	**–134**	**–135**
Operating profit	**341**	**75**
Financial income	172	110
Financial expenses	–53	–101
Total net financial income	**119**	**9**
Profit for the year before tax	**460**	**84**
Direct taxes	–3	0
Profit for the year	**457**	**84**

Balance sheet

Swiss Post Ltd | Balance sheet

CHF million	31.12.2017	31.12.2018
Assets		
Current assets		
Amounts due from banks	1,149	920
Amounts due from PostFinance Ltd	1	3
Trade accounts receivable	10	13
Other current receivables	1,575	1,652
Accrued income and prepaid expenses	1	2
Total current assets	**2,736**	**2,590**
Fixed assets		
Financial assets	814	649
Interests	7,947	8,019
Intangible assets	667	600
Total fixed assets	**9,428**	**9,268**
Total assets	**12,164**	**11,858**
Equity and liabilities		
Liabilities		
Trade accounts payable	77	7
Current interest-bearing liabilities	60	239
Other current liabilities	1	5
Deferred income	4	1
Total current liabilities	**142**	**252**
Non-current interest-bearing liabilities	1,270	970
Provisions	0	0
Total non-current liabilities	**1,270**	**970**
Total liabilities	**1,412**	**1,222**
Equity		
Share capital	1,300	1,300
Statutory capital reserves		
Other capital reserves	8,685	8,685
Distributable profit		
Profit carried forward	310	567
Profit for the year	457	84
Total equity	**10,752**	**10,636**
Total equity and liabilities	**12,164**	**11,858**

Notes

1 | Basic principles

1.1 General

A description is given below of any significant valuation policies 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 gains are not disclosed (imparity 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.

2 | Information on the balance sheet and income statement

2.1 Trade accounts receivable

Swiss Post Ltd | Trade accounts receivable

CHF million	31.12.2017	31.12.2018
Amounts due from third parties	0	–
Amounts due from interests	10	13
Total trade accounts receivable	**10**	**13**

2.2 Other current receivables

Swiss Post Ltd | Other current receivables

CHF million	31.12.2017	31.12.2018
Amounts due from third parties	0	4
Amounts due from investors and organs	277	325
Amounts due from interests	1,298	1,323
Total other current receivables	**1,575**	**1,652**

2.3 Financial assets

Swiss Post Ltd | Financial assets

CHF million	31.12.2017	31.12.2018
Financial assets due from third parties	0	0
Financial assets due from interests	814	649
Total financial assets	**814**	**649**

2.4 Interests

Swiss Post Ltd | Interests

Company	Domicile	Currency	Share capital in 1000	Investment in percent Balance as at 31.12.2017	Investment in percent Balance as at 31.12.2018
Directly held interests					
Switzerland					
PostFinance Ltd	Berne	CHF	2,000,000	100	100
Post Real Estate Ltd	Berne	CHF	100,000	20 [1]	20 [1]
Post CH Ltd	Berne	CHF	500,000	100	100
PostBus 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					
Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
Post Company Cars Ltd (previously 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	Berne	CHF	1,000	100	100
PostBus Production Ltd	Berne	CHF	1,100	100	100
PostBus Vehicles Ltd	Berne	CHF	1,100	100	100

1 Swiss Post Ltd indirectly holds an additional 80 percent in Post Real Estate 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

CHF million	31.12.2017	31.12.2018
Liabilities relating to third parties	0	0
Liabilities relating to interests	77	7
Total trade accounts payable	**77**	**7**

2.7 Current interest-bearing liabilities

Swiss Post Ltd | Current interest-bearing liabilities

CHF million	31.12.2017	31.12.2018
Liabilities relating to third parties	–	50
Liabilities relating to interests	60	189
Total current interest-bearing liabilities	**60**	**239**

2.8 Other current liabilities

Swiss Post Ltd | Other current liabilites

CHF million	31.12.2017	31.12.2018
Liabilities relating to third parties	1	5
Total other current liabilities	**1**	**5**

2.9 Non-current interest-bearing liabilities

Swiss Post Ltd | Non-current interest-bearing liabilities

CHF million	31.12.2017	31.12.2018
Liabilities relating to third parties	1,270	970
Total non-current interest-bearing liabilities	**1,270**	**970**

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 2018 and 2017 from the following interests is reported in income from interests: Post CH Ltd, PostFinance Ltd, PostBus 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 as well as reversals of impairment on interests and loans to interests.

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 970 million francs. 11 tranches overall, expiring between 2019 and 2032, are outstanding on the capital market from major, predominantly domestic, private and institutional investors. The average interest rate applicable to these private placements is 1.00 percent, and the average remaining maturity of the outstanding tranches was approximately seven years at the end of 2018.

3.3 Liabilities relating to employee benefits schemes

The liabilities relating to the Swiss Post pension fund totalled 61,132 francs at 31 December 2018 (31 December 2017: 51,331 francs), and are reported in other current liabilities. They are classed as liabilities relating to third parties.

The Foundation Board of the Swiss Post pension fund had decided on compensation measures in 2017 as part of its plan amendment. Employers with an affiliation agreement with the Swiss Post pension fund were obliged to make one-off payments totalling around 500 million francs to the Swiss Post pension fund in 2017. The pro-rata margin requirement for Swiss Post Ltd stood at 125,493 francs in 2017. Payments of 120,473 francs were made in 2017. Provisions were recognized as at 31 December 2017 and reported as such for the remaining liability of 5,020 francs.

3.4 Collateral for third party liabilities

As at 31 December 2018, guarantees and guarantee obligations amounted to 16 million francs (31 December 2017: 16 million francs).

Collateral has been made available to guarantee intra-Group receivables from cash pooling via a time deposit (amounts due from banks) of 100 million francs (31 December 2017: 100 million francs).

In addition, on 31 December 2018, as in the previous year, Letters of Comfort existed, deposited by Swiss Post Ltd (31 December 2018: 2,174 million francs, 31 December 2017: 2,038 million francs).

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.

No other information is required to be reported 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 16 April 2019, the Board of Directors will propose that the distributable profit of 651 million francs for the financial year ended 31 December 2018 be appropriated as follows:

Swiss Post Ltd | Appropriation of distributable profit proposed by the Board of Directors

CHF million	31.12.2018
Amount carried forward from the previous year	567
Profit for the year	84
Available distributable profit	**651**
Dividends	200
Amount carried forward to new account	**451**

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 188 to 194 of the financial report, which comprise the income statement, balance sheet and notes for the year ended December 31, 2018.

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, 2018 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	Regula Tobler Licensed Audit Expert

Gümligen-Bern, March 4, 2019

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

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	2017	2018
PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation	**549**	**220**
Management/licence fees/net cost compensation	–5	7
PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation	**544**	**227**
Net income from associates	–36	–1
Net financial income	–38	–39
PostFinance segment earnings before tax (EBT)	**470**	**187**
Income tax	–84	–37
PostFinance segment profit	**386**	**150**
Consolidation effects from associates	–6	1
Consolidation effects from subsidiaries	–1	–1
PostFinance Ltd profit before reconciliation	**379**	**150**
Amortization of revalued held-to-maturity financial investments/amortized cost	–22	–3
Valuation differences for financial assets as per ARB	–28	3
Reversal of impairment/impairment on financial assets and receivables, incl. Taxes	–	73
Realized gains from (earlier than scheduled) sales	–34	0
Valuation differences between IAS 19 and Swiss GAAP ARR 16	–3	10
Depreciation of revalued real estate	–1	–4
Individual impairment charge due to lower fair value (fixed assets)	–9	–3
Amortization of goodwill	–200	–200
Valuation differences for investments as per ARB	5	0
Realized gains from investments	–	0
Adjustment of deferred tax effects as per IFRS	49	40
PostFinance Ltd profit as per ARB	**136**	**66**

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 a charge of 5 million francs on the operating profit (previous year: charge of 14 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	31.12.2017	31.12.2018
Assets			
Liquid assets		38,476	37,201
Amounts due from banks		4,823	4,595
Amounts due from securities financing transactions	5	24	21
Amounts due from customers	6	12,173	11,676
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	43	102
Other financial instruments at fair value		–	–
Financial investments	8	62,819	62,547
Accrued income and prepaid expenses		556	468
Participations	9, 10	122	124
Tangible fixed assets	11	1,223	1,200
Intangible assets	12	1,000	800
Other assets	13	374	321
Total assets		**121,633**	**119,055**
Total subordinated claims		13	5
of which subject to mandatory conversion and/or debt waiver		–	–
Liabilities			
Amounts due to banks		543	1,095
Liabilities from securities financing transactions	5	–	–
Amounts due in respect of customer deposits		113,292	110,501
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	728	478
Liabilities from other financial instruments at fair value		–	–
Cash bonds		93	80
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		108	94
Other liabilities	13	6	5
Provisions	16	45	54
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		136	66
Total liabilities		**121,633**	**119,055**
Total subordinated liabilities		–	–
of which subject to mandatory conversion and/or debt waiver		–	–

PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2017	31.12.2018
Contingent liabilities	25	33	88
Irrevocable commitments		722	723
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2017	2018
Interest and discount income	28	171	142
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		689	563
Interest expense	28	4	14
Gross result from interest operations		**864**	**719**
Changes in value adjustments for default risks and losses from interest operations		40	88
Net result from interest operations		**904**	**807**
Commission income from securities trading and investment activities		47	59
Commission income from lending activities		20	21
Commission income from other services		626	606
Commission expense		–438	–410
Result from commission business and services		**255**	**276**
Result from trading activities and the fair value option	27	**222**	**228**
Result from the disposal of financial investments		67	0
Income from participations		2	6
Result from real estate		80	68
Other ordinary income		100	86
Other ordinary expenses		–20	–43
Other result from ordinary activities		**229**	**117**
Operating income		**1,610**	**1,428**
Personnel expenses	29	–512	–478
General and administrative expenses	30	–554	–566
Operating expenses		**–1,066**	**–1,044**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–369	–287
Changes to provisions and other value adjustments, and losses		–9	–10
Operating result		**166**	**87**
Extraordinary income	31	10	0
Extraordinary expenses	31	–	0
Changes in reserves for general banking risks		–	–
Taxes	32	–40	–21
Profit		**136**	**66**

Appropriation of profit

PostFinance Ltd | Distributable profit

CHF million	31.12.2017	31.12.2018
Profit for the year	136	66
Profit carried forward	–	–
Total distributable profit	**136**	**66**

At the General Meeting on 5 April 2019, the PostFinance Board of Directors will propose the following appropriation of profit (previous year: 6 April 2018):

PostFinance Ltd | Appropriation of profit

CHF million	31.12.2017	31.12.2018
Allocation to other reserves	–	–
Dividend distributions	136	–
Profit carried forward to new account	–	66
Total distributable profit	**136**	**66**

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2017	Cash outflow 2017	Cash inflow 2018	Cash outflow 2018
Cash flow from operating activities (internal financing)				
Profit for the year	136	–	66	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	359	–	287	–
Provisions and other value adjustments	25	–	9	–
Change in value adjustments for default risks and losses	–	39	–	88
Accrued income and prepaid expenses	42	–	88	–
Accrued expenses and deferred income	–	30	–	14
Other items	23	–	3	–
Previous year’s dividend	–	311	–	136
Subtotal	**205**	**–**	**215**	**–**
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	1	61	0	13
Real estate	9	45	3	34
Other tangible fixed assets	–	47	0	21
Intangible assets	–	–	–	–
Subtotal	**–**	**143**	**–**	**65**
Cash flow from banking operations				
Amounts due to banks	–	1,863	552	–
Liabilities from securities financing transactions	–	723	–	–
Amounts due in respect of customer deposits	3,651	–	–	2,791
Cash bonds	–	22	–	13
Negative replacement values of derivative financial instruments	460	–	–	250
Other liabilities	–	1	–	1
Amounts due from banks	–	425	229	–
Amounts due from securities financing transactions	59	–	3	–
Amounts due from customers	998	–	523	–
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	21	–	–	59
Financial investments	–	1,062	329	–
Other accounts receivable	–	64	53	–
Subtotal	**1,029**	**–**	**–**	**1,425**
Liquidity				
Liquid assets	–	1,091	1,275	–
Subtotal	**–**	**1,091**	**1,275**	**–**
Total	**1,234**	**1,234**	**1,490**	**1,490**

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 1.1.2018	**2,000**	**4,682**	**–**	**–**	**136**	**–**	**6,818**
Dividends	–	–	–	–	– 136	–	– 136
Profit	–	–	–	–	–	66	66
Equity as at 31.12.2018	**2,000**	**4,682**	**–**	**–**	**–**	**66**	**6,748**

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	31.12.2017	31.12.2018
EUR	1.1685	1.1262
USD	0.9766	0.9851
GBP	1.3163	1.2498
JPY	0.0087	0.0089

Offsetting

As a rule, no offsetting takes place, except in the cases set out below. Receivables and payables 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. Value adjustments are deducted from the corresponding asset item.

Trade date / settlement date accounting

As a rule, 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.

General valuation policies

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 and deferred default risks. 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 and deferred default risks. Any premiums and discounts related to amounts due from customers 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. 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 gains and losses from these securities are 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 instruments held for trading. 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 recognized in profit or loss. 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 gains or 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. 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.

Establishing amounts for value adjustments

Depending on the change in credit risk since acquisition, debt securities, amounts due from securities financing transactions, amounts due from customers and amounts due from banks belong to one of three levels for the calculation of value adjustments. Depending on the level, the value adjustment matches the expected loss over the next year (level 1) or the expected losses over the remaining term to maturity of an instrument (levels 2–3). The expected losses over the next year depend on the exposure of the position for the relevant year included in the default risk, on the probability of default of the instrument due to economic trends, and on an expected loss given default. The lifetime expected losses depend on the probability of default of the position due to economic trends over the remaining term to maturity, on its future exposure included in the default risk, and on an expected loss given default.

At the time of acquisition, a financial instrument with intrinsic value is allocated to level 1. A transition to level 2 takes place if there has been a significant increase in credit risk since initial recognition. There is a significant increase in credit risk if the current rating of a position is below a defined threshold. The threshold applied depends on the original rating of the position. Due to the exponential nature of the probability of default, the relative change in the probability of default must be higher, the better the rating at the time an instrument was acquired. The assigned rating corresponds to the rating issued by recognized rating agencies. If no such rating exists, the ratings of non-recognized rating agencies (e.g. ratings of qualified banks) are used. A payment delay of more than 30 days also serves as a criterion for a move to level 2. In addition, a dedicated committee assesses whether there is a significant rise in credit risk for positions under special consideration, leading to a reclassification to level 2. This affects the following positions: those that have a non investment-grade rating, those whose spread exceeds a defined value, those that are lower tier 2 positions or those that do not have an external rating. If an event of default is present on the balance sheet date, the position is allocated to level 3. An event of default is present if PostFinance assumes that there is a strong probability that the debtor will be unable to meet their payment obligations in full and as agreed, if a D rating (default) applies or if the liability is more than 90 days overdue from the counterparty. If a position has been allocated to levels 2 or 3, it can again be transferred to level 1 or 2 as soon as the criteria for that level have been satisfied.

The value adjustment of a financial instrument is measured using the following parameters: default probability, credit loss ratio and credit exposure at the time of default. As PostFinance has not recorded any bond defaults in the past and invests primarily in highly rated bonds, there are no internal default time series available in order to estimate default probabilities on this basis. For this reason, default probabilities are derived from migration matrices from external sources. These derived probabilities are adjusted periodically based on the expected economic trends. The default probabilities applied in the past financial year were slightly lower than average. The model parameters for the credit loss rate for various types of product are derived from various external sources by means of an expert opinion. A dedicated committee can override the credit loss rate of specific positions if necessary. Credit exposure at the time of default generally corresponds to amortized cost or forecasted amortized cost plus outstanding interest.

Value adjustments are calculated on amounts due from private and business accounts and associated limits on a collective basis. The portfolios used were generated on the basis of the characteristics applied in product management. Receivables are allocated to the first level on initial recognition. They are allocated to levels 2 or 3 when the overdue period defined for the relevant level has been exceeded. The default rate used to determine the calculation of expected loss is calculated using historical data for a switch to level 2 or level 3. On the balance sheet date the previously calculated default probability is verified in order to determine whether an adjustment is needed on the basis of current and forward-looking information. The value adjustment for amounts due from banks is measured based on the default risk of outstanding loans or their credit rating.

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
– Software 5–10 years
– Real estate 10–50 years

Assets associated with the purchase, installation and development of software are capitalized if they are of measurable economic benefit.

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 profit or loss. Gains 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 holders of qualified participations 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 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 has outsourced various services to third parties (mostly to Swiss Post Group companies). Outsourcing relationships exist, notably with Post CH Ltd in payment transactions, financial and IT services and for the e-bill solution. Services in the areas of printing and sending account documents and processing paper-based payment transactions are outsourced to Swiss Post Solutions Ltd. Securities trading for customers is outsourced to Swissquote Bank Ltd.

Accounting changes year-on-year

Since the financial year 2018, the retrospective model of incurred credit loss has been replaced with a forward-looking model of expected credit loss. The new model requires an assessment of how the development of economic factors will influence the need for value adjustments. Historical and future input factors such as default probabilities, credit loss ratios and credit exposure at the time of default are taken into account in particular. An explanation of the model is given in the "Establishing amounts for value adjustments" section on pages 208 to 209. The transition to the new model led to a positive impact on the result of 92 million francs.

Business policy on the use of derivative financial instruments and hedge accounting

PostFinance uses derivative financial instruments exclusively to hedge interest and currency risks.

The bond market in Swiss francs is not sufficient to cover PostFinance's investment requirements. It therefore also invests in foreign currency bonds. As a general rule, two methods are used to hedge foreign currency risks. A proportion of the foreign currency bonds refinanced in Swiss francs are hedged by means of cross-currency interest rate swaps (CCIRS). The advantage of this hedging approach is that the amounts of all future cash flows (coupons, nominal value repayment) in Swiss francs are already known on the date of conclusion of the transaction. However, it rules out the diversification benefits associated with the varying amounts and performance of term spreads of different foreign currency yield curves. To take advantage of this diversification potential and access bond markets on which CCIRS are only available with high illiquidity discounts, the currency risks of certain foreign currency bonds are hedged by means of a currency overlay of rolling short-term foreign exchange forward contracts (FX forwards).

The foreign currency risks arising from mandates are also hedged on a rolling basis using FX forwards.

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. As a rule, interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

Types of hedged items and hedging transactions

PostFinance mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate / interest rate currency swaps).

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 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.

Effectiveness measurement

Hedging is deemed to be highly effective if the following criteria are essentially met:

- Hedging is considered to be highly effective upon its initial recognition (on a prospective basis via regression analysis).
- 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.

Ineffectiveness

If this results in an ineffective portion, this is included in the income statement for the period in question. PostFinance analyses the fair value of the hedged item to determine the ineffectiveness using the hypothetical derivative method. The terms of the hypothetical derivative match the decisive terms of the hedged item and there is a fair value of zero at the beginning of the hedging relationship.

Events after the balance sheet date

The 25 percent participation in SECB Swiss Euro Clearing Bank GmbH was sold as at 31 January 2019.

3 | Risk management

Business model and risk profile

PostFinance operates mainly in the fields of payment transaction services, the receipt of customer deposits, accounts and related services. It also handles customer securities trading, carries out investments in its own name, and manages other financial services on behalf of third parties. On account of its business model, PostFinance Ltd is exposed to the risks shown in the following table. PostFinance Ltd could suffer losses if these risks exacerbate. The specific business risks affecting PostFinance are described and managed using industry-standard tools and methods.

Risk category	Potential loss or negative impact
Financial risks [1]	
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time
– Liquidity risks	Insolvency
– Credit risks	Losses due to the default of counterparties
– Market risks	Losses in fair value to be charged to the ARB income statement
Strategic risks [2]	Losses mainly in terms of non-realized gains due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.
Operational risks [3]	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.

1 Risks from the investment and deposit business and from customer lending business.
2 Events which jeopardize the attainment of strategic goals.
3 The risk of losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events.

Governance and reporting

In formal terms, the business control and monitoring process and entire internal control system comply with the eight-level COSO II framework and “three lines of defence” concept. The COSO II framework incorporates risk management as well as risk control and monitoring. PostFinance also uses the ISO 31000 standard as a guideline.

The PostFinance Board of Directors assesses the company’s overall risk situation on a quarterly basis. Assisted by the Board of Directors’ Risk and Audit & Compliance Committees, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective ICS 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 capacity of PostFinance and the risk appetite of the Board of Directors.

With regard to risk management and control, the Board of Directors’ Audit & Compliance Committee is responsible for monitoring and assessing the efficiency of the ICS and the 2nd line of defence functions entrusted with its implementation. In doing so, it focuses on operational risks (including financial reporting risks). In terms of risk management and control, the Board of Directors’ Risk Committee is in charge of evaluating capital and liquidity planning and of checking whether PostFinance has an appropriate risk management system comprising effective processes. In doing so, it focuses on financial risks and balance sheet controlling

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 throughout the institution meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up directives and guidelines and by establishing limits in individual risk categories and by defining requirements for risk monitoring reports. If limits are exceeded, the relevant official body is informed promptly so that decisions can be made on the measures to be taken. The Executive Board ensures that a consistent approach is adopted when limits are exceeded by defining an escalation process. The Chief Risk Officer is a member of the Executive Board and is responsible for ensuring that Risk Control and all other subordinated control entities perform the tasks entrusted to them.

The business units which represent the 1st line of defence carry out this function by managing risks in day-to-day business and, in particular, by monitoring, controlling and reporting on such risks. The Risk Management department at PostFinance provides support to the Executive Board and to the committees mandated for this purpose, as the non profit-oriented unit of the 1st line of defence 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 Management department submits weekly and monthly reports to the Executive Board on the risk measurement results and the extent to which limits are used. This enables it to decide on the necessary control measures, if any, with regard to financial risks. The monthly reports are also discussed as a standard agenda item in the Board of Directors' Risk Committee meetings.

The units which represent the 2nd line of defence are control entities which are independent of the business units assuring the 1st line of defence. As an independent control entity, the Risk Control department defines appropriate instruments to identify, measure, evaluate and control the financial, strategic and operational risks entered into by PostFinance. It also provides support to risk managers in applying these instruments. As an independent control body, it monitors the risk profile across all risk categories and provides a central overview of the entire risk situation of PostFinance.

The Compliance department provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations, and assists the Executive Board with associated staff training. Compliance is responsible for assessing the compliance risk and reports significant information to the Board of Directors and Executive Board on a regular basis. Security & Shared Services provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations related to security, and assists the Executive Board with associated staff training. Security & Shared Services is responsible for assessing the security risk and reports significant information to the PostFinance Board of Directors and Executive Board on a regular basis.

Risk Control, Compliance, and Security & Shared Services together submit a quarterly report to the Executive Board and Board of Directors which gives a complete picture of the general risk situation. This report contains information about the progression of the risk profile (compliance with risk capacity, risk limits and risk appetite, changes in compliance and security risks), top risks and significant risk-related events, as well as details of the activities of the three units on the 2nd line of defence. Facts of major importance are reported by Risk Control, Compliance, and Security & Shared Services to PostFinance's Board of Directors promptly and on an ad-hoc basis.

As part of the 3rd line of defence, Internal Auditing is responsible for risk monitoring and for overseeing the 1st and 2nd lines of defence. It reports directly to the PostFinance Board of Directors.

Risk measurement methods

Risk category	Potential loss or negative impact	Method of risk description and/or control
Financial risks		
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time	Absolute and relative sensitivity limits for equity Implementation of multi-period dynamic revenue analyses
– Liquidity risks	Insolvency	Compliance with the minimum regulatory requirements for the liquidity coverage ratio (LCR) Holding of cash reserves to cover liquidity requirements in stress situations
– Credit risks	Losses due to the default of counterparties	Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level
– Market risks	Losses in fair value to be charged to the ARB income statement	VaR limits for fair value effects on the income statement
Strategic risks	Losses mainly in terms of non-realized gains due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.	Quantification of gross risk by evaluating the expected loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks.
Operational risks	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.	Quantification of gross risk by evaluating the expected loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks and operational top risks.

PostFinance measures and monitors financial risks both at individual portfolio level and with regard to the overall balance sheet. Risks are limited by means of a multi-dimensional limit system. A variety of methods of differing degrees of complexity are used to measure financial risks. In concrete terms, they include 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). The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

PostFinance uses a range of industry-standard tools to measure and monitor operational and strategic risks. Strategic and operational risks are assessed on the basis of a risk matrix containing both a quantitative and a qualitative dimension. Gross risks and residual risks are evaluated by means of probability of occurrence and extent of loss. Near-losses subject to reporting or losses incurred are recorded in a company-wide loss database. In addition, 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 to obtain a good overview of the company's entire risk situation and to define appropriate measures to mitigate risk. The measures decided on to minimize operational and strategic risks are monitored on a centralized basis by Risk Control. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Stress testing

The Risk Management department regularly carries out an inverse stress test to identify developments which could pose a particular threat to PostFinance. This test identifies scenarios in which a specific measure of risk takes on extremely unfavourable values. The results of the inverse stress tests are discussed by the Executive Board and the Board of Directors on a regular basis.

As well as being used for control purposes, stress tests are also applied in the Risk Control department as a monitoring tool for recognizing significant (new) risks, to determine risk concentrations and to verify the appropriateness of risk appetite in stress situations.

Financial risk management 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 and on the result from interest operations in the income statement resulting mainly from maturity mismatches. 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 maturities of money and capital market investments are determined on the basis of the target present value sensitivity of equity, and used to define the maturity transformation strategy. 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 shifts in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other. The present value sensitivity of equity is measured by the Risk Management department on a weekly basis and reported to the Executive Board. If the present value sensitivity deviates significantly from the level specified by the Executive Board due to short-term shocks, maturity can be controlled on the asset side using swaps.

As at 31 December 2018, the absolute change in the present value of equity with a parallel shift in the yield curve of –100 basis points amounted to –76 million francs (previous year: –29 million francs with a shift in interest of +100 basis points).

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future interest income. In addition, dynamic income simulations are carried out for 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. Dynamic income simulations are carried out by the Risk Management department on a monthly basis. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

Credit risks

PostFinance was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance 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.

The term "credit risk" refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the creditor 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.

To limit the credit risks taken, each year the PostFinance Board of Directors sets a maximum figure not to be exceeded with regard to regulatory minimum capital to cover credit risks. It also determines directives on the investment rating structure, limits potential country risks and delegates responsibility for approving major counterparty limits to the Board of Directors' Risk Committee. New investments are generally only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

In addition to the portfolio limits defined by the Board of Directors, the credit risks associated with investment activities are restricted by the Executive Board by setting counterparty limits and other investment regulations.

Specifications for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems. By means of analyses of balance sheet key figures and early warning indicators, publicly accessible ratings in the limit systems are examined critically and limits derived from them, taking into account the current portfolio. Qualitative criteria are also taken into account in the evaluation for high-risk counterparties. The Risk Management department is responsible for developing and applying internal limit systems. These limit systems are approved and released by the Executive Board at least once a year. Changes in a counterparty's creditworthiness or of relevant key figures result in the immediate adjustment of the directives. Compliance with prescribed limits is monitored on an ongoing basis and is verified by the Treasury department before the closing of each transaction.

The Risk Management department informs the Executive Board of the extent to which limits are used in monthly reports. It submits risk control proposals where limits have been exceeded, resulting from adjustments to counterparty limits.

As an integral part of credit risk management, the limit systems are subjected to regular checks by Risk Control, Internal Auditing and the statutory audit from the mandated auditing company.

Credit risks arising from customer transactions are of secondary importance at PostFinance, and are due to account overdraft limits proposed in connection with payment transaction services, and to the range of credit cards available. The credit risks taken are established and monitored by means of product-specific processes. The Executive Board issues general directives on credit checks and authorizations for approving individual limits.

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. Concentrations of securities received (with the exception of cash collateral) are measured, monitored and reported to the Executive Board on a monthly basis. At the same time, wrong-way risks are assessed and risk control proposals submitted where concentrations have been identified. The recoverable amount of the securities resulting from securities lending transactions undergoes a quarterly stress test.

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. The LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

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.

Market risks

PostFinance does not keep a trading book, and uses the market risk, standardized approach in accordance with art. 86 CAO to determine its minimum capital requirement for market risks. To limit the market risks taken, each year the PostFinance Board of Directors sets a maximum figure not to be exceeded with regard to regulatory minimum capital to cover market risks.

According to PostFinance's business model, market risks are expressed by increased volatility in the income statement in the short term. PostFinance is exposed to market risks for two reasons:
- Open foreign currency items and changes in value arising from foreign currency derivatives affect the volatility of the income statement (foreign currency risks).
- Changes in value of instruments that are recognized according to the principle of the lower of cost or market value or managed in accordance with hedge accounting (including equity positions, fund investments in the banking book, hedged items and the related hedging instruments) also have an effect on the volatility of the income statement.

Market risks are modelled according to value at risk and limited in the income statement by the Board of Directors. To measure market risks, the risk factors that have an impact on the present value of the relevant item are assigned to each item. The change in present value is modelled according to the change in the allocated risk factors. A functional correlation between the item value and the associated risk factors must also be defined. The stochasticity of all relevant risk factors over the next 250 days is determined on the basis of probability distribution assumptions. Corresponding market data time series are used to calibrate the probability distributions. The distribution of changes to the

ARB income statement over a one-year period can be determined with the help of the functional correlation established between risk factors and portfolio items. Value at risk is then determined on the basis of the 95 percent quantile. The Risk Management department measures market risks on a weekly basis. It informs the Executive Board of the extent to which limits are used and submits risk control proposals where necessary.

As at 31 December 2018, ARB value at risk for the income statement stood at 58 million francs (previous year: 66 million francs).

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.

Strategy

The strategy applied throughout the company for responding to operational risks is based on the banking standard and guarantees risk capacity and compliance with regulatory requirements. The tasks, competencies and responsibilities relating to active risk management and transparent reporting are clearly assigned. A good understanding of risk and a risk culture are widespread and well established within PostFinance.

Process and organization

PostFinance operates an operational risk management system that is controlled centrally by the Risk Control department. It is based on the COSO II framework and ISO 31000 standard, as well as taking into account the “three lines of defence” concept. The Risk Control department defines the risk management process for PostFinance and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools (e.g. company-wide loss database) and instruments (e.g. self risk assessment) and acts as an independent interface between line management and the Executive Board and Board of Directors. Each unit has its own decentralized risk manager who is responsible for coordinating its organizational unit and for recording unit losses. The Executive Board and Board of Directors define the top risks at PostFinance across all the risk categories each year on the basis of the principal individual risks periodically identified and by means of regular surveys conducted amongst members of the Executive Board. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

4 | Capital adequacy disclosure in accordance with FINMA Circular 2016/01

According to the decree issued by the SNB on 29 June 2015, PostFinance 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. 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 at 31 December 2018 two disclosures were published: the “Capital adequacy disclosure” and the “Capital adequacy disclosure on grounds of systemic importance”. The “Capital adequacy disclosure on grounds of systemic importance” is a parallel calculation which supplements the “Capital adequacy disclosure”. The different requirements result in deviations, particularly with regard to eligible equity capital and capital ratios. The specified documents are published at postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2017	31.12.2018
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	24	21
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	–	–
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	3,046	4,394
with unrestricted right to resell or pledge	3,046	4,394
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	3,523	4,925
of which, repledged securities	–	–
of which, resold securities	–	–

6 | Collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

Presentation of collateral for loans / receivables

as at 31.12.2018 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		–	33	11,655	11,688
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2018**	**0**	**33**	**11,655**	**11,688**
	31.12.2017	0	16	12,195	12,211
Total loans (after netting with value adjustments)	**31.12.2018**	**0**	**33**	**11,643**	**11,676**
	31.12.2017	0	16	12,157	12,173

Presentation of collateral for off-balance-sheet transactions

as at 31.12.2018 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	47	41	88
Irrevocable commitments		–	–	723	723
Total off-balance sheet	**31.12.2018**	**–**	**47**	**764**	**811**
	31.12.2017	–	31	724	755

PostFinance discloses payment obligations for depositor protection in irrevocable commitments.

Impaired loans / receivables

CHF million	31.12.2017	31.12.2018
Gross debt amount	1	5
Net debt amount	1	5
Individual value adjustments	1	5

7 | Derivative financial instruments and hedge accounting

Derivatives received by PostFinance on behalf of customers are disclosed as trading instruments in the overview below.

Presentation of derivative financial instruments (assets and liabilities)

as at 31.12.2018 CHF million		Trading instruments: Positive replacement values	Trading instruments: Negative replacement values	Trading instruments: Contract volume	Hedging instruments: Positive replacement values	Hedging instruments: Negative replacement values	Hedging instruments: Contract volume
Interest rate instruments							
Forward contracts including FRAs		–	–	–	0	–	13
Swaps		–	–	–	–	102	2,559
Foreign exchange / precious metals							
Forward contracts		4	5	788	30	5	3,936
Cross-currency interest rate swaps		–	–	–	68	366	8,413
Equity securities / indices							
Options (exchange-traded)		–	–	0	–	–	–
Total before netting agreements as at	**31.12.2018**	**4**	**5**	**788**	**98**	**473**	**14,921**
of which, determined using a valuation model		4	5		98	473	
	31.12.2017	4	4	559	39	724	12,967
of which, determined using a valuation model		4	4		39	724	
Total after netting agreements as at	**31.12.2018**	**4**	**5**	**788**	**98**	**473**	**14,921**
	31.12.2017	4	4	559	39	724	12,967

Breakdown by counterparty

as at 31.12.2018 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	98	4

Cash flow hedges

PostFinance uses cash flow hedge accounting to hedge the volatility of cash flows from interest-bearing instruments that can be predicted with a high degree of probability. Cash flow hedge accounting is used in particular to hedge fixed income instruments in foreign currencies via cross-currency interest rate swaps (in EUR, USD, GBP and JPY).

Contract volumes of cash flow hedges

CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
					Term to maturity
31.12.2017					
Currency risk					
Cross-currency swaps	7,831	–	–	3,049	4,782
Other					
Completed non-settled transactions	25	25	–	–	–
31.12.2018					
Currency risk [1]					
Cross-currency swaps	8,413	–	303	4,743	3,367
Other					
Completed non-settled transactions	13	13	–	–	–

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

On 1 January 2018 the hedging reserves in other assets/liabilities stood at 165 million francs. The overall fair value changes of the hedging instruments are included in the hedging reserves directly in equity in other assets/liabilities. Subsequently, the net interest accrued and paid/received (5 million francs) and the foreign currency share (248 million francs of gains) are transferred to the income statement (recycled in the result from trading activities and the fair value option). Thus the residual fair value change of the hedging instruments remains in the hedging reserves in other assets/liabilities.

Changes in hedging instruments

CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Change in fair value of hedging instrument in the reporting period, recorded in other assets/liabilities	Ineffectiveness recorded in the income statement	Net amount reclassified from other assets/liabilities to the income statement [1]
31.12.2018						
Currency risk						
Cross-currency swaps	68	366	287	287	–	–244
Other						
Completed non-settled transactions	0	–	–0	–0	–	–0

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option. Reclassifications from other assets and liabilities are carried out in the result from trading activities and the fair value option (fair value change).

In the course of the reporting period, the following effects arose from designated hedged items (item in the balance sheet: financial investments):

Effects of hedged items in cash flow hedging CHF million	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Hedging reserves in other assets/liabilities
31.12.2018		
Currency risk		
Debt securities intended to be held to maturity	–287	–123

The hedging reserves in other assets/liabilities underwent the following change in the reporting period:

Hedging reserves in other assets/liabilities CHF million	2018 Hedging reserves – unrealized gains/losses from cash flow hedge
Balance at 1 January	**–165**
Change in fair value of hedging instrument	
Currency risk	286
Other	–0
Net amount reclassified from cash flow hedging reserve to income statement	
Currency risk	–244
Balance at 31 December	**–123**

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

Cash flows (not discounted)	Term to maturity			
CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2017				
Cash inflows	12	29	153	60
Cash outflows	–37	–97	–489	–187
31.12.2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in value of interest-sensitive assets and assets exposed to foreign currency risks. Fair value hedge accounting is used in particular to hedge fixed income instruments via interest rate swaps. Hedging transactions are carried out for the currencies EUR, USD, GBP and JPY.

Contract volumes for fair value hedges

		Term to maturity			
CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2017					
Currency risk					
Foreign exchange forward contracts	1,222	1,222	–	–	–
Cross-currency swaps	–	–	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,125	269	–	1,466	390
31.12.2018					
Currency risk					
Foreign exchange forward contracts	–	–	–	–	–
Cross-currency swaps	–	–	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

Net income from fair value hedges

CHF million	2017	2018
Fair value hedges for interest rate risks		
Gain / (loss) on hedging instrument	37	–7
Gain / (loss) on hedged activities or those which are allocated to the hedged risk	–37	7
Net gain / (loss) corresponding to the ineffective share of the fair value hedges	**–**	**–**
Fair value hedges for foreign currency risks		
Gain / (loss) on hedging instrument	53	–
Gain / (loss) on hedged activities or those which are allocated to the hedged risk	–43	–
Net gain / (loss) corresponding to the ineffective share of the fair value hedges	**10**	**–**

In the course of the reporting period, the following amounts arose from designated hedged items (item in the balance sheet: financial investments, amounts due from banks, amounts due from customers):

Change in fair value hedge CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Ineffectiveness recorded in income statement [1]
31.12.2018				
Currency risk				
Foreign exchange forward contracts	–	–	–	–
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option.

Effects of hedged items from fair value hedging CHF million	Book value of hedged item	Accumulated expenses or income from fair value hedge adjustments that were recorded in the book value of the hedged item	Change in fair value which was used for disclosure of ineffectiveness in the reporting period
31.12.2018			
Interest rate and currency risk			
Debt securities intended to be held to maturity	1,494	36	11
Amounts due from customers and banks	1,160	50	–4

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
CHF million	31.12.2017	31.12.2018 [1]	31.12.2017	31.12.2018
Debt securities	61,614	61,454	63,238	62,268
of which, intended to be held to maturity	61,614	61,454	63,238	62,268
Equity securities	1,205	1,093	1,222	1,107
Total	**62,819**	**62,547**	**64,460**	**63,375**
of which, securities eligible for repo transactions in accordance with liquidity requirements	42,657	24,494	–	–

1 The securities eligible for repos correspond to the SNB GC Basket.

Breakdown of counterparties by rating [1] as at 31.12.2018 CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	40,826	12,487	5,924	145	–	2,071

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

CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2017	Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2018	Market value 31.12.2018
				2018						
Participations										
with market value	46	–	46	–	–	0	–	–	46	65
without market value	125	–49	76	–	13	0	–11	–	78	–
Total participations	**171**	**–49**	**122**	**–**	**13**	**0**	**–11**	**–**	**124**	**65**

10 | Significant participations

Non-consolidated significant participations

CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes[1] 31.12.2017	31.12.2018
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	100.00%	100.00%
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	12,750,000	33.33%	26.66%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	33.33%	26.66%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	20.39%	26.17%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	20.39%	26.17%
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%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	306,493	30.01%	23.93%

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 increase total assets by 20 million francs (previous year: 26 million francs) and to reduce profit for the year by 13 million francs (previous year: 14 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2017	2018 Reclassi-fications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2018
Bank buildings	195	–39	156	34	1	0	–10	–	181
Other real estate	1,013	–158	855	–34	33	–3	–34	–	817
Proprietary or separately acquired software	217	–36	181	–	14	–	–20	–	175
Other tangible fixed assets	82	–51	31	–	7	0	–11	–	27
Total tangible fixed assets	**1,507**	**–284**	**1,223**	**–**	**55**	**–3**	**–75**	**–**	**1,200**

Future lease obligations under operating leases

CHF million	2019	2020	2021	2022	2023	2024	Total
Future lease payments	16	16	1	0	0	0	**33**
of which cancellable within a year	1	0	0	0	0	0	**1**

12 | Intangible assets

Presentation of intangible assets

CHF million	Cost value	Accumulated amortization	Book value 31.12.2017	2018 Additions	Disposals	Amortization	Book value 31.12.2018
Goodwill	2,000	–1,000	1,000	–	–	–200	800
Total intangible assets	**2,000**	**–1,000**	**1,000**	**–**	**–**	**–200**	**800**

13 | Other assets and other liabilities

Breakdown of other assets and other liabilities

CHF million	31.12.2017 Other assets	31.12.2018 Other assets	31.12.2017 Other liabilities	31.12.2018 Other liabilities
Compensation account	244	208	–	–
Indirect taxes	122	106	5	4
Other assets and liabilities	8	7	1	1
Total other assets and other liabilities	**374**	**321**	**6**	**5**

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 ownership [1]

CHF million	31.12.2017	31.12.2018
Book value of assets pledged and assigned as collateral	63	63
Effective commitments	–	–

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 40,227 active insured people and 29,968 pensioners (as at 31 October 2018), the Swiss Post pension fund had total assets of 16,083 million francs as at 31 December 2018 (previous year: 16,797 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 101.9 percent (previous year: 105.8 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 553 million francs, of which 550 million francs with a waiver of use (previous year: 1,051 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 1.75 percent (previous year: 2.25 percent) and the technical basis of BVG 2015 (previous year: BVG 2015) 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 2018. 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	
CHF million	31.12.2018	31.12.2017	31.12.2018	2018	2018	31.12.2017	31.12.2018
Swiss Post pension fund	15	–	–	–	37	53	37
Staff vouchers	–6	–7	–6	–1	0	0	–1
Disability pensions	–1	–1	–1	0	0	1	0
Total ARR 16	**8**	**–8**	**–7**	**–1**	**37**	**54**	**36**

The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance Ltd'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	
CHF million	31.12.2018	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Swiss Post pension fund	35	–35	1	0	0	1
Total ARR 16	**35**	**–35**	**1**	**0**	**0**	**1**

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 31.12.2017	Use in conformity with designated purpose[1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2018
Provisions for pension benefit obligations	8	–	–	–	–	–1	7
Provisions for restructuring	14	–3	–	–	17	–4	24
Other provisions	23	–2	–	–	4	–2	23
Total provisions	**45**	**–5**	**–**	**–**	**21**	**–7**	**54**
Reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks	**206**	**–**	**–**	**–**	**15**	**–92**	**129**
of which, value adjustments for default risks in respect of impaired loans/receivables	98	–	–	–	15	–1	112
of which, value adjustments for latent risks	108	–	–	–	–	–91	17

1 There were no changes in purpose.

17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital CHF million, number in million	31.12.2017 Total par value	No. of shares	Capital eligible for dividend	31.12.2018 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 31.12.2017	31.12.2018	Amounts due to 31.12.2017	31.12.2018
Holders of qualified participations	1,474	1,110	711	779
Group companies	–	0	2	1
Linked companies	19	12	591	422
Transactions with members of governing bodies	0	0	7	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	31.12.2017 Nominal	% of equity	31.12.2018 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)

as at 31.12.2018 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Liquid assets		37,201	–	–	–	–	–	–	37,201
Amounts due from banks		414	–	100	786	1,492	1,803	–	4,595
Amounts due from securities financing transactions		–	–	21	–	–	–	–	21
Amounts due from customers		535	3	384	605	4,268	5,882	–	11,676
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		102	–	–	–	–	–	–	102
Financial investments		1,093	–	1,721	6,529	29,968	23,236	–	62,547
Total	**31.12.2018**	**39,344**	**3**	**2,227**	**7,919**	**35,728**	**30,921**	**–**	**116,142**
	31.12.2017	40,713	4	3,511	7,750	34,947	31,433	–	118,358

Presentation of the maturity structure of financial instruments (debt capital / financial instruments)

as at 31.12.2018 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Amounts due to banks		1,095	–	–	–	–	–	–	1,095
Liabilities from securities financing transactions		–	–	–	–	–	–	–	–
Amounts due in respect of customer deposits		71,362	39,129	9	2	–	–	–	110,501
Negative replacement values of derivative financial instruments		478	–	–	–	–	–	–	478
Cash bonds		–	–	2	6	68	4	–	80
Total	**31.12.2018**	**72,935**	**39,129**	**11**	**8**	**68**	**4**	**–**	**112,154**
	31.12.2017	72,707	41,852	6	11	73	7	–	114,656

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		31.12.2017		31.12.2018
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	38,475	1	37,198	3
Amounts due from banks	4,250	573	4,281	314
Amounts due from securities financing transactions	24	–	21	–
Amounts due from customers	12,164	9	11,659	17
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	9	34	38	64
Financial investments	30,865	31,954	31,498	31,049
Accrued income and prepaid expenses	331	225	282	186
Participations	95	27	101	23
Tangible fixed assets	1,223	–	1,200	–
Intangible assets	1,000	–	800	–
Other assets	374	0	321	0
Total assets	**88,810**	**32,823**	**87,399**	**31,656**
Liabilities				
Amounts due to banks	483	60	1,012	83
Liabilities from securities financing transactions	–	–	–	–
Amounts due in respect of customer deposits	109,518	3,774	106,408	4,093
Negative replacement values of derivative financial instruments	145	583	125	353
Cash bonds	92	1	79	1
Accrued expenses and deferred income	108	0	94	0
Other liabilities	6	–	5	–
Provisions	45	–	54	–
Bank’s capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit	136	–	66	–
Total liabilities	**117,215**	**4,418**	**114,525**	**4,530**

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2017		31.12.2018	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	88,810	73.01	87,399	73.41
Europe	18,100	14.88	15,181	12.75
North America	7,330	6.03	8,457	7.10
Other countries	7,393	6.08	8,018	6.74
Total assets	**121,633**	**100.00**	**119,055**	**100.00**

23 | Assets by credit rating of country groups

Breakdown of total assets by credit rating of country groups (risk domicile view)	Net foreign exposure 31.12.2017		Net foreign exposure 31.12.2018	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	16,166	48.91	15,917	50.33
Aa	11,400	34.49	10,377	32.82
A	4,282	12.96	4,227	13.37
Baa	377	1.14	283	0.89
Ba	217	0.66	116	0.37
B	200	0.60	292	0.92
Caa	319	0.97	319	1.01
No rating	91	0.27	91	0.29
Total	**33,052**	**100.00**	**31,622**	**100.00**

24 | Assets and liabilities by currency

Presentation of assets and liabilities broken down by the most significant currencies for the bank

as at 31.12.2018 CHF million	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	37,078	123	–	–	–	–	37,201
Amounts due from banks	4,546	31	4	0	10	4	4,595
Amounts due from securities financing transactions	–	–	–	21	–	–	21
Amounts due from customers	11,648	25	3	0	0	0	11,676
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	102	–	–	–	–	–	102
Financial investments	47,577	10,579	4,097	–	–	294	62,547
Accrued income and prepaid expenses	370	70	25	0	0	3	468
Participations	101	5	18	–	–	0	124
Tangible fixed assets	1,200	–	–	–	–	–	1,200
Intangible assets	800	–	–	–	–	–	800
Other assets	321	0	–	–	–	0	321
Total assets shown in balance sheet	**103,743**	**10,833**	**4,147**	**21**	**10**	**301**	**119,055**
Delivery entitlements from spot exchange, forward forex and forex options transactions	12,613	346	110	31	0	37	13,137
Total assets	**116,356**	**11,179**	**4,257**	**52**	**10**	**338**	**132,192**
Liabilities							
Amounts due to banks	1,086	8	1	0	0	0	1,095
Amounts due in respect of customer deposits	107,523	2,486	398	46	10	38	110,501
Negative replacement values of derivative financial instruments	478	–	–	–	–	–	478
Cash bonds	78	2	–	–	–	–	80
Accrued expenses and deferred income	94	0	0	0	–	0	94
Other liabilities	5	0	0	–	–	0	5
Provisions	54	–	–	–	–	–	54
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit	66	–	–	–	–	–	66
Total liabilities shown in the balance sheet	**116,066**	**2,496**	**399**	**46**	**10**	**38**	**119,055**
Delivery obligations from spot exchange, forward forex and forex options transactions	518	8,610	3,859	6	0	296	13,289
Total liabilities	**116,584**	**11,106**	**4,258**	**52**	**10**	**334**	**132,344**
Net position per currency 31.12.2018	**–228**	**73**	**–1**	**0**	**0**	**4**	**–152**
Net position per currency 31.12.2017	–509	67	14	0	0	2	–426

Information on off-balance sheet transactions

25 | Contingent assets and liabilities

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2017	31.12.2018
Guarantees to secure credits and similar	31	87
Other contingent liabilities	2	1
Total contingent liabilities	**33**	**88**

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.

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. There is also a binding, irrevocable declaration from Swiss Post Ltd for the granting of a hybrid loan with contingent debt waiver (AT1 instrument) of 136 million francs.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2017	31.12.2018
Type of managed assets:		
Other managed assets	46,305	43,656
Total managed assets [1]	**46,305**	**43,656**
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	31.12.2017	31.12.2018
Total managed assets (including double counting) at beginning	**45,845**	**46,305**
+/– net new money inflow or net new money outflow [1]	–714	–2,024
+/– price gains / losses, interest, dividends and currency gains / losses	1,174	–625
+/– other effects	0	–
Total managed assets (including double counting) at end	**46,305**	**43,656**

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.

Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2017	2018
Payment transactions and financial investments	211	229
Hedge accounting	2	0
Proprietary trading	9	– 1
Total result from trading activities	**222**	**228**

Breakdown by risk and based on the use of the fair value option

CHF million	2017	2018
Result from trading activities from:		
Interest rate instruments	– 1	1
Equity securities	– 1	0
Foreign currencies	224	227
Total result from trading activities	**222**	**228**

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 is subject to a customer asset fee. PostFinance also charges a customer asset fee for private customers' assets that exceed a defined threshold value.

Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

CHF million	2017	2018
Negative interest on the lending business offset against interest and discount income	– 6	– 16
Negative interest on the borrowing business offset against interest expense	37	47

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2017	2018
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	388	386
Social insurance benefits	90	72
Changes in book value for economic benefits and obligations arising from pension schemes	0	–
Other personnel expenses	34	20
Total personnel expenses	**512**	**478**

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2017	2018
Office space expenses	42	40
Expenses for information and communications technology	197	219
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	27	18
Fees of audit firm(s) (Art. 961a no. 2 CO)	3	2
of which, for financial and regulatory audits	3	2
of which, for other services	0	0
Other operating expenses	285	287
Total general and administrative expenses	**554**	**566**

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2017	2018
Losses from disposal of participations	–	0
Total extraordinary expenses	**–**	**0**

Extraordinary income

CHF million	2017	2018
Reversals of impairment	10	–
Gains from disposal of participations	0	0
Total extraordinary income	**10**	**0**

32 | Taxes

Current and deferred taxes

CHF million	2017	2018
Expenses for current capital and income taxes	41	21
Total taxes	**41**	**21**

As in the previous year, a tax rate of 20.5 percent was used for calculating corporate income tax.

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 200 to 238) for the year ended 31 December 2018.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view 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 2018 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, 22 February 2019

Reporting

Annual reporting structure

The Swiss Post annual reporting documents for 2018 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
– Annual Report key figures
– Sustainability Report (report in accordance with the Global Reporting Initiative guidelines)

These documents are available in electronic format in the online version of the Annual Report at www.swisspost.ch/annualreport. The Swiss Post Annual Report and the PostFinance Ltd Annual 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.

Ordering

The Swiss Post Annual Report can be ordered at www.swisspost.ch/order-annualreport. Swiss Post employees may order copies through the usual channels.

Publication details

Publisher and point of contact
Swiss Post Ltd
Wankdorfallee 4
P.O. Box
3030 Berne
Switzerland

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

Text
Swiss Post Finance, Berne
Swiss Post Strategy & Transformation, Berne

Diagrams
Swiss Post Finance, Berne
Dr Andreas Sturm, Sturm Consulting, Riehen

Photographs
Marc Wetli, Zurich

Design and typesetting
Ilona Troxler, Walter Stähli and Franck Schirmer, phorbis Communications AG, Basel

Proofreading and translations
Swiss Post Language Services, Berne

Printer
Stämpfli AG, Berne

ISSN number 1661-9501

About the paper:
This Financial Report was produced carbon-neutrally on 100% FSC®-certified recycled paper without optical brightening agents. RecyStar Polar paper is certified with the Blue Angel eco-label for particularly environmentally friendly products (www.blauer-engel.de). It also has the EU Ecolabel (www.ecolabel.eu) and is FSC®-certified (www.fsc.org).

PERFORMANCE myclimate neutral Printed Matter
No. 01-19-937637 – www.myclimate.org
© myclimate – The Climate Protection Partnership

FSC www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C005019

Five-year overview of key figures

		2014	2015	2016	2017	2018
Result [5]						
Operating income	CHF million	8,371	8,224	8,188	8,064 [1]	7,691
Generated in competition	% of operating income	85.7	85.1	85.8	85.7	85.6
Generated abroad and crossborder	% of operating income	14.6	14.0	13.7	14.3	15.5
Operating profit	CHF million	803	823	704	718 [1]	501
Generated in competition	% of operating profit	85.5	87.0	93.5	86.7	72.3
Generated abroad and crossborder	% of operating profit	9.0	6.9	9.1	11.4	16.4
Group profit	CHF million	638	645	558	527 [1]	405
Equity	CHF million	5,010	4,385	4,744	6,583	6,732
Value generation [5]						
Economic value added	CHF million	207	169	122	102	–28
Added value generated	CHF million	5,220	5,193	5,145	5,143	4,686
to employees	CHF million	4,108	4,074	4,034	3,989	3,866
to creditors	CHF million	57	69	64	48	49
to public sector	CHF million	79	94	118	63	43
to owner	CHF million	200	200	200	200	200
to company	CHF million	776	756	729	843	528
Jobs						
Headcount (excluding trainees)	Full-time equivalents	44,681	44,131	43,485	42,316	41,632
Trainees in Switzerland	Persons	2,035	2,077	2,118	2,115	2,001
Jobs in peripheral regions	Persons	19,106	18,633	18,176	17,640	16,765
Turnover rate (voluntary departures)	As % of average headcount	4.1	3.8	4.0	4.8	5.5
Notice given by employer for economic reasons	Persons	168	78	84	161	152
Employment conditions and remuneration (CH and LI)						
Employment in accordance with CEC	Full-time equivalents as %	89.9	89.6	85.6	85.6	85.2
Swiss Post CEC minimum salary	CHF per annum	47,620	47,620	47,620	47,620	47,620
Average salary for employees	CHF per annum	83,039	83,472	82,231	83,178	83,383
Average remuneration paid to members of Executive Management	CHF per annum	477,719	591,574	588,377	559,044	588,916
Salary bandwidth [2]	Factor	5.8	7.1	7.2	6.7	7.1
Health management						
Occupational accidents	Number per 100 FTEs	5.9	6.1	5.9	6.5	5.5
Days lost to illness and accidents	Days per employee	11.8	12.4	12.5	12.9	12.1
Diversity						
Women	% of employees	48.7	48.4	48.1	47.5	46.3
Nationalities represented	Number	142	142	143	140	138
Women on Board of Directors	%	33.3	33.3	33.3	33.3	33.3
Women in Executive Management	%	12.5	12.1	11.1	20.5	22.9
Women in senior management roles	%	11.0	12.3	12.3	13.4	16.0
Women in middle and lower management roles	%	23.6	23.4	24.2	23.9	23.2
Demographics						
Average age of workforce	Years	45.1	45.3	45.6	46.0	46.1
Resource consumption						
Energy consumption	GWh	1,456	1,458	1,491	1,453	1,479
Energy consumption within Swiss Post	GWh	894	890	905	887	902
Renewable share	%	20.3	20.0	19.3	19.6	20.4
Energy consumption outside Swiss Post	GWh	561	568	586	567	578
Carbon footprint (scope 1–3) [4]						
Carbon footprint	t CO_2 equivalent	442,202	440,728	446,151	436,550	439,955
CO_2 efficiency increase since 2010 [3]	%	12.1	13.7	16.5	19.6	20.4

1 Normalized figure. See the section "One-off item in 2017 – non-recurring in 2018" on page 37 of the Financial Report.
2 Factor = average remuneration paid to Members of Executive Management vs. average employee salary.
3 The rise in CO_2 efficiency is measured as the change in CO_2 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.).
4 The prior-year figures for CO_2 have been adjusted based on updated emission factors.
5 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes)

071.44.1 en (238269) 03.2019

Swiss Post Ltd
Wankdorfallee 4
P.O. Box
3030 Berne
Switzerland

Tel. +41 58 338 11 11
www.swisspost.ch