

Management report

Swiss Post operates in the communication, logistics, financial services and passenger transport markets. It generates around 86 percent of its sales in competition. The remaining 14 percent is generated by the monopoly on letters weighing less than 50 grams. Here, Swiss Post faces direct competition from electronic services. 85 percent of sales are generated in Switzerland.

Comprehensive coverage of customer requirements

Business activities

Markets, solutions, services and innovation

Swiss Post operates in the communication, logistics, financial services and passenger transport markets. In each market, it offers solutions, products and services that meet the fundamental needs of business and private customers.

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

Services provided for private customers include letters, parcels, courier and express deliveries, financial services (payments, savings, investments, retirement planning and financing) and passenger transport services. Swiss Post also offers a customer-focused range of third-party products across 1,562 post offices.

The services offered to business customers are structured partly as solutions along the e-commerce value chain and partly as specific products and services in the four markets.

Communication market

Letters

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

Direct marketing

Addressed and unaddressed promotional mailings in Switzerland and abroad, customized direct marketing solutions and additional solutions, address management and response management.

Print media

National and international distribution of subscription newspapers and magazines, daily newspapers, monthly magazines and periodicals, and local and regional newspapers. Early-morning and special deliveries, publishing logistics, subscription management, lettershop tasks and newsstand distribution.

Document solutions

Operation of internal post offices and processing centers for incoming mail, as well as call and printing centers. Complete processing of incoming mail such as requests, orders, invoices, complaints, loss reports and payment transaction documents. Secure electronic delivery of business mail.

Logistics market

Parcels (national/international)

Customized logistics solutions for sending parcels within Switzerland and abroad. Combination of physical logistics with integrated IT solutions and recipient services. International document and goods shipments in around 200 countries with value-added services such as customs clearance and Track & Trace for consignment tracking.

Freight and warehousing

National and international freight and contract logistics from a single source with value-added services such as cross-docking and combined road and rail transport. Central warehousing locations and storage systems for all kinds of items.

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E-commerce

Complete portfolio of services covering the full e-commerce value chain from online shops and ordering through to delivery. The YellowCube logistics solution covers the entire logistics system, from storage, assembly and packing parcels, through to dispatch and returns management.

Innight/Express/Courier

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

Financial services market

PostFinance is one of Switzerland's leading financial service providers. Payment transactions and savings represent its core business. In payment transactions, it offers its private and business customers products and services for physical and electronic transactions at both national and international level. It provides comprehensive savings models. PostFinance also has a range of simple services for investments, retirement planning and financing.

Passenger transport market

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

Development & Innovation

"Development & Innovation" is the name of the new unit Swiss Post has established to combine and expand its innovation activities. Its task is to support innovation in the core markets as well as to identify new business ideas and develop them into a business area. The unit draws on the innovative capacity of around 63,000 employees, connects units within Swiss Post and drives forward Group-wide projects.

Geographical segmentation

Swiss Post operates in 27 countries. In Europe, North America and Asia, it is represented by subsidiaries, franchise or cooperation partners and sales agents, depending on local requirements (see figure on page opposite). Cooperation with partners abroad gives it access to their global logistics networks. PostBus operates several bus networks in France through around a dozen subsidiaries, as well as the entire regional transport network in Liechtenstein. Domestic business accounts for 85 percent of sales, with 15 percent generated abroad.

Present in Switzerland and selected countries abroad

Swiss Post abroad

2014

	US	CA	IE	UK	BE	LU	NL	DK	FL	DE	NO	SE	PL	FI
International letters	■ ²			■ ²	■ ²		■ ²	■ ²		■ ²	■ ²	■ ²		■ ²
Passenger transport									■					
Document solutions	■	■	■	■	■	■	■		■	■		■ ¹	■ ¹	

	PT	ES	FR	IT	AT	SK	AE	SG	VN	HK	AU	CN	NZ
International letters	■ ²	■		■ ²	■ ²			■ ²		■ ²		■	
Passenger transport			■										
Document solutions	■ ¹	■	■	■	■	■	■ ¹	■	■	■	■ ¹		■ ¹

1 Partners

2 Countries in which joint venture Asendia companies operate

Unique sales network with customer-centered access points

Customer access points in Switzerland

The distribution network in Switzerland is one of the most efficient, dense and diversified networks in the world. It covers the communication, logistics, financial services and passenger transport markets.

Swiss Post offers its customers a large number of access options with personal contact across Switzerland with 1,562 post offices, 660 agencies and 1,278 home delivery services. There is also a network of 43 PostFinance branches and 58 consulting offices where customers can speak to staff in person about financial services. 168 PostFinance employees advise small and medium-sized business customers directly at their premises. In the passenger transport market, PostBus passengers are looked after personally by drivers in around 2,200 vehicles.

Customers can access 985 Postomats, almost 15,000 letter boxes and around 231,400 P.O. Boxes throughout Switzerland around the clock. In addition, Swiss Post is building up a network of parcel terminals where customers can collect and drop off parcels at any time. With PickPost, recipients can choose to collect parcels and registered letters at over 700 post offices, petrol stations and train stations well after normal post office opening hours. More than 46 acceptance points with a direct link to letter or parcel processing and 375 suitably equipped post office counters are available to meet the specific requirements of business customers.

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Swiss Post is continuing to develop its sales network to meet the changing needs of its customers. It serves each customer through the access points and sales channels that best match their usage behaviour. Swiss Post can be found at attractive locations with agencies that have extended opening hours. Meanwhile, the company's home delivery service allows the public to carry out postal transactions on their doorstep. With pick@home, private customers can manage individual collection options for returns. In areas with many companies, Swiss Post now offers needs-based business customer solutions for mailing parcels and letters. In larger municipalities, Swiss Post concentrates on needs-based solutions such as traditional and redesigned post offices and/or agencies.

Beyond that, private and business customers can access the world of Swiss Post online (at www.swisspost.ch, www.postshop.ch, www.postfinance.ch and www.postbus.ch) and via mobile applications (Post-App, PostFinance App and PostBus App). Many customers also take advantage of social networks to communicate with Swiss Post.

For more information on developments in the network and universal service, see pages 24–25 of the Annual Report.

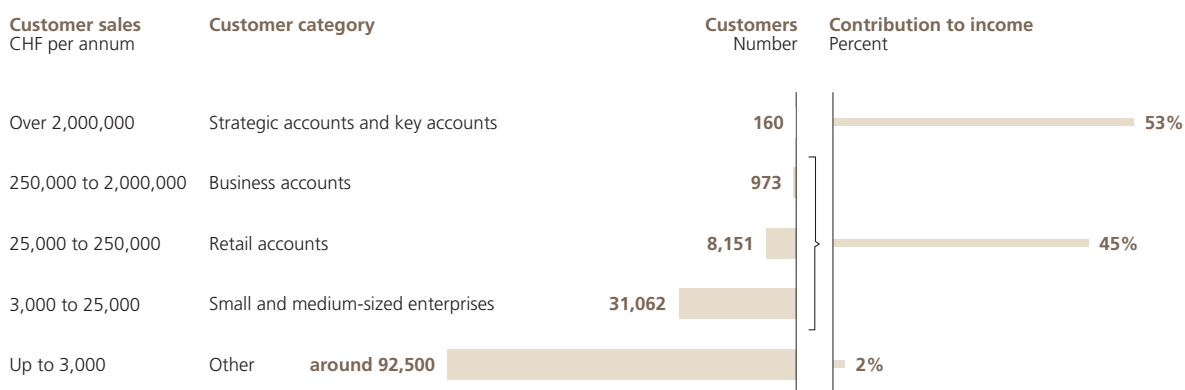
In the passenger transport market, PostBus offers 869 PostBus routes in Switzerland, covering 11,869 kilometres and 11,368 stops in the public transport network, as well as tourist routes and ScolaCar school buses. It also operates the PubliBike bike sharing service, providing 1,100 bikes at 122 stations.

Customers

Swiss Post's communication and logistics customer base comprises several million individuals and around 133,000 companies ranging from small businesses to large multinationals. Most of Swiss Post's logistics income stems from its business customers. Its 160 key accounts are particularly important, generating around 53 percent of business customer income. The Group's business customers also include 973 business accounts with annual sales of between 250,000 and 2 million francs, 8,151 retail accounts (annual sales of 25,000–250,000 francs) and 31,062 small and medium-sized enterprises (SMEs, annual sales of 3,000–25,000 francs). The remaining 92,500 or so business customers in the communication and logistics market are micro-enterprises with sales of up to 3,000 francs.

Key accounts generate 53 percent of logistics income

Communication and logistics markets | Income with business customers
2014, Customer structure and contribution to income



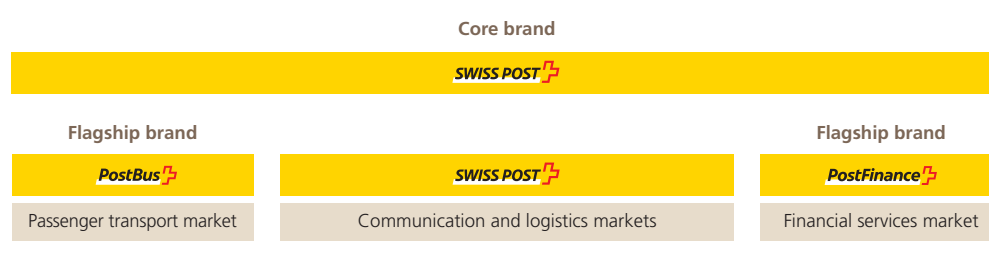
PostFinance's customer base in the financial services market is similar. At year-end, 2.6 million private customers and 309,000 business customers (including 669 banks) maintained a business relationship with PostFinance.

Brands

As one of the best-known brands in Switzerland, Swiss Post is very popular with customers. Thanks to the postal business, its core values “reliable”, “value-enhancing” and “sustainable” are firmly established with the Swiss population and business customers.

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

Brands and markets



Swiss Post has succeeded in strengthening its brand by building on its established core values to add the characteristics “innovative”, “dynamic” and “flexible”. It presented the company in all its diverse fields of activity during the “That’s Swiss Post too.” integrated positioning campaign with an emphasis on business customers. TV ads, advertisements, billboards and online formats feature objects depicted in yellow to show that Swiss Post is a professional partner in the most unexpected areas. The campaign was successfully launched in January 2014.

A test carried out after the initial wave of the campaign confirmed that the set targets were being met. The campaign is attracting considerable interest, has an emotional appeal and conveys the key messages in a convincing manner. As a result of its national positioning campaign, in 2014 Swiss Post laid an important basis for communication on which to build in years to come. This also provides a new focus for other Group communication tools such as the sponsoring commitment of the core brand and appearances at trade fairs nationwide.

The new claim “Yellow in motion” was introduced at core-brand level in 2014 to accompany the positioning campaign. This claim highlights Swiss Post’s desire to achieve something for its stakeholders and to create genuine added value for the Swiss population and economy by providing innovative services. Swiss Post wants to make it easier for customers to operate in today’s complex environment, giving them greater scope to succeed.

The characteristics innovation, dynamism and flexibility require further active positioning in order to achieve the desired brand positioning consistent with the strategic thrusts and the new vision of Swiss Post. The most recent reputation measurement shows that Swiss Post remains the market leader in its core business, achieving a recognition value of 95 percent. Its scores in terms of “affinity”, “friendliness” and “professionalism” are also at a persistently high level. The Swiss population and companies nonetheless associate Swiss Post primarily with letter and parcel services and the characteristic “reliability”, and only to a lesser extent with the values “innovative”, “dynamic” and “flexible”. Around 80 percent of those questioned are still unfamiliar with the new skills and services offered to connect the physical and digital worlds and therefore do not credit Swiss Post with sufficient professionalism in these areas.

The people surveyed who are already familiar or very familiar with these new skills and products perceive Swiss Post as a dynamic, flexible and innovative company and award Swiss Post significantly higher marks in a number of key areas than the users of the traditional core business. This result high-

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lights the strategic importance of the new, physical-digital services from a business perspective and illustrates their potential to strengthen the core brand and market position of Swiss Post.

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

Sustainability

Sustainability contributes to economic value added for Swiss Post.

Swiss Post creates added value in all four markets through sustainable management of the company and provides its services in the most environmentally friendly way possible. It achieves this with energy-efficient buildings and vehicles, optimized logistics processes, innovative alternative technologies and the use of renewable energy. Swiss Post also enables its customers to act sustainably by offering products such as the carbon-neutral “pro clima” – Shipment service.

Swiss Post is aware of its social responsibility as the third-largest employer in Switzerland, and takes its role as a progressive employer seriously. It encourages its employees to participate in basic and advanced training and helps its staff remain healthy. It constantly offers around 800 apprentices the chance to start a career. It also does its bit for society by proposing jobs in rural areas and taking responsibility for its supply chain.

Organization

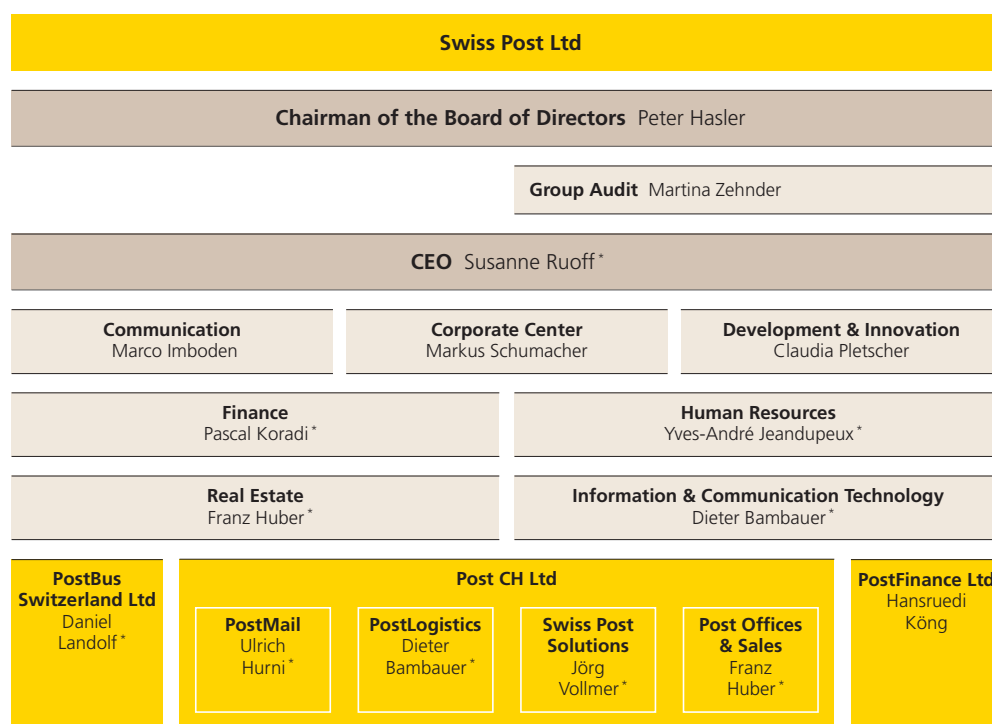
Swiss Post is divided into six executive Group units: PostMail, Swiss Post Solutions and Post Offices & Sales operate in the communication market, PostLogistics focuses on the logistics market, PostFinance on the financial services market and PostBus on the passenger transport market. They are presented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

Management and service units (Finance, Human Resources, Communication, Corporate Center, Development & Innovation, Information & Communication Technology and Real Estate) support the management of the Group and the provision of services by the product-carrying units. In the annual financial statements, the results for these units are included in the Other segment.

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

Organization chart

1.1.2015



* Member of Executive Management

The Swiss Post Solutions Group unit was headed by Thomas Pieper on an interim basis until the end of 2014. Jörg Vollmer took over as Head of Swiss Post Solutions on 1 January 2015.

A three-pillar model was installed in IT as of 1 January 2015. An Informatics organizational unit led by the CIO (Chief Information Officer) has been set up alongside the Information & Communication Technology service unit and the decentralized IT units.

More information on the Board of Directors and Executive Management can be found on pages 53–56 and 58–60.

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Developments

Trends

Legal and political: deregulation

Deregulation put to the test

The European Union completed the full deregulation of the postal sector at the end of 2013. Previous experience in the EU has shown that competition only develops gradually, even in fully deregulated letters markets. In contrast, competition in the parcels and express markets is working well. So far, Switzerland has decided against opening up the entire letters market immediately. The Federal Council has a maximum of three years from the implementation of the revised Postal Services Act on 1 October 2012 to submit an evaluation report to Parliament on the way forward as regards opening up the market. Swiss Post generates its turnover in an environment marked by technological and social change in which customer requirements have changed accordingly. In the monopoly segment (domestic letters up to 50 grams) it is in competition with electronic forms of communication. In a deregulated market, the challenge for lawmakers and postal companies is to create conditions that ensure a high-quality and financially viable universal service can continue to be provided in Switzerland. Swiss Post's monopoly on domestic letters up to 50 grams contributes to financing the universal service. Complete market deregulation would require a debate about regulatory conditions and the scope of the universal service.

Social: change in consumer culture

The physical and digital worlds are merging

The everyday lives of many people have been taken over by the use of modern devices such as smart-phones and tablets and the wide variety of communication options offered by the Internet (social networks, communities, forums, blogs, chats etc.), leading to fundamental changes in consumer habits and lifestyles. The ability to exchange information simultaneously is speeding up the pace of our living and working environments. Customers expect products and services to be individually tailored to their needs. And online shopping is becoming the norm for more and more consumers (regardless of age, income and domicile). The challenge for Swiss Post is to try and keep pace with the rising expectations of its customers for flexibly designed, transparent and reliable processes.

Technological: digitization

There is a constant need to adapt to keep up with today's rapidly evolving digital lifestyle. Companies are combining both online and offline concepts as well as online, mobile and social commerce, resulting in rapid growth of data volume. Only companies that know how to save and file data and exploit the knowledge contained in it to fulfil their purpose will succeed in securing significant competitive advantages in the digital age. Radical changes are set to take place in industrial production, in the form of 3D printing for example. Digitization is resulting in the creation of a variety of new business models and skills. Swiss Post is rising to meet the associated challenges and opportunities flexibly and promptly.

Economic: globalization and competition

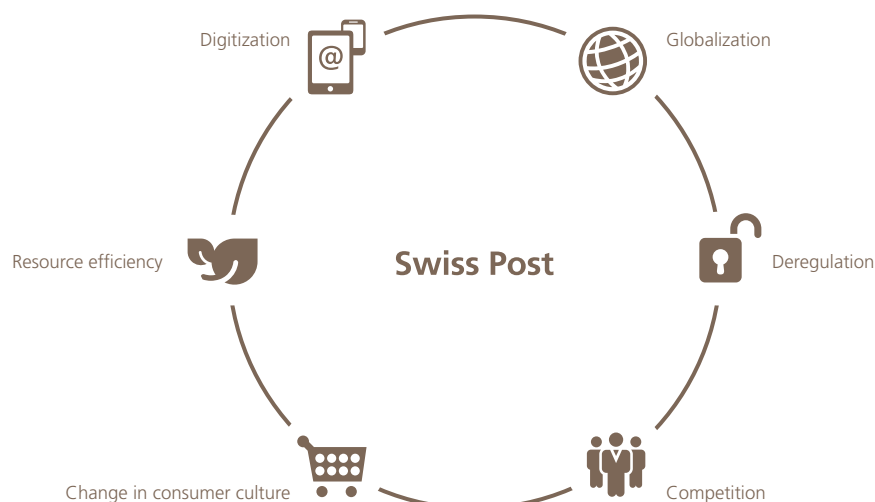
Dynamic economic development and the globalization of competition are forcing companies to use their resources efficiently, increasing the pressure on Swiss Post to exploit comparative locational advantages in order to optimize costs. Meanwhile, disadvantages resulting from size or geographical coverage can be countered by joint initiatives.

Environmental: resource efficiency

The scarcity of natural resources is raising awareness about environmental sustainability among customers, investors and legislators. Demand for sustainable products is on the rise. An optimum mix of energy efficiency and renewable energy is becoming a critical factor for companies seeking to combat escalating costs or, in certain cases, gain new competitive advantages.

Group | Trends in the environment

2014

**Market trends****Communication market**

In the letters market, Swiss Post provides Switzerland's universal postal service. It fulfils this mandate with a statutory residual monopoly on letters up to 50 grams. Around 70 percent of all mail is already deregulated. This includes newspapers, unaddressed mail and addressed mail over 50 grams. However, the primary challenge for PostMail and Post Offices & Sales remains substitution by electronic media. The growing number of customers switching to electronic channels continues to produce a drop in letter volumes and falling demand for conventional post office services. Competition is becoming more intense and pressure on margins is rising, increasing the need for cost and price flexibility within the industry and a targeted development of the postal network. At the same time, the market for promotional mailings offers growth opportunities. The international letters market remains fiercely competitive. Further mergers and partnerships can be expected in order to secure market positions. Driven by what is technologically possible, major corporations are increasingly outsourcing their paper-based business processes since these do not necessarily form part of their core business. There is still substantial growth potential in this area, which Swiss Post Solutions is gradually tapping into with innovative, sector-specific customer solutions.

Logistics market

Competition in the logistics market continues to grow. It is characterized by a rising level of internationally targeted, more aggressive competition and growing pressure on prices and margins. This is spreading to parcels and express deliveries. Customers, particularly business customers, are sensitive to prices, but expect high quality at the same time. There is a demand for flexible recipient services and all-in solutions including cross-border services such as customs clearance and international networks. The need for faster processing times in the CEP segment (Courier, Express, Parcels) will

Potential in promotional mailings and document processing

Growth: e-commerce is the driving force behind logistics

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increase further. This will result in more priority parcels. Substantial rises in staff expenses cannot be offset by pricing measures. Overall, the logistics market has the potential for growth, driven by the rapid rise in e-commerce business. The challenge for logistics is to convert customers' global procurement requirements into new, profitable business models. At the same time, the boundaries between parcel logistics and goods logistics continue to blur. PostLogistics intends to build on its position as lead logistics provider (lean logistics processes, optimized logistics networks and continuous improvement and cost reduction) and strengthen its presence in city logistics. With digitization and the increased transparency of business processes, customers want electronic data links along the entire transport chain, right into companies, to accompany the flow of goods. In goods logistics, Switzerland is becoming bound by the increasingly international network structures. The introduction of environmental and incentive taxes such as CO₂ taxes and the performance-related heavy goods vehicle tax are having a direct impact on the logistics margins that can be achieved.

Financial services market

Pressure on margins and increasing digitization

The persistently low interest rates on the money and capital markets are having a significant effect on earnings. Digitization is shaping the development of the financial services market from the customer's standpoint. Innovative new players (startups or international groups) are creating additional competition and challenging traditional market players with their approach. In payment transactions in particular, this is leading to the emergence of new solutions that have an impact on PostFinance's customer interface. In order to safeguard and develop the current market position, PostFinance is keeping up with market developments and launching new customer solutions such as TWINT, the integrated payment and shopping app.

Passenger transport market

Combined, sustainable mobility

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

As purchasers of regional public transport services, the Confederation and cantons will be less able to pay compensation to transport companies owing to scarcer financial resources. But public transport mobility requirements are constantly increasing, so a reduction in services is out of the question, and services will have to be provided at lower cost and with less public-sector compensation. An increase in tenders for bus services can also be expected. The Swiss market is not particularly attractive to foreign companies, since growth is quite small and the larger urban networks today are not currently put out to tender. Competitors in the international market are becoming significantly larger, not least due to company mergers. PostBus will have to maintain its position on an increasingly competitive national and international stage.

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

Group strategy

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

Group | Strategy

2014–2016

Statutory mandate and strategic goals set by the Federal Council

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

Guidelines

Statutory framework

The Swiss Parliament adopted the new postal legislation in December 2010. It came into force in 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. In the Postal Ordinance, the Federal Council differentiates between the two mandates more clearly than in the past, paving the way for a customer-oriented, financially viable service tailored to meet market requirements. Swiss Post's monopoly on domestic letters up to 50 grams is an important pillar for financing the universal service.

The universal postal service obligation sets out guidelines concerning the range of services, prices and quality to be provided. The first objective is to meet the needs of sender customers. The second objective of the universal service is to take into account the needs of recipient customers. High demands are placed on Swiss Post for home delivery (delivery method and nationwide availability). A and B Mail are regarded as universal service products for which much stricter guidelines regarding delivery times

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must be met than in other countries (97 percent of letters and 95 percent of parcels must be delivered on time). Individual consignments that form part of the universal service are offered in post offices and postal agencies. Access points should be accessible to 90 percent of the population within 20 minutes on foot or by public transport. In areas where Swiss Post offers a home delivery service, they must be less than 30 minutes away. In addition to the universal service, Swiss Post is also permitted to offer additional services not covered by the universal service.

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

Group | Classification of services

2014	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 excluding universal services		e.g. unaddressed items, express and courier consignments, savings accounts

Federal Council's strategic goals

Innovative,
customer-focused
and profitable in
competition

As the owner of Swiss Post, the Federal Council makes further stipulations in the form of its strategic goals. For the strategy period 2013 – 2016, the Federal Council expects Swiss Post to offer a high-quality universal service throughout Switzerland and according to the same principles. Swiss Post should also offer a high standard of marketable, innovative products and services in its core business in the communication, logistics, financial services and passenger transport markets. The aim is to generate profitable growth and to increase the company's earning power as a result of efficiency improvements. Swiss Post can enter into partnerships (shareholdings, alliances, founding of companies or other types of cooperation) in Switzerland and abroad as far as its finances and human resources capacities allow. Swiss Post and its subsidiaries must be managed in a uniform manner. In financial terms, the Federal Council expects Swiss Post to maintain and increase the company's value in the long term, and to achieve industry-standard returns in all business areas. The profits it makes should be used to fund the equity required by PostFinance Ltd under banking law, and to pay dividends to the Confederation. Net debt must not exceed operating profit (EBITDA). Swiss Post will continue to pursue a progressive and socially responsible human resources policy to justify the confidence of its employees. To do so, it must offer attractive, competitive employment conditions, help employees to balance work and family commitments and encourage fair representation of gender and language region.

Simple yet systematic – Swiss Post.

Vision

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

Simple yet systematic – Swiss Post.

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

Changing customer requirements are the basis for Swiss Post's actions. Based on its capacities in communication, logistics, financial services and passenger transport, Swiss Post increasingly represents integrated solutions and continues to offer individual products and services in modular form. Swiss Post understands the world as a network 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.

Framework

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

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

Goals

Swiss Post sets its priorities in the form of six strategic goals, and determines how it intends to meet the challenges of its operating environment and achieve its top-level directives.

Added value for the owner:

- In accordance with the strategy approved by the Board of Directors in December 2014 for implementation as of 1 January 2015, Swiss Post's goal is to achieve an annual EBIT of 700 to 900 million francs (see page 28)
- In Switzerland and in e-commerce, it aims to attain leading market positions with its business activities (see page 25)

Added value for customers:

- Swiss Post attains a consistently high customer satisfaction rate of at least 78 points (on a scale of 0 to 100) (see page 39)

Added value for employees:

- Employee commitment remains high, being awarded at least 80 points (on a scale of 0 to 100) (see page 40)

Added value for Switzerland:

- Swiss Post fulfils its mandate to provide a high-quality universal service (see page 43)
- It intends to increase its CO₂ efficiency by 10 percent by the end of 2016 (base year 2010, see page 42)

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Strategic thrusts

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

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

Development areas

To ensure the fulfilment of its strategic goals, Swiss Post concentrates its resources on driving forward specific development areas determined for Swiss Post as a whole, and creates new business models within each development area.

E-commerce

Within this development area, Swiss Post systematically combines e-commerce-specific processes from the communication, logistics and financial services markets. By combining modular services from individual markets to form integrated solutions, and consistently gearing its product portfolio and services to meet the needs of sender and recipient customers, Swiss Post can position itself as a key service provider along the e-commerce value chain. As the systems leader in Switzerland, Swiss Post offers a complete portfolio of services covering the entire e-commerce value chain. Since the middle of 2014, Swiss Post has handled all aspects of logistics for online sellers with YellowCube, a highly automated storage and picking facility.

Direct marketing

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

Successful customers thanks to integrated solutions from Swiss Post

Mobile banking

The shift of payment transactions to digital channels is being pushed ahead by technological developments. Swiss Post intends to continue to develop its pioneering role in mobile, digital payment transactions, placing particular emphasis on customers who manage their finances independently. In addition to e-finance as an entry portal, Swiss Post offers a wide range of new services such as mobile banking, e-bill and e-cockpit (customer-specific visualization of payment transactions). Swiss Post is also launching a novel, integrated payment and shopping app, TWINT, which is available to all private customers, regardless of their individual bank and telecom connections. It is designed to be used as a payment method mainly for purchases from retailers and e-commerce providers.

E-post

Swiss Post is focusing on e-post to pursue hybrid and digital growth initiatives in the postal sector. It is establishing hybrid systems such as E-Post Office, the intelligent online letter box. Recipients decide how they would like to receive their mail: on paper or in electronic form. Swiss Post is also transposing the high level of customer confidence it enjoys into the digital world by offering a digital postal ecosystem with a range of security products and services that inspire trust (such as secure e-mail with IncaMail). With the eHealth initiative, Swiss Post is expanding the industry focus in the healthcare sector.

Document solutions

Both nationally and internationally, Swiss Post is specifically capitalizing on the outsourcing of business processes driven by the industrialization of management processes. As a leading global supplier of document solutions and the management of document-based processes, it takes advantage of market growth using innovative business models with increased industry focus.

Mobility solutions

Personal mobility is in transition as individual means of transportation become more and more closely linked and transport users increasingly adopt the principle of sharing instead of feeling obliged to own a vehicle. Swiss Post aims to become a leading integrated provider in the mobility market by using its broad customer base from passenger transport and fleet management to develop new mobility solutions such as bike sharing and a car sharing network.

Markets

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

Communication

PostMail

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

Swiss Post Solutions

Swiss Post Solutions (SPS) is expanding its leading position for comprehensive document processing services and solutions for outsourcing paper-based business processes. The 7,466 employees at SPS serve business customers in the insurance, banking, telecommunications, media, retail, energy and travel and transport sectors. SPS operates in all the major economic areas around the globe. Its core markets remain Switzerland, Germany, the UK and the USA.

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Post Offices & Sales

Post Offices & Sales strives to provide customer-friendly, efficient services in communication, logistics and payment transactions. The unit is continually developing its sales network and its range of third-party products. The range of logistics products for private customers is to be further simplified and made available for use via new channels.

Logistics

PostLogistics

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

Financial services

PostFinance

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

Passenger transport

PostBus

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

Maintain the company's value in the long term

Financial controlling

The aim of financial controlling at Swiss Post Group is to achieve the financial goals of the Federal Council. In accordance with these goals, Swiss Post must maintain, and if possible increase the company's value. 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. The Federal Council also expects Swiss Post to be able to finance its investments from the generated cash flow.

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

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

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

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

- Income statement, balance sheet and statement of cash flows
These form the basis of financial management at unit and Group level. The reporting on the income statement takes place monthly, that on the balance sheet and statement of cash flows 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 quarterly.
- 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.

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- Identification of strategic market fields and product group accounting
The identification of the strategic market areas and product groups as well as the strategic measures is used as a financial management tool for the Group units. Reporting takes place semi-annually.
- Commentary
The comments are an integral component of the reporting at all levels. They are designed to provide insight into the main developments, plans as well as problems and measures in the relevant unit as well as the assessment of the reporting. Comments are made on the achievability of the forecasts as well as on prior-year and plan variance. The periodicity of the commentary depends on the key figure on which it is based and the variance.

Group profit up slightly

Business performance

Key figures

All four markets contributed to Swiss Post's positive result. In 2014, Swiss Post generated a Group profit of 638 million francs. Operating profit (EBIT) fell to 803 million francs (previous year normalized: 911 million francs). Non-recurring reversals of impairment from the prior-year period and the need for additional portfolio impairment charges in the reporting period resulted in a 108 million franc decline in operating profit.

Group | Key figures

2014 with previous year for comparison

		2014	2013
Results			
Operating income	CHF million	8,457	8,575 ¹
Generated abroad ²	CHF million	1,233	1,132 ⁵
	% of operating income	14.6	13.2
Reserved services ³	CHF million	1,213	1,237
	% of operating income	14.3	14.4
Operating profit	CHF million	803	911 ¹
As a share of operating income	%	9.5	10.6
Generated abroad ²	CHF million	72	60 ⁵
	% of operating profit	9.0	6.6
Group profit	CHF million	638	626 ¹
Employees			
Headcount at Swiss Post Group	Full-time equivalents	44,681	44,105
Abroad	Full-time equivalents	7,627	6,779
Financing			
Total assets	CHF million	124,671	120,383
Customer deposits (PostFinance)	CHF million	112,150	108,923 ⁵
Equity	CHF million	5,010	5,637
Investments			
Investments	CHF million	443	453
Other property, plant and equipment, intangible assets	CHF million	250	249
Operating property	CHF million	124	115
Investment property	CHF million	64	48
Investments	CHF million	5	41
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities	CHF million	-1,925	-367
Value added ⁴	CHF million	5,220	5,328
Economic value added	CHF million	207	125

1 Normalized figures.

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

3 Letters up to 50 g.

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

5 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes, in the Notes to the consolidated annual financial statements).

Additional key figures and explanatory notes can be found in the table of figures (for reference source, see page 182).

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Drivers

The economy

According to the Swiss National Bank, global economic developments continued to be mixed in 2014. The US, the UK and China posted strong growth, while economic performance remained weak in the eurozone. Switzerland saw moderate economic growth in 2014. According to initial estimates, real growth in gross domestic product stood at last year's level, with broad-based support across different sectors. Growth was generated above all in the third quarter due to a rise in goods exports. Economic growth in Switzerland, Swiss Post's most important market, nonetheless remained below its long-term average.

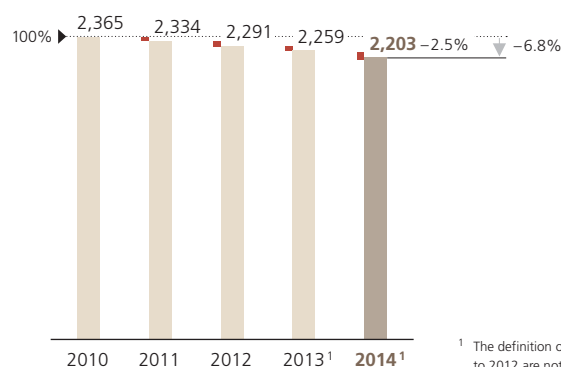
Communication market

Varying volume trends in the communication market

Performance between products in the communication market varied widely. The number of addressed letters handled by PostMail and Post Offices & Sales in 2014 was 2.5 percent lower year-on-year, while unaddressed mail increased by about 2.6 percent year-on-year as a result of acquisitions. Meanwhile, newspaper delivery volumes saw negative performance (–2.6 percent) due to changes in customer behaviour. Post Offices & Sales recorded a downturn in volumes of the logistics products letters and parcels. Import and export volumes (mail) fell 3.5 percent year-on-year. At Swiss Post Solutions, income from services provided increased year-on-year.

Decline in volume of addressed letters continues

Communication market | Addressed letters
2010 to 2014 showing change from prior year / over four years
2010 = 100%, figures expressed in millions



¹ The definition of letter volumes was modified for 2013 and 2014. The figures from 2010 to 2012 are not comparable.

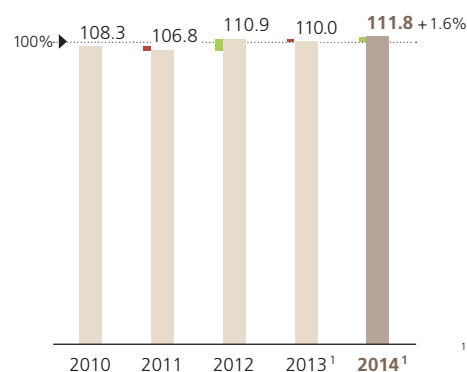
Ongoing positive trend in parcel volumes

Logistics market

The logistics market continues to be characterized by increasing competition and price pressure, both nationally and internationally. Customers are price-sensitive and have high expectations with regard to quality. As a result of deregulation and changing customer needs, there is increasing overlap between the courier, express and parcels segments and traditional dispatch. Domestic parcel volumes increased year-on-year (+ 1.8 percent). Volumes processed in imports and exports remained at the previous year's level. An overall increase of 1.6 percent was registered in terms of volumes processed.

Encouraging increase in parcel volumes

Logistics market | Parcels
2010 to 2014 showing change from prior year
2013 = 100%, figures expressed in millions



¹ The definition of parcel volumes was modified for 2013 and 2014. The values from 2010 to 2012 are not comparable.

Financial services market

Customer assets consist of customer deposits of over 110.1 billion francs and third-party products totalling 7.1 billion francs. The comments on the development of customer assets, which rose by 3.2 percent to 117.2 billion francs in the year under review, were made in the context of the new partnership between Swissquote and PostFinance announced in 2014. PostFinance is to become a custodian under the partnership. In future, it will pursue a strategy of stronger growth in terms of custody account assets, while increasingly ensuring traditional balance growth solely by "growing with the market".

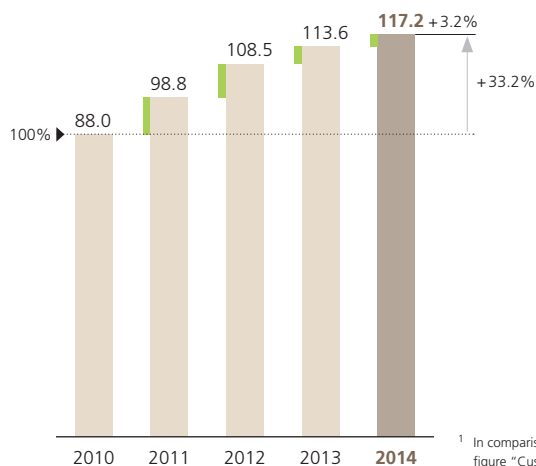
In January 2015, the Swiss National Bank reduced the interest rate for sight deposit balances that exceed a specific exemption limit by 0.5 percentage points to -0.75 percent. PostFinance has paid negative interest on the part of its sight deposit balance exceeding the exemption limit held at the Swiss National Bank since 22 January 2015. Interest rate movements are monitored on an ongoing basis and appropriate measures are taken to control customer deposits if necessary.

PostFinance recorded an increase in average customer assets year-on-year. Swiss Post's financial arm continues to enjoy the trust of customers who manage their own finances and who appreciate a simple and inexpensive range of services. Average customer assets in 2014 totalled 117,186 million francs. This represents an increase of around 3 percent year-on-year. The figure below shows the development of the new key figure "Customer assets" over the past five years.

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Continual rise in customer assets

Financial services market | Average customer assets¹
2010 to 2014 showing change from prior year / over five years
2010 = 100%, CHF billion



¹ In comparison with the key figure previously shown, "Average customer deposits", the key figure "Customer assets" includes customers' custody account assets (third-party products) in addition to customer deposits.

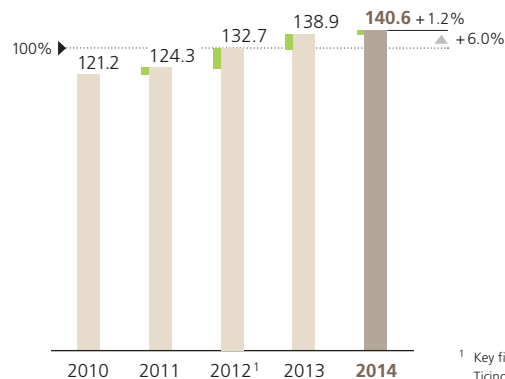
Passenger transport market

Thriving passenger transport market

The national passenger transport market is growing steadily. As the budgets of public sector organizations which act as contracting bodies for transport services are squeezed once again, the pressure on prices is set to increase even more, slowing the further expansion of the public transport network. PostBus has been operating urban bus networks and bus routes in France for a number of years. In 2014, PostBus increased the number of kilometres covered by 3 percent, recording a total of 138 million kilometres. The expansion of services in Switzerland and France contributed to this rise. PostBus transported around 141 million passengers in Switzerland in 2014. This represents an increase of 1.2 percent over the previous year.

Further rise in passenger numbers in Switzerland

Passenger transport market | Number of passengers (Switzerland)
2010 to 2014 showing change from prior year / over three years
2012 = 100%, number of passengers in millions



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

Profit situation

Economic value added

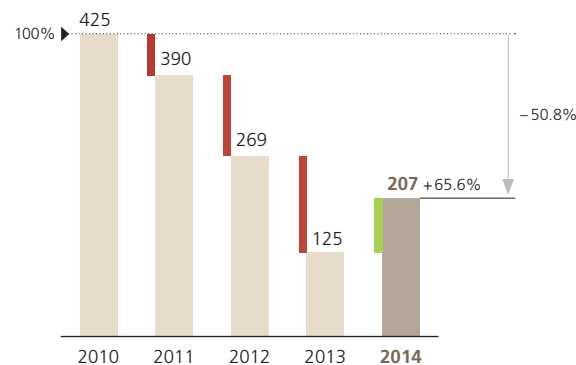
Increased economic value added

In line with the Federal Council's financial goals, Swiss Post is expected to maintain and increase 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 61).

Positive change in economic value added

Group | Economic value added

2010 to 2014 showing change from prior year / over five years
2010 = 100%, CHF million



Economic value added in the logistics unit is calculated from adjusted operating profit minus capital costs (cost of capital for Logistics times 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 times relevant average capital amount).

As at 31 December 2014, Swiss Post met the financial expectations of the Federal Council and generated economic value added of 207 million francs. The increase year-on-year is due to lower capital costs arising from interest rates in the past financial year, and to the non-recurring one-off effects of deferred tax expenses, which had a negative effect on economic value added in the previous year.

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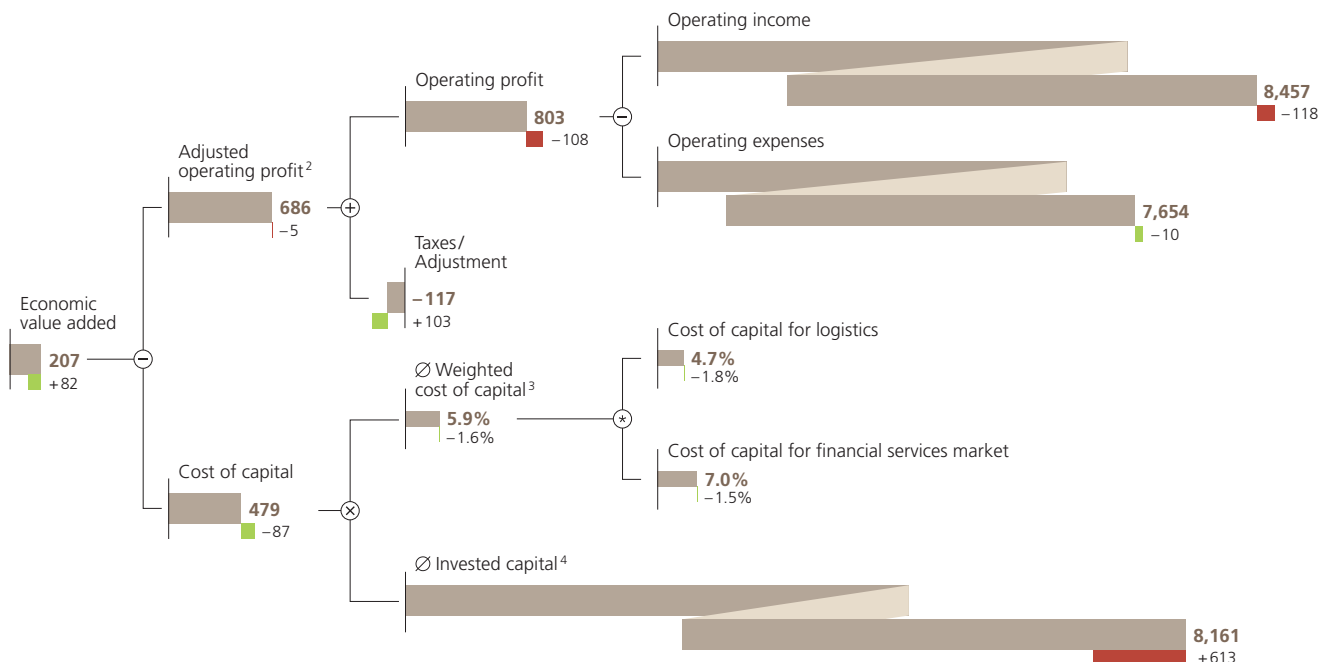
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Lower capital costs have a positive impact on economic value added

Group | Economic value added

2014 showing change from prior year¹
CHF million, percentage points



③ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).

1 The definition of adjusted operating profit 2013/2014 was changed.

2 Net operating profit after tax (NOPAT).

3 Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity capital for the financial services market (PostFinance).

4 At PostFinance corresponds to equity in accordance with Basel II (CHF 4,111 m) and in logistics units to the ∅ net operating assets (NOA) of CHF 4,050 m.

Income statement

Operating income

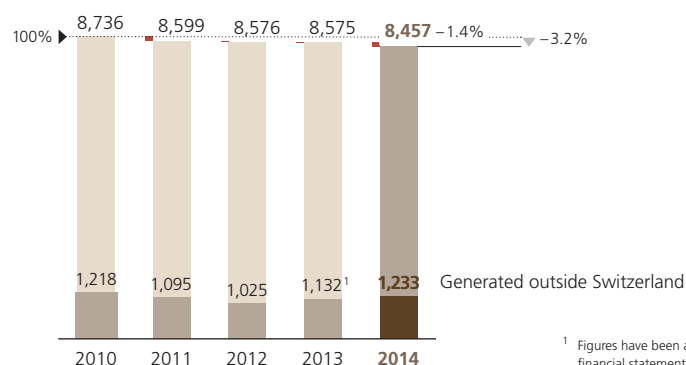
Operating income stood at 8,457 million francs in 2014 (previous year normalized: 8,575 million francs). The 118 million franc decline is mainly due to non-recurring reversals of impairment recognized the previous year and to lower investment portfolio income.

Decline in operating income

Decline in operating income during the reporting period

Group | Operating income

2010 to 2014 showing change from prior year / over five years
2010 = 100%, CHF million

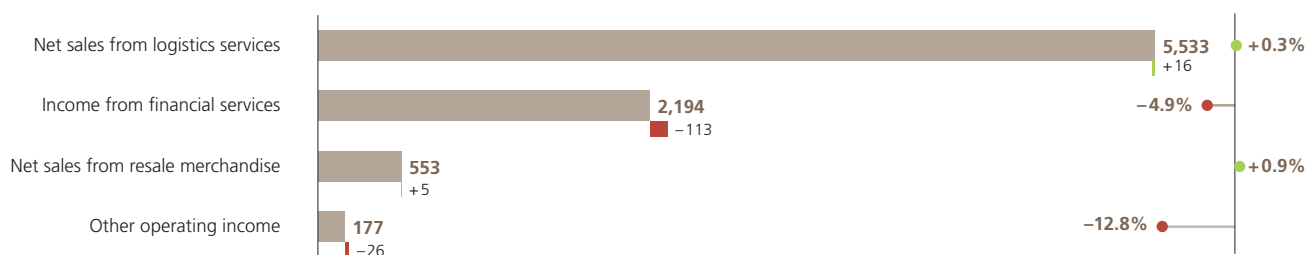


¹ Figures have been adjusted (see Notes to the consolidated annual financial statements, Note 2, Basis of accounting, Accounting changes).

Net sales from logistics services rose by 16 million francs year-on-year to 5,533 million francs. Net sales from resale merchandise were stable. No reversals of impairment were recorded in income from financial services in 2014, and the low interest level resulted in lower returns on the investment portfolio. Other operating income decreased by 26 million francs year-on-year, due primarily to lower proceeds from sales of property, plant and equipment.

Operating income affected by decline in financial services

Group | Operating income
2014 showing change from prior year
CHF million, percent



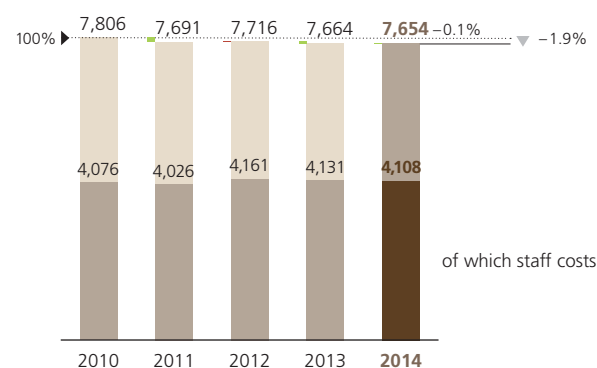
Stable operating expenses

Operating expenses

Operating expenses fell by 10 million francs to 7,654 million francs year-on-year (previous year normalized: 7,664 million francs). Staff costs in relation to total operating expenses remained stable and stood at around 54 percent in 2014.

Operating expenses on a par with previous year

Group | Operating expenses
2010 to 2014 showing change from prior year / over five years
2010 = 100%, CHF million

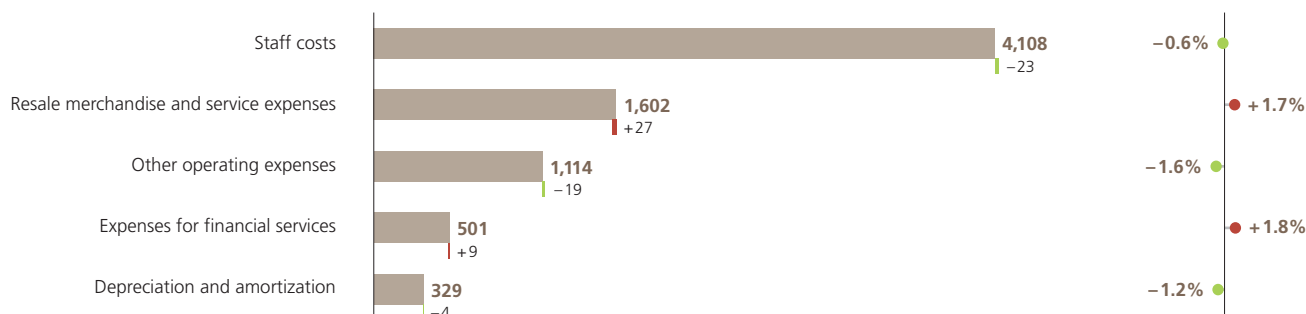


In comparison with the normalized prior-year figure, the decline in staff costs was mainly the result of lower employee benefit expenses. Resale merchandise and service expenses increased by 27 million francs due to changes in volumes. Expenses for financial services rose slightly due to the recognition of the necessary portfolio impairment charges. Other operating expenses remained stable in 2014. Depreciation and amortization costs decreased slightly.

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Steady development of expenses by category

Group | Operating expenses
2014 showing change from prior year
CHF million, percent

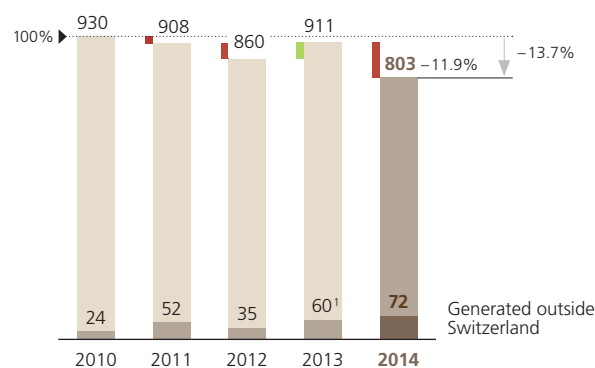


Operating profit

Swiss Post generated an operating profit of 803 million francs in 2014. This represents a decline of 108 million francs in comparison with the normalized prior-year figure. This drop was mainly due to non-recurring reversals of impairment in 2014 and to the recognition of additional portfolio impairment charges.

Drop in operating profit due to portfolio impairment charges

Group | Operating profit
2010 to 2014 showing change from prior year / over five years
2010 = 100%, CHF million



¹ Figures have been adjusted (see Notes to the consolidated annual financial statements, Note 2, Basis of accounting, Accounting changes).

Group profit up slightly year-on-year

Group profit

At 16 million francs, net income from associates and joint ventures was higher than the previous year (7 million francs). Financial income decreased by 2 million francs year-on-year, while financial expenses were 36 million francs down on the previous year, mainly as a result of lower interest expense on employee benefit obligations. Expenses for income taxes fell by 77 million francs year-on-year. This decline is due to non-recurring one-off items in deferred tax expenses from 2013. As a result, Group profit amounted to 638 million francs in 2014.

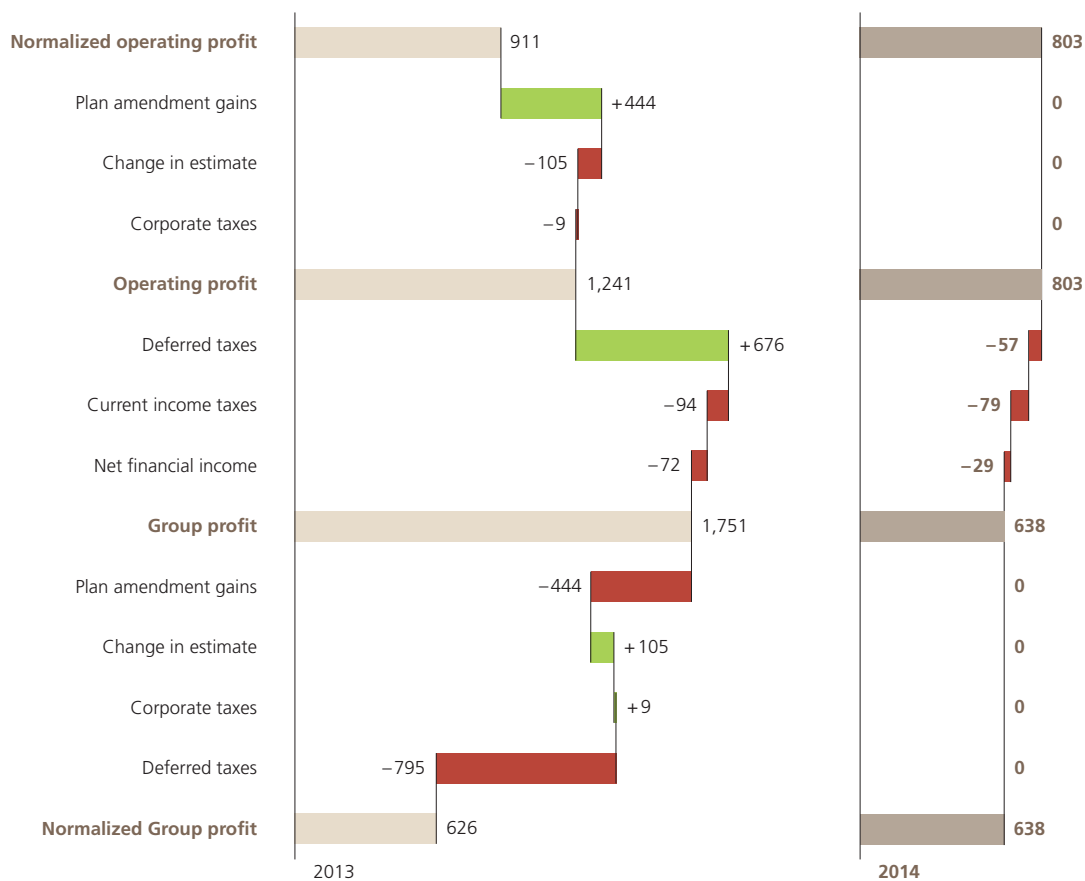
One-off items in 2013 – non-recurring in 2014

Swiss Post's financial result included the following one-off items (normalization) in 2013:

- Income tax income due to initial recognition of deferred taxes arising from full liability for taxation with effect from 1 January 2013, as well as the recognition of other corporate taxes.
- A plan amendment gain associated with the restructuring plan for the Swiss Post pension fund led to a reduction in employee benefit expenses.
- In the light of new information with regard to the level of Swiss Post's performance obligation from stamp sales before 2012, a change in estimates led to a provision that negatively impacted results.

There were no one-off effects in the 2014 reporting period

Group | Group profit
2013 and 2014
CHF million



Different scale: 3 mm is equivalent to CHF 100 m.

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Segment results

Overview

All the markets contributed to operating profit.

Group Segment results								
1.1. to 31.12.2014 with prior-year period CHF million, percent, full-time equivalents	Operating income ¹		Operating profit ^{1,2}		Margin ³		Headcount ⁴	
	2014	2013 ⁸	2014	2013 ⁸	2014	2013 ⁸	2014	2013
Communication market	4,848	4,891	246	238	5.1	4.9	30,953	30,601
PostMail	2,887	2,959	334	324	11.6	10.9	16,979	17,212
Swiss Post Solutions	659	616	12	5	1.8	0.8	7,466	6,798
Post Offices & Sales	1,663	1,697	-100	-91			6,508	6,591
Logistics market								
PostLogistics	1,562	1,581	141	133	9.0	8.4	5,304	5,426
Financial services market								
PostFinance ⁵	2,261	2,377	382	537			3,466	3,439
Passenger transport market								
PostBus ⁶	835	812	30	28	3.6	3.4	2,789	2,487
Other ⁷	886	897	4	-25			2,169	2,152
Consolidation	-2,296	-2,364	-	-				
	8,457	8,575	803	911			44,681	44,105

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

2 Operating profit 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.

5 PostFinance Ltd also applies the Swiss Financial Market Supervisory Authority's Bank Accounting Guidelines (BAG). There are differences between the BAG and the IFRS results.

6 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.

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

8 Normalized figures

Communication market

PostMail

PostMail recorded an operating profit of 334 million francs in 2014, exceeding the normalized prior-year figure by 10 million francs.

Operating income fell by 72 million francs to 2,887 million francs. Declining volumes of addressed letters had a negative effect on operating income and could not be offset by moderate price increases for newspapers. Operating income from international consignments was also down year-on-year due to lower import and export volumes.

Operating expenses were reduced by 82 million francs year-on-year to 2,553 million francs (previous year normalized: 2,635 million francs). The decline in operating expenses can be explained by falling staff costs, including employee benefit expenses, and a drop in other operating expenses.

Headcount fell by 233 full-time equivalents year-on-year on account of the ongoing impact of process optimization and declining volumes.

Swiss Post Solutions

Swiss Post Solutions posted operating profit of 12 million francs, which was 7 million francs higher than the normalized previous year's level.

Operating income increased by 43 million francs to 659 million francs. Additional income from acquisitions contributed 39 million francs to this rise. Swiss Post Solutions in Germany experienced growth of 11 million francs, which was achieved primarily by the acquisition of reputed customers in the document processing and mailroom units. Swiss Post Solutions in the US, France and Vietnam also recorded an increase in operating income thanks to new customers and higher volumes. In contrast, mailroom activities in Switzerland and Global Services in Germany suffered a decline in business performance.

PostMail: prior-year result surpassed

Swiss Post Solutions: positive trend in operating profit

At 647 million francs, operating expenses were up 36 million francs year-on-year (previous year normalized: 611 million francs). Sales growth and an increase in expenditure for acquisitions were the main factors responsible for the rise in operating expenses.

Average headcount rose by 668 to 7,466 full-time equivalents year-on-year. The increase was due to the addition of employees from newly acquired companies and recruitment of staff at Swiss Post Solutions in the US and in Vietnam.

Post Offices & Sales

Post Offices & Sales recorded an operating loss of –100 million francs in 2014, which was down 9 million francs on the normalized previous year's level. The fall in sales of logistics products could not be fully offset by savings on the expense side.

Operating income was down 34 million francs year-on-year to 1,663 million francs (previous year normalized: 1,697 million francs). The decline in volumes of the logistics products letters and parcels led to a fall in revenue of 33 million francs. Letter volumes in particular dropped sharply. The distribution of free stamps to Swiss households accentuated the decline in volumes. The downward trend in cash processing at the post office counter resulted in a decline in revenue of 10 million francs. Sales of brand-name items registered an encouraging rise however, increasing by 11 million francs over the prior-year period.

Operating expenses were cut by 25 million francs year-on-year to 1,763 million francs (previous year normalized: 1,788 million francs). The negative volume trends for postal products led to a 16 million franc decrease in expenses for the sorting, transport and delivery of letters and parcels to private customers. Staff costs fell by 15 million francs. The expansion of the network of agencies led to an increase in sales compensation. Other operating expenses were cut by 4 million francs thanks to the development of the post office network. Resale merchandise expenses rose by 7 million francs due to successful brand sales.

At 6,508, headcount fell by a total of 83 full-time equivalents year-on-year despite the integration of 30 full-time equivalents from the Kriens Customer Center, due to developments in the post office network.

Logistics market

PostLogistics

PostLogistics achieved an operating profit of 141 million francs in 2014, representing an increase of 8 million francs in comparison with the normalized prior-year figure of 133 million francs. The increase was mainly due to cost savings achieved through process optimization and to improved results in fleet management and value logistics solutions.

Operating income totalled 1,562 million francs, down 19 million francs on the previous year. This decline was the result of customer loss in small consignment transport and warehousing, combined with lower volumes in the catalogue mailing sector. The rise in parcel volumes only partly offset the reduction in operating income.

Operating expenses were down 27 million francs year-on-year to 1,421 million francs (previous year normalized: 1,448 million francs). Higher parcel volumes led to a rise in sorting and delivery expenses. This increase in expenses was more than offset by optimization measures in small consignment transport and warehousing. In addition, fewer temporary employees were required.

Average headcount fell by 122 to 5,304 full-time equivalents. This was due to the optimization measures mentioned above and the liquidation of two subsidiaries.

Post Offices & Sales:
operating profit
affected by decline
in core business

PostLogistics:
operating profit up
year-on-year

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		65	Group
		143	Swiss Post Ltd
		151	PostFinance Ltd

PostFinance: sharp decline in operating profit

Financial services market

PostFinance

In 2014, PostFinance recorded an operating profit of 382 million francs, representing a decrease of 155 million francs in comparison with the normalized prior-year figure. This was primarily the result of higher portfolio impairment charges. Whereas reversals of impairment on financial assets of 66 million francs had a positive effect on profit in the prior-year period, additional market and position-related impairment charges of 88 million francs had to be recognized in 2014.

Operating income decreased by 116 million francs to 2,261 million francs. Net interest income fell by 64 million francs year-on-year. Commission and service income was up on the previous year's figure, mainly as a result of the new account pricing introduced in March 2013 and additional income from credit cards, funds and life insurance. Within income from financial assets, higher revenue was generated by the sale of equity and bond positions.

Operating expenses were up by 39 million francs year-on-year to 1,879 million francs (previous year normalized: 1,840 million francs). Interest expense decreased by 85 million francs year-on-year. This decline was offset by higher office and administrative expenses, charges for the project business and the recognition of portfolio impairment charges as mentioned above.

Headcount rose by 27 full-time equivalents year-on-year to an average of 3,466 full-time equivalents.

Passenger transport market

PostBus

PostBus: earning power boosted by growth

In 2014, PostBus recorded an operating profit of 30 million francs, representing an increase of 2 million francs in comparison with the normalized prior-year figure. Higher sales of system services, a rise in income from networked traffic and an increase in the number of kilometres travelled all contributed to the positive trend.

Operating income was up 23 million francs to 835 million francs as a result of the increase in the number of kilometres travelled in Switzerland and in France. In addition, adjustments to cost apportionment of the fare networks in favour of PostBus generated a 2 million franc rise in operating income.

Operating expenses increased by 21 million francs to 805 million francs (previous year normalized: 784 million francs), due primarily to an increase in the number of kilometres covered and to higher staff levels. These effects were partially offset by changes in fuel prices.

Headcount rose by 302 to 2,789 full-time equivalents. Almost half of these positions were attributable to growth in France.

Management and service units: balance between expenses and income

Management and service units

The "Other" segment recorded an operating profit of 4 million francs in 2014 (previous year normalized: –25 million francs).

At 886 million francs, operating income fell by 11 million francs year-on-year. This was mainly the result of declining revenue from the sale of property, plant and equipment.

Operating expenses decreased by 40 million francs to 882 million francs (previous year normalized: 922 million francs). This reduction was mainly due to the reversal of provisions no longer required and to the lower provisions needed in 2014.

Headcount rose by 17 to 2,169 full-time equivalents.

Acquisitions

Switzerland

Post CH Ltd, headquartered in Berne, acquired Asendia Press D4M AG, based in Kriens, on 30 December 2014. This acquisition strengthens PostMail's expertise and range of services in publishing management. Asendia Press D4M AG operates in Switzerland and has 15 employees. It was merged into Direct Mail Company AG, headquartered in Basel, on 30 December 2014.

Belgium

On 24 April 2014, Swiss Post SAT Holding Ltd, based in Berne, acquired Société d'Affrètement et de Transit S.A.T. SA, headquartered in Brussels, Belgium. This acquisition allows PostLogistics to strengthen its international services and its customs clearance expertise. S.A.T. SA carries out its services almost fully automatically with the help of software, so does not have any on-site employees.

Overall, the effects of the acquisitions mentioned on the consolidated accounts are not material.

For detailed information on the changes in the consolidated Group, see page 136.

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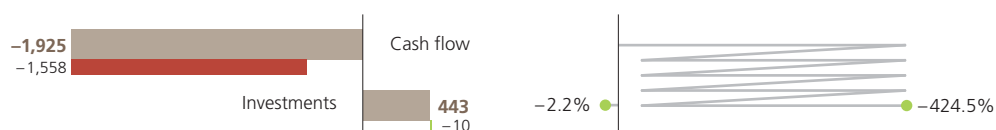
Assets and financial situation

Cash flow and investments

Cash flow from operating activities stood at –1,925 million francs in 2014. In the 2013 comparison period, cash flow from operating activities stood at –367 million francs. The cash outflow in 2014 is primarily due to the financial services business. For more information on changes in the consolidated statement of cash flows, see page 70.

Change in financial assets entails operative cash drain

Group | Internal financing
2014 showing change from prior year
CHF million, percent



Overall, investments in property, plant and equipment (320 million francs, mainly in operating property and vehicles), investment property (64 million francs), intangible assets (54 million francs) and investments (5 million francs) were down 10 million francs on the previous year. Excluding the positions from financial services reported in the balance sheet, cash flow was sufficiently high for the company to finance its own investments. In the coming year, Swiss Post will continue to take steps to automate its processes in order to improve efficiency, which is reflected in higher planned investments of around 500 to 600 million francs in comparison with the previous financial year. Investments will mainly be made in property, plant and equipment, predominantly in Switzerland.

Net debt

For the indicator net debt / EBITDA (operating profit before depreciation and amortization) Swiss Post has set a maximum figure of 1 as its target. Customer deposits and financial assets of PostFinance Ltd are not included in the calculation of this indicator. Values above the target are possible in the short term. Values below the target indicate financial leeway. The target was met as at 31 December 2014.

Consolidated balance sheet

Receivables due from banks

In comparison with 31 December 2013, receivables due from banks decreased by around 2 billion francs.

Financial assets

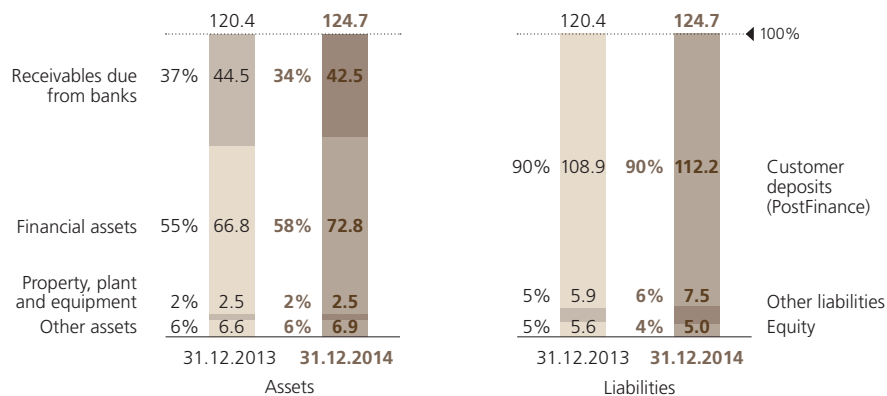
In comparison with the end of 2013, financial assets increased by around 6 billion francs.

Property, plant and equipment

The carrying amount of property, plant and equipment rose by 7 million francs compared with 31 December 2013. In 2014, depreciation and amortization decreased by 4 million francs, reaching around 329 million francs.

Moderate balance growth as at 31 December 2014

Group | Balance sheet structure
As at 31.12.2013 and 31.12.2014
CHF billion

**Customer deposits**

Since 31 December 2013, customer deposits at PostFinance rose by around 3.3 billion francs to just over 112 billion francs. As at 31 December 2014, customer deposits accounted for around 90 percent of the Group's total assets.

Other liabilities (provisions)

Provisions including employee benefit obligations increased by 1,463 million francs in comparison with the previous year-end figure. This was essentially due to an increase in employee benefit obligations of around 1,447 million francs associated with actuarial interest rates. The actuarial interest rate had to be reduced due to interest trends on the financial markets. All other provisions changed only marginally in comparison.

Equity

Consolidated equity as at 31 December 2014 (5,010 million francs) was calculated net of the appropriation of profit for 2013.

Appropriation of profit

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

The proposal for the appropriation of profit of Swiss Post Ltd can be found on page 148.

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Non-financial results of a material nature

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

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

Customer satisfaction

Customers have been very satisfied with Swiss Post for years.

Swiss Post endeavours to adjust to changing customer requirements and to develop its products and services accordingly. For 16 years Swiss Post has commissioned an independent institute to conduct and evaluate an annual satisfaction survey among around 24,000 private and business customers throughout Switzerland and in selected countries abroad for quality assurance and improvement purposes. Data is collected regarding satisfaction with Swiss Post, in general, as well as specifically on the range of products and services, customer contact, customer advisors, prices (or value for money) and problem solving.

Group | Customer satisfaction

2014 with previous year for comparison
Index 100 = maximum

	2014	2013	Change
Swiss Post Group	80	80	0
Business customers (Switzerland)			
PostMail (national consignments)	79	78	+1
PostMail Mail (international consignments)	77	79	–2
PostLogistics	77	78	–1
PostFinance	82	83	–1
Swiss Post Solutions	82	79	+3
Post Offices & Sales	82	82	0
Private customers			
PostFinance	84	85	–1
Post Offices & Sales	86	86	0
PostBus, commuters	76	74	+2
PostBus, leisure travellers	84	83	+1

Group | Recipient customer index

2014 with previous year for comparison
Index 100 = maximum

	2014	2013	Change
Overall delivery quality (recipient customer index)	91	92	– ¹

¹ Because of changes to the questionnaires, the figures cannot be compared directly with those of last year.

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

Private customers

The 14,000 private customers questioned in the customer satisfaction survey rated individual Group units very highly, as they did last year. The highest number of points (86) was achieved by the Post Offices & Sales unit. This year, however, PostBus also gained points from commuters (76 points) and leisure passengers (84 points).

The quality of letter deliveries was rated by 12,800 private recipient customers in a separate survey – the recipient customer index – achieving a very high 91 points on a scale of 0 to 100. Customers are particularly satisfied with the professional conduct and appearance of delivery staff, and their friendliness received the top mark of 95 points.

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 10,000 business customers questioned assigned high scores of between 77 and 82 to individual sub-units. Swiss Post Solutions (with 82 points) and PostMail's national letter mail (with 79 points) received slightly better ratings than they did last year. Business customers' perception of the international services offered by PostMail (77 points) and PostFinance's range of services (82 points) was still at a high level, although not quite as high as it was last 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. The results are used to develop customer relationship management (CRM) at Group level for example. By finding out what is important to its customers, Swiss Post can optimize and constantly adapt the entire customer experience chain.

Successful customer care via customer intelligence

Swiss Post is in contact with a large number of very different private and business customers who all have their own individual requirements. Swiss Post wants to cater to these needs more effectively in future by establishing customer relationship management (CRM) at Group level. Comprehensive understanding of its customers enables Swiss Post to recognize potential for development more easily, to address customers more specifically and finally, to make its business more profitable.

The results of the customer satisfaction survey indicate how good Swiss Post is at doing so from the customer's perspective. The figures show for example that customers particularly appreciate marketing measures if they offer added value that is of immediate benefit to them in their everyday business lives. Information must therefore be individually designed and targeted. Findings of this kind help Swiss Post to plan campaign management that will allow marketing campaigns to be controlled at Group level in future.

Employee commitment

Employees regard Swiss Post as an attractive employer. In the employee satisfaction survey, they confirm that they are committed to their work and to the company's success, and that they are proud to work for Swiss Post. This is reflected in the result in a high positive rating, with 82 out of 100 points for personal commitment (2013: 82 points). The commitment index is the central element of the survey and consists of the components identification, staff turnover and motivation.

Good working conditions and pleasant working relationships

With a medium to high positive rating, the results remain stable year-on-year at a high level across the Group. This is despite major changes such as the conversion of Swiss Post into a company limited by shares, a new regulatory framework and ongoing negotiations on a new collective employment contract (CEC). Employees are particularly positive with respect to cooperation and mutual support within and between teams, their perceived ability to contribute to the company, and work-life balance. With 75 points, the work situation (work content, processes, workload and working conditions) is rated just as highly as last year. Employee satisfaction is again at 75 points, while internally perceived customer focus receives 79 points.

Confidence in management and Swiss Post's strategic focus

Employees see Swiss Post as an innovative company that is developing positively with its strategic focus. With the strong sense of cross-unit cooperation in place, they have confidence in management. At 72 points, this year's measure of what is termed "unit fitness" remains unchanged in the average positive range. It is made up of the factors strategy, management, information and communication, change and innovation, cooperation, and development.

Committed and
satisfied employees
at Swiss Post

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Measurement categories unchanged over six years

For the survey in May 2014, Swiss Post used the same measurement model for the sixth year running. Values from 60 to 74 points are considered an “average positive” rating, while values between 75 and 84 points are rated “high positive”. The questionnaire was sent this year to around 50,000 employees in seven languages and 16 countries, and almost 79 percent responded. This is the highest response rate to date (previous year: 77 percent).

Group | Employee satisfaction survey

2014 with previous year for comparison
Index 100 = maximum

	2014	2013
Commitment	82	82
Identification	81	81
Staff turnover	80	80
Motivation	86	86
Work situation	75	75
Unit fitness ¹	72	72
Customer focus	79	79
Employee satisfaction	75	75

1 Unit fitness is made up of the factors strategy, management, information and communication, change and innovation, cooperation, and development.

Investments in staff

Swiss Post is successful when its employees are motivated to put the corporate strategy to practical use in their daily work. To make this possible, 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

Over 2,000 apprentices received training in 15 professions at Swiss Post in 2014. This represents 5.5 percent of its headcount in Switzerland, making Swiss Post one of the largest training companies in Switzerland. The success rate in final apprenticeship examinations stood at 99.1 percent in 2014. Four out of every five newly-qualified professionals continued to work for Swiss Post. Furthermore, Swiss Post enabled 14 university graduates to enter the working world as part of its in-house trainee programme.

Internal advanced training measures

The skills and competencies required in the company are enhanced by means of appropriate specialist training courses. Around 640 internal specialist and management courses in the form of face-to-face training in German, French and Italian are registered in the central system. More than 3,250 courses have been organized, enabling almost 34,000 employees to attend training events lasting an average of one to one and a half days. In addition, Swiss Post employees have access to 680 e-learning courses in German, French, Italian and English which have been completed around 81,000 times.

One key aspect of internal basic and advanced training at Swiss Post is the militia principle which enables in-depth expert knowledge and the strong practical relevance of the input from specialists to benefit the different Group units. The leadership development programmes for current and future managerial staff at all levels remain of equally high relevance. An in-house training format was developed and implemented for top management at Swiss Post in 2014.

External individual basic and advanced training

Last year, Swiss Post provided almost 6 million francs of financial support for external basic and advanced training requested by its employees. More than 1,500 members of staff were able to benefit from the necessary time or funding. This generous contribution reflects the company's interest in keeping employee training at a persistently high level.

More information on employees can be found in the Annual Report on page 39.

New CO₂ efficiency goal

Sustainability

With its sustainability strategy for 2014-2016, Swiss Post is aiming to achieve a CO₂ efficiency increase of at least 10 percent by the end of 2016 (base year: 2010). This Group goal is defined in relation to the core services of the units: Swiss Post is looking to further reduce greenhouse gas emissions for every consignment transported, every passenger carried, every transaction, and every heated square metre in its buildings. The current social commitment is now being integrated into the sustainability strategy in the form of education, health and procurement. In the interests of employees and their safety, Swiss Post has defined the specific goals of maintaining the proportion of trainees at 5 percent and reducing occupational accidents by 3 percent by 2016 (base year: 2013). With respect to procurement, Swiss Post is examining the issues more closely and introducing new sustainability criteria.

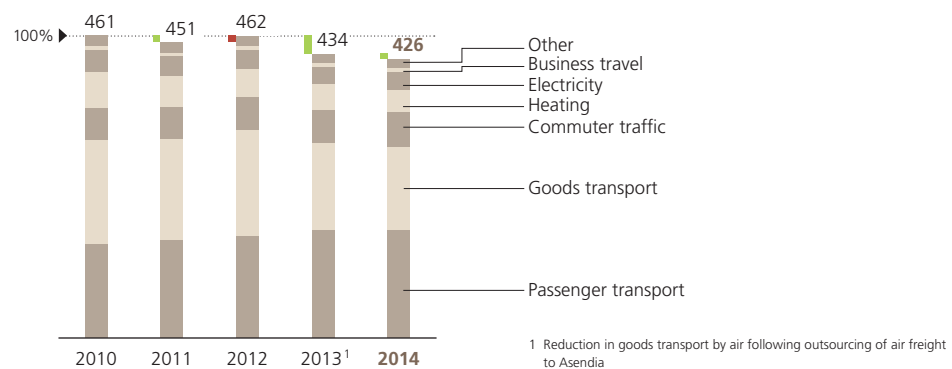
Swiss Post's greenhouse gas emissions remain stable, despite an increase in parcel volumes and business growth at PostBus. Heat requirements were continually reduced.

Swiss Post's greenhouse gas emissions decline slightly

Group | Greenhouse gas emissions by process

2010 to 2014

2010 = 100%, 1000 t CO₂ equivalent (within and outside Swiss Post)



In order to substantially reduce its CO₂ emissions, Swiss Post has implemented a comprehensive package of measures. It has improved the utilization of its vehicles, optimized routes, provided training in eco-driving and offered an eco-bonus to incentivize subcontractors. It has also implemented measures on alternative drive technologies and renewable energies. Hydrogen, biodiesel, green electricity or biogas are increasingly used as fuel for Swiss Post's vehicle fleet. Potential energy savings in building services and in post offices have been identified and appropriate measures introduced. Swiss Post now uses 10 percent biogas for gas heating in its buildings. It has also constructed pioneering new buildings that comply with the German Sustainable Building Council's DGNB quality label and the MINERGIE® standard, such as the new headquarters in Berne. Swiss Post covers 100 percent of its electricity requirements with "naturemade basic" certified renewable energy from Switzerland. It now also operates ten photovoltaic systems feeding approximately 5 gigawatt hours of solar electricity into the grid each year. With "pro clima" – Shipment, all domestic letters have been carbon neutral since 2012 at no extra charge for the customer. Now, Swiss Post is funding the construction of the first gold standard Swiss Post climate protection project in Switzerland. It consists of 30 biogas plants and farms that reuse manure and other organic waste to generate electricity. Raising employees' awareness of sustainability is a recurring topic of internal communication as well as in workshops and at events.

Swiss Post is constantly increasing CO₂ efficiency. This is achieved by implementing a range of measures to reduce greenhouse gas emissions and to increase the efficiency of the core services it provides.

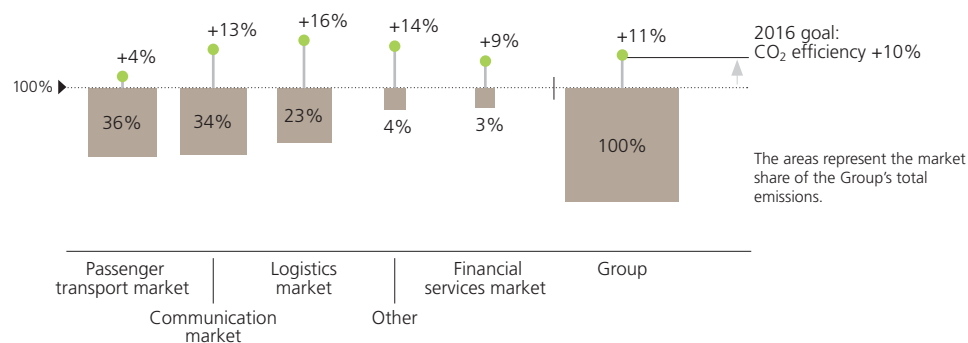
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Improvements in CO₂ efficiency in all markets

Group | CO₂ efficiency and proportion of CO₂ emissions by market

2014

CO₂ efficiency index¹ 2010 = 100%, proportion of emissions in percent



¹ The CO₂ efficiency index is measured as the change in CO₂ equivalents per core service unit in the financial year in comparison with the base year 2010. Core services are defined by unit (consignment, transaction, passenger kilometres, FTE etc.).

Swiss Post takes steps to strengthen its social commitment along the entire procurement chain. Swiss Post has been a member of the Fair Wear Foundation (FWF) since 2012 in order to ensure the socially responsible production of its work clothes. In 2014, Swiss Post obtained leader status within the FWF, a position enjoyed by only six other FWF members out of a total of 80. In health management, an operating group solution was introduced and implemented in cooperation with the units in order to reduce occupational accidents.

More information on sustainability is given on page 45 of the Annual Report and in the GRI report, available at www.annualreport.swisspost.ch

Universal service

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

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

Swiss Post aims to fulfil its statutory mandate by focusing on its customers and providing them with consistent high quality. Swiss Post finances the universal service from its own revenue; it does not receive any financial compensation in return. External auditors are commissioned each year by PostCom to ensure compliance with the legal requirements for financing the universal service. The last available audit certificate from March 2014 concerns the 2013 financial year.

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

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 appetite and risk-bearing capacity). Risk management can thereby make an important contribution to the quality of decisions and help increase the company's value.

Risk management system

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

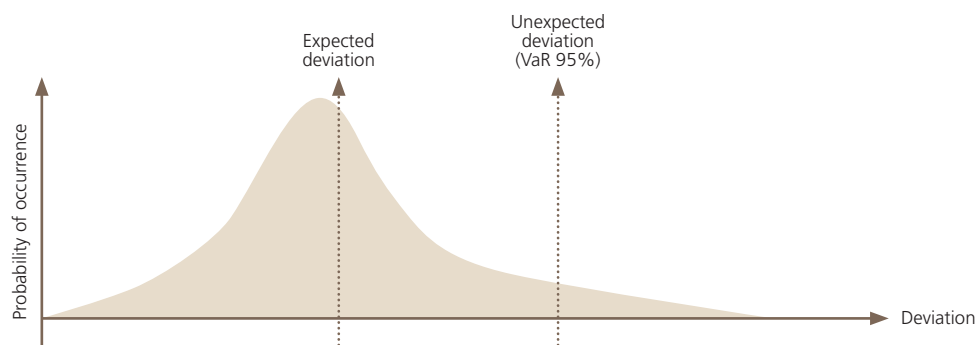
Risk simulation

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

Risk indicators

A picture of the risk situation of a company or of individual units is obtained by simulating individual risks and groups of risks to obtain risk indicators. Expected value and value-at-risk (VaR) are also calculated. Expected value shows the expected EBIT deviation for the next twelve months, while value-at-risk (95 percent) is used for unexpected EBIT deviations. The expected EBIT deviation for 2020 is now simulated and aggregated to identify the strategic risk situation.

Risk indicators



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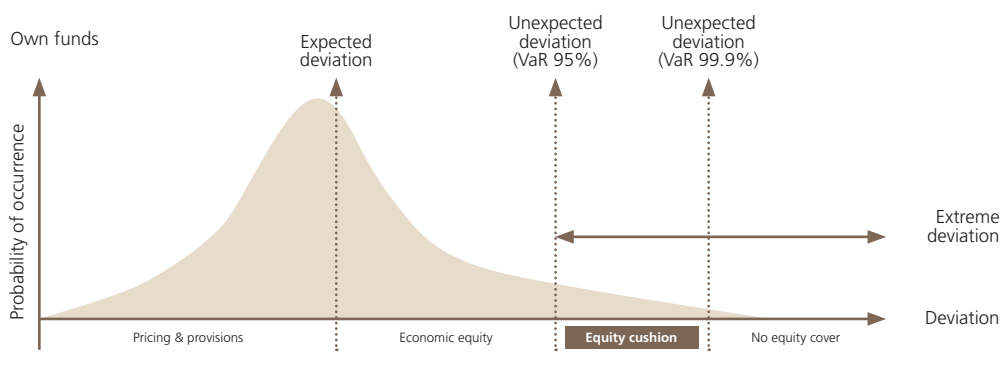
Aggregation levels

Expected value and value-at-risk (95 percent) risk indicators are identified for the Group, its strategic subsidiaries and their units.

Risk appetite and risk-bearing capacity

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

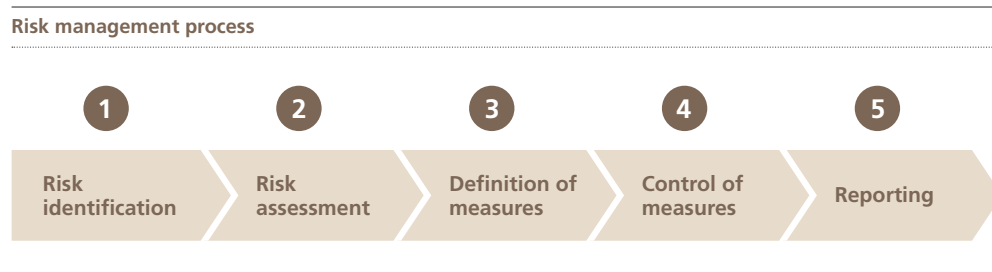
Risk appetite and risk-bearing capacity



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

Risk management process

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



- Risk identification
Risks and opportunities are defined as potential deviations from planned earnings before tax. Group strategy and a company-wide basic catalogue of risks form the basis for risk identification.
- Risk assessment
Every six months, managers and technical specialists measure the risks that have been identified. Risks are assessed on the basis of scenario analyses (best, realistic and worst case scenarios) or by means of event data. Risk indicators for individual risks are measured via Monte Carlo simulation techniques.
- Definition of measures
As part of the risk management process, the Group units define appropriate measures in order to take advantage of opportunities whilst avoiding, reducing, or passing on risks to third parties. At Group level, Group risks are controlled mainly by means of strategic measures that are often combined with further precautions individually tailored to specific risks.
- Control of measures
Comprehensive checks are carried out to ensure that risks are being controlled efficiently by the measures in place. Additional measures are defined if necessary.
- Reporting
Reports are submitted to the Management Board, Executive Board, Group Executive Management, Board of Directors' Audit, Risk & Compliance Committee and Board of Directors.

Networking of risk management

Swiss Post aims to take an integral approach to risk management. Risk management is therefore combined with the Strategy, Accounting, Crisis Management and Group Audit units, as well as Compliance (from 2015). The different organizational units coordinate their processes, integrate their reporting documents and pool their analysis findings.

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Risk situation

An analysis of the risk situation at Swiss Post at the end of 2014 showed that economic equity is sufficient to cover unexpected losses. The Group's risk-bearing capacity is thereby guaranteed. In addition, the expected losses do not exceed the planned operating profit. Risk appetite is therefore covered.

Based on the latest measurements (Monte Carlo simulation), the Group's expected potential loss amounts to around 28 million francs in the next twelve months. An unexpected potential loss (VaR 95 percent) of 209 million francs was also calculated. The Group's risk situation is divided between PostFinance (32 percent), PostBus (1 percent) and the remaining Group units (67 percent). In the case of PostFinance, reported risks only concern profit risk or the risk of the Group having to make additional payments, measured according to the profit risk approach. The risk situation from PostFinance's standpoint, measured according to the value risk approach, is described in the "Risk management at PostFinance" section on page 164.

Risks

The following section describes risks that may have a major impact on the income, financial and asset situation of the Group in light of the current position. Opportunities and threats are thus both subsumed under risks. Risk management distinguishes between endogenous and exogenous risks. Risk identification never encompasses all the risks that the Group is exposed to. Swiss Post's business activities could also be affected by other factors that are not yet known.

Exogenous threats

The exogenous risks that pose the greatest threat to income and assets are changes in the regulatory conditions governing the universal service obligation and the substitution of several business areas by electronic media.

Many Swiss Post services fall under the universal service obligation. This regulatory risk can impact sales and lead to a decline in earnings. Technological changes resulting in an increased use of digital services are aggravating the downward trend in the letters business and in some post office services.

Endogenous threats

Potential material damage and liability insurance losses, outage risks in important letter and logistics centers and risks related to profit trends at individual units are the largest internal risks.

Exogenous opportunities

Swiss Post's business area is affected by a range of external factors that offer potential opportunities as well as risks. Trends in e-commerce and the demand for digital postal and financial services are opportunities for the Group. Further market opportunities pursued by various Swiss Post business units are described in the "Group strategy" section on page 16.

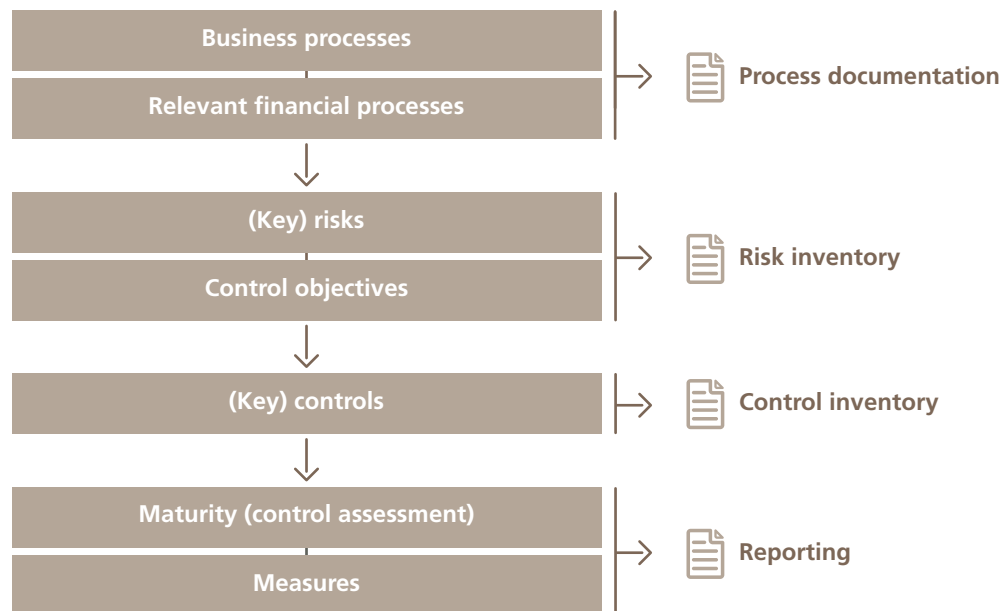
For more information on risk management at Swiss Post, see page 119.

Internal control system (ICS)

The Finance Internal Control System (ICS) at Swiss Post Ltd encompasses the procedures and measures that ensure proper bookkeeping and rendering of accounts, and accordingly forms the basis of all financial reporting. In accordance with Article 728 a, section 1 (3) of the Swiss Code of Obligations, the external auditors check that an ICS is in place in conducting their regular audit.

The Internal Control System at Swiss Post is based on the COSO method. Executive Management and the Board of Directors approve the principles each year with the "Swiss Post Ltd" ICS Finance Regulation. ICS-relevant processes are identified each year by means of scoping before being documented in a comprehensible and straightforward manner for third party experts.

Internal control system (ICS)



For each activity, the potential risks are determined from the process documentation, evaluated, and assigned financial control objectives. Key risks are given priority treatment by the ICS. Further risks are also included in ICS documentation as required. This approach ensures that the number of ICS-relevant risks and hence the number of checks to be made are limited early on in the process. 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. The control inventory lists the controls required for the risks identified in the risk inventory. ICS-relevant IT systems are covered at financial process, application and IT infrastructure level.

ICS controls and processes are evaluated each year by means of a set questionnaire (maturity assessment). The ICS maturity level is determined on a scale of 1 to 5. Swiss Post Ltd has set itself the goal of achieving a maturity level of at least 3 – standardized. Following the assessment, measures are taken to improve the ICS maturity level. ICS reporting documents drawn up on the basis of the assessment results are submitted to Executive Management and the Board of Directors of Swiss Post Ltd.

In the financial year 2014, all the units and hence the Group as a whole were able to achieve at least the desired maturity level. A total of 225 processes were documented as ICS-relevant and assessed as such. Around 23 percent of the processes assessed reached maturity level 4 – integrated. A total of 433 key risks were defined and 557 key controls implemented for 2014 as part of the risk identification process. The key controls were documented in accordance with the “Swiss Post Ltd” ICS Finance Regulation and their maturity assessed by means of pre-set questionnaires. Around 40 percent of the controls assessed reached maturity level 4 – integrated.

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Outlook

Global economic growth should stabilize steadily in the course of 2015, helped by the substantial fall in the price of oil. Prospects for individual countries remain extremely varied. The Swiss National Bank expects that in the US and the UK, production capacity will gradually be better utilized thanks to robust growth. To date, there are no indications of a perceptible recovery in the eurozone; future growth prospects have worsened once more. The outlook for the global economy remains particularly uncertain. Risk factors include ongoing difficulties in the eurozone and a potential heightening of geopolitical tensions.

The Swiss National Bank announced on 15 January 2015 that it was abandoning the minimum franc-euro exchange rate. The forecasts for economic growth taken account of in the current Annual Report were issued before this date and assumed that the exchange rate situation would remain virtually unchanged. If the franc remains high, economic development will no doubt be weaker than previously forecast. The export economy in particular is likely to be directly affected by the latest events on the currency market. However, the extent of a potential economic cooling remains difficult to predict.

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