

Management report

Swiss Post operates in the communication, logistics, retail financial 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. 88 percent of sales are generated in Switzerland.

Business activities

Markets

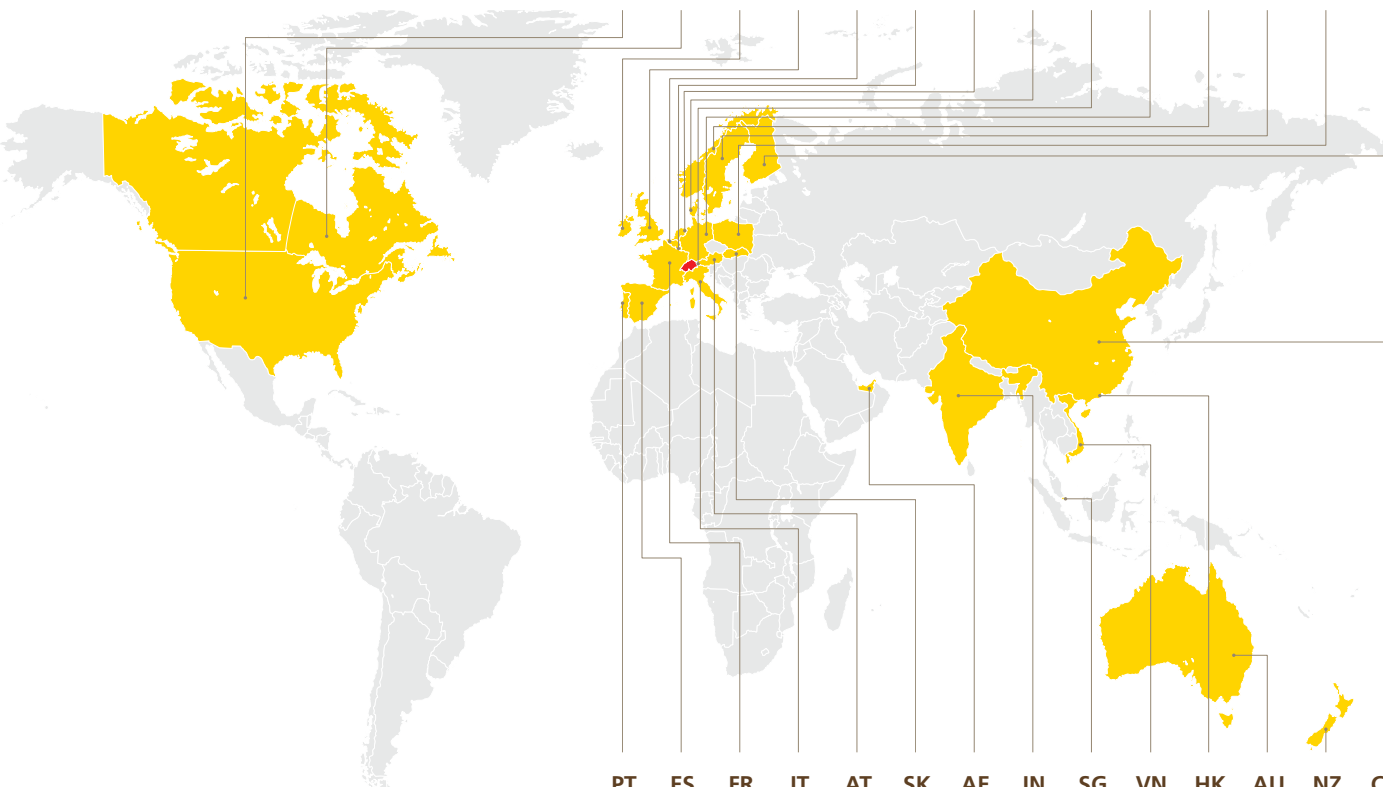
Swiss Post operates in four different markets:

- Communication market
Letters, newspapers, promotional mailings, document and postal-related business process outsourcing solutions in Switzerland and internationally
- Logistics market
Parcel and express services and logistics solutions within Switzerland and abroad
- Retail financial market
Payments, savings, investments, retirement planning and financing in Switzerland as well as international payment transactions
- Passenger transport market
Regional, municipal and urban transport, plus system services in Switzerland and in selected countries abroad

Swiss Post abroad

2013

	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	■ ¹	
BPO solutions				■						■				



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

¹ Partners

² Countries in which joint venture Asendia companies operate

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Swiss Post operates in 28 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). Through cooperation with partners abroad, it also has access to a global logistics network. PostBus operates several bus networks in France with around a dozen subsidiaries, as well as the entire regional transport network in Liechtenstein.

Swiss Post generates around 86 percent of its sales in competition. The remaining 14 percent is accounted for by the monopoly on letters of up to 50 grams, where Swiss Post is in competition with electronic services. Domestic business accounts for 88 percent of sales, with 12 percent generated abroad.

Network

Swiss sales

Unique sales
network with
customer-centred
access points

Swiss Post's diversified sales network covers the communication, logistics and retail financial markets. Swiss Post offers its customers a uniquely powerful and extensive network with 1,662 post offices, 569 agencies and 1,269 home delivery services.

There is also a network of 45 PostFinance branches, 57 consulting offices and 967 Postomats. 168 PostFinance employees advise small and medium-sized business customers directly at their premises.

With PickPost, customers can choose to collect parcels and letters at over 700 post offices, petrol stations and train stations, sometimes well after normal post office opening hours. In addition, Swiss Post is building up a network of parcel terminals where customers can collect and drop off parcels at any time. Customers can also access over 15,002 letter boxes throughout Switzerland, while over 46 acceptance points are available for business customers.

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. In areas with many companies, Swiss Post now offers needs-based business customer solutions for posting parcels and letters. In larger municipalities, Swiss Post concentrates on individual, customer-focused 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 and www.postfinance.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 page 19 of the Annual Report.

PostBus

In the passenger transport market, PostBus offers 848 PostBus routes in Switzerland, covering 11,548 kilometres and 14,481 stops in the public transport network, as well as tourist routes and ScolaCar school buses. It also operates the PubliBike bike sharing service, providing more than 1,000 bikes at over 100 stations.

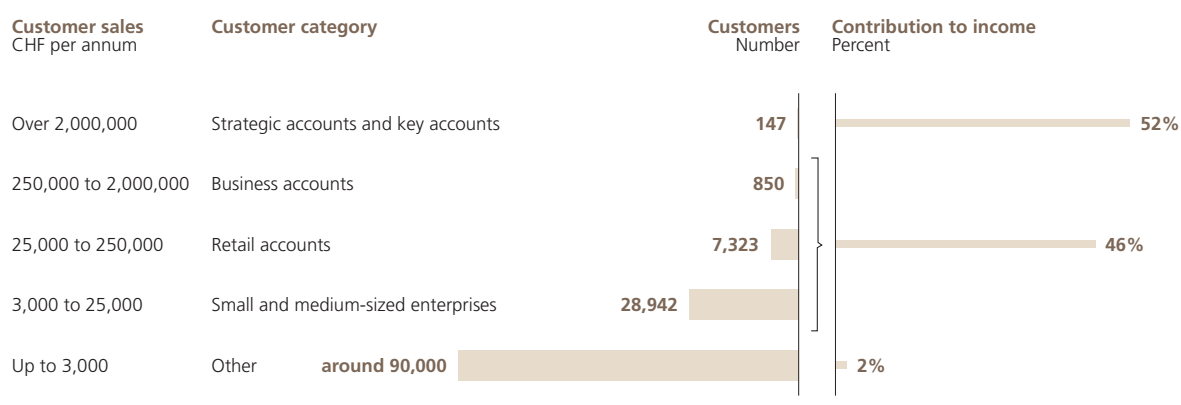
Customers

Swiss Post's communication and logistics customer base comprises several million individuals and around 130,000 companies ranging from small businesses to large multinationals.

Most of Swiss Post's logistics income stems from its business customers. Its 147 key accounts are particularly important, generating around 52 percent of business customer income. The Group's business customers also include 850 business accounts with annual sales of between 250,000 and 2 million francs, 7,323 retail accounts (annual sales of 25,000–250,000 francs) and 28,942 small and medium-sized enterprises (SMEs, annual sales of 3,000–25,000 francs). The remaining 90,000 or so communication and logistics business customers are micro-enterprises with sales of up to 3,000 francs.

Key accounts generate 52 percent of logistics income

Communication and logistics market | Income with business customers
2013, Customer structure and contribution to income



PostFinance's customer base in the retail financial market is similar. At year-end, 2,581,822 private customers and 305,484 business customers (including 708 banks) maintained a business relationship with PostFinance.

Solutions, products, services and brands

Services provided for private customers and SMEs include letters, courier, express and parcel deliveries, financial services (payments, savings, investments, retirement planning and financing) and passenger transport services. Swiss Post also offers customers a broad range of third-party products across 1,662 post offices such as motorway tax stickers, stationery, mobile phones and computers.

The services offered to business customers are structured partly as solutions along the e-commerce value chain and partly as specific products in the communication, logistics, retail financial and passenger transport markets.

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Communication market

Letters

Various mailing 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 features 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 and postal-related BPO solutions (business process outsourcing)

Operation of internal post offices and processing centres for incoming mail, as well as call and printing centres. Complete processing of incoming mail such as requests, orders, invoices, complaints, loss reports and payment transaction documents. Secure electronic delivery of business mail. Introduction and operation of all-round solutions for document management, payment transactions, invoicing, accounts receivable management and customer retention.

Logistics market

National and international goods, freight and warehouse logistics (courier, express, parcels, small consignments and overnight deliveries), international shipments (up to 500 kilograms) to around 200 countries with value-added services such as customs clearance, security logistics (ATM replenishment, transporting cash and valuables) and the combination of physical logistics with integrated IT solutions and recipient services.

Retail financial market

Financial services for small, medium-sized and large companies, public entities and associations include business accounts, physical and electronic services for national and international payment transactions, savings and e-savings accounts as well as solutions for custom financing of liquidity and current assets in cooperation with Valiant Bank. PostFinance is continually developing the range of products in its core business. It aims to offer customers new services to help them with working capital management. Debtors Service Ltd, a subsidiary, provides additional solutions for accounts receivable management and factoring. Also worth noting are payment transaction solutions for banks and other financial institutions in Switzerland and Liechtenstein.

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 (e.g. with PubliBike, the largest bike sharing service provider in Switzerland). 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.

Sustainability contributes to economic value added for Swiss Post.





Sustainability

Swiss Post creates added value on 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.

Brands

Swiss Post is one of the best-known brands in Switzerland. It pursues a core brand strategy. The core brand Swiss Post and the flagship brand PostBus are managed in four languages. PostFinance, the second flagship brand, is language-neutral. The branding strategy stems from the Group's strategy and is based on its vision. Swiss Post's brands provide guidance, inspire confidence and strengthen its long-term reputation. In addition to these values, the symbiosis of tradition and innovation is a growing priority for the Swiss Post brand.

Brands and markets

Core brand		
SWISS POST 		
Flagship brand		Flagship brand
PostBus 	SWISS POST 	PostFinance 
Passenger transport market	Communication and logistics markets	Retail financial market

It owes its popularity to the consistent image portrayed throughout its physical and electronic contact points.

Its brand personality, defined by the slogan “We get things moving” and its core values – “reliable”, “value-enhancing” and “sustainable” – are the traditional pillars of the Swiss Post brand. It is important to safeguard these characteristics in the future. Ultimately, they form the basis for the “innovative”, “dynamic” and “flexible” brand positioning it is aiming for.

Swiss Post is constantly developing its brands and supplementing them with innovative new services. This includes focusing on innovation within communication in order to convey the desired characteristics, anchor them in people's minds and achieve brand positioning.

The yellow brand colour forms the visual basis for rapid brand recognition. The corporate design is continually monitored and updated as necessary for each different type of media. Design principles have been devised for print media, electronic media, social media, trade fairs and events, labelling, objects and premises, clothing, gifts and vehicles.

In 2013, Swiss Post cultivated brand presence through its attendance of numerous public exhibitions and trade fairs throughout Switzerland, its participation in various customer events, and its sponsoring commitments to running, the Swiss film industry and the “2 x Christmas” campaign.

A cross-unit campaign is being prepared for 2014 to highlight the variety of well-known and less well-known digital, as well as physical services provided.

The brands and the yellow brand colour are protected as registered trademarks in Switzerland and selected countries abroad. Compliance with trademark regulations is monitored on an ongoing basis. Image and reputation studies are conducted annually to assess the brands and analyse their development.

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Organization

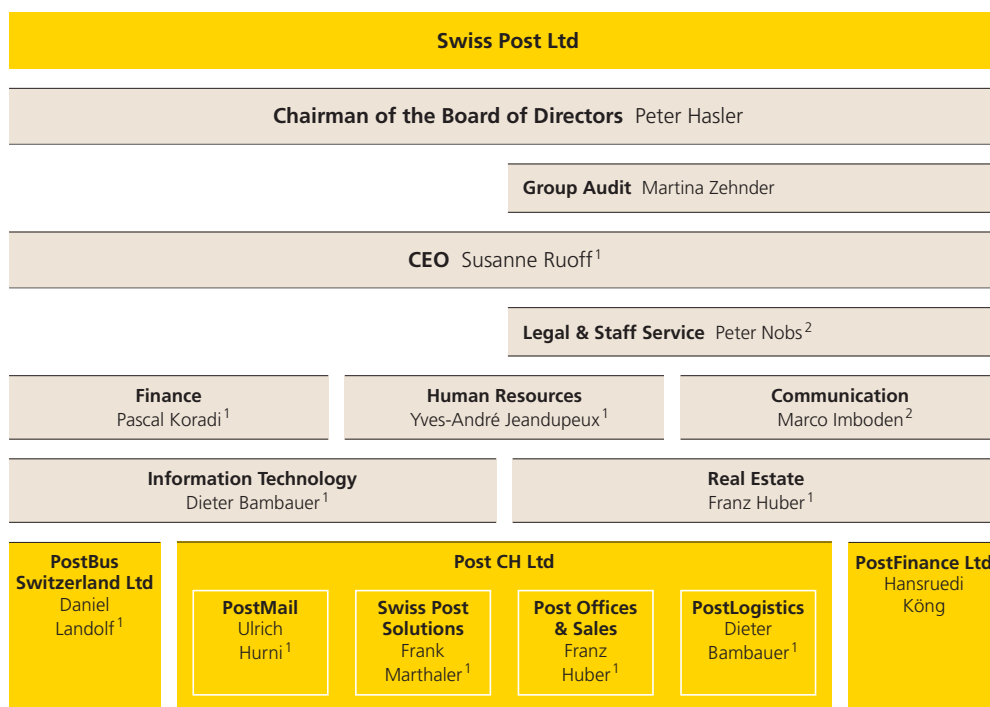
Swiss Post is divided into six Group units: PostMail, Swiss Post Solutions and Post Offices & Sales operate in the communication market. Meanwhile, PostLogistics focuses on the logistics market, PostFinance on the retail financial market, and PostBus on the passenger transport market. They are presented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

Management and service units (Finance, Human Resources, Communication, Legal & Staff Service, Information Technology and Real Estate) support 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 subsidiaries PostBus Switzerland Ltd, Post CH Ltd and PostFinance Ltd, which in turn have subsidiaries of their own.

Organization chart

31.12.2013



¹ Member of Executive Management

² Member of Extended Executive Management

The new Group Development Programmes unit was formed on 1 January 2014 to strengthen business development and promote innovation. It reports directly to the CEO.

More information on the Board of Directors and Executive Management can be found on pages 49 to 51 and 54 to 56.

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

Group strategy

Swiss Post's vision, together with its core values and strategy, are derived from postal legislation and the directives of its owner. These directives are set out in the strategic objectives of the Federal Council, which are revised every four years. Swiss Post's six strategic objectives are, in turn, derived from the Federal Council's objectives. Swiss Post seeks to create added value for Switzerland, for its customers, its employees and its owner by safeguarding the quality of the universal service, operating in a sustainable manner, increasing customer satisfaction and employee commitment, and meeting its owner's objectives by achieving a stable market position. It aims to ensure these objectives are met by means of five strategic thrusts.

Group | Strategy

2011–2013

Statutory mandate and strategic objectives set by the Federal Council

Vision and core values				
We move people, goods, money and information				
"reliable"		"value-enhancing"		"sustainable"
Strategic objectives				
Create added value for				
Switzerland	Our customers	Our employees	The owner	
Universal service regulatory audit certification Sustainability – 15,000 t CO ₂ emissions/year by the end of 2013	Customer satisfaction at least 75 points (scale of 0–100)	Employee commitment at least 80 points (scale of 0–100)	Finance EBIT of CHF 700–800 million Market position leading market position in Switzerland	
Strategic thrusts				
Exploit regulatory conditions	Offer high quality services	Offer competitive prices	Generate sustainable, profitable growth	Implement socially responsible cost efficiency
Strategic measures				

The 2014 – 2016 strategy was approved by the Board of Directors in December 2013 for implementation as of 1 January 2014. Measures included establishing a new corridor of 700 to 900 million francs for the financial objective in terms of EBIT.

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 new postal regulation, 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.

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 customers sending letters and parcels. The second objective of the universal service is to take into account the needs of customers

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receiving post. High demands are placed on Swiss Post for home delivery (delivery method and nationwide availability). A and B Mail are still regarded as universal service products and are subject to much stricter requirements regarding delivery times 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 will continue to include opening an account and making transfers, deposits and withdrawals. 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

2013	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 targets

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 objectives. 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, retail financial 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. It must also offer attractive, competitive employment conditions, help employees to balance work and family commitments and encourage fair representation of gender and language regions.

Vision

Swiss Post's actions are guided by its vision and its core values:

**We move people, goods, money and information –
in a reliable, value-enhancing and sustainable way.**

Developments

Trends

Deregulation in the spotlight

Legal and political: deregulation

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 letter 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 shifted. 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 economically viable universal service can continue to be provided in Switzerland. Complete market deregulation would require a debate about regulatory conditions and the scope of the universal service, in order that this can still be provided in an economically viable manner in the long term.

Merging physical and digital solutions

Social: change in consumer culture

The everyday lives of many people have been taken over by the use of modern devices such as smart-phones and tablets and the 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. Online shopping is becoming the norm for more and more consumers (regardless of age, income or 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 have both online and offline concepts and are combining e-commerce with 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. 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.

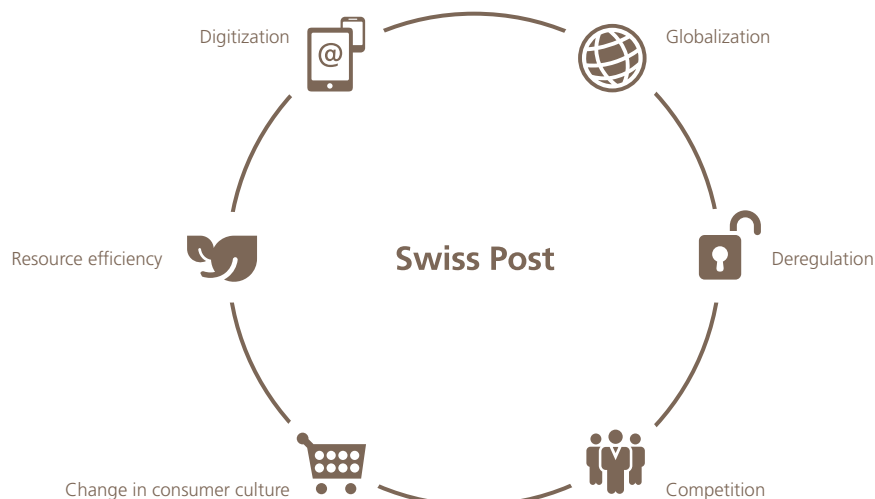
Environmental: resource efficiency

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.

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Group | Trends in the environment

2013



Market trends

Communication market

In the letters market, Swiss Post provides Switzerland's universal postal service. It fulfils this mandate with a 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 competition from 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. Meanwhile, 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. This is spreading to parcels and express deliveries. Customers, particularly business customers, are sensitive to prices, but continue to expect high quality. Hence, 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 cross-border 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, because business customers increasingly expect a single solution provider for all their logistical needs. 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 actual transportation 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 heavy goods vehicle tax are having a direct impact on the logistics margins that can be achieved.

Potential in promotional mailings and document processing

Growth in e-commerce the driving force behind logistics

Mobile and electronic business take centre stage

Combined, sustainable mobility

Retail financial market

Despite a slight recovery, interest rates on the capital market remain low, which is having a significant effect on earnings. The need to comply with increasing regulatory requirements is a further challenge that is leading to a rise in the cost of business processes. Digitization is shaping the development of the financial services market from the customer's point of view. Innovative non and near-banks are creating additional competition and provoking traditional market stakeholders with their approach.

Passenger transport market

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 as a result of the economic crisis. 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 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 largely a protected market. 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.

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.

Objectives

Swiss Post sets its priorities in the form of six strategic objectives, 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 2013 for implementation as of 1 January 2014, Swiss Post's new goal is to achieve an annual EBIT of 700 to 900 million francs (see page 26).
- In Switzerland, it aims to attain leading market positions with its business activities (see page 23).

Added value for customers:

- Swiss Post attains a consistently high customer satisfaction rate of 75 points (on a scale of 0 to 100) (see page 37).

Added value for employees:

- Employee commitment remains high at 80 points (on a scale of 0 to 100) (see page 37).

Added value for Switzerland:

- Swiss Post provides a high-quality universal service (see page 39).
- It reduced its annual CO₂ emissions by 15,000 tonnes by the end of 2013 (see page 38).

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Strategic thrusts

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

- Offer high-quality services
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.
- Charge 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.
- Secure long-term profitable growth
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.
- Ensure socially responsible cost 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.
- Optimally exploit regulatory conditions
To enable Swiss Post to continue to develop strongly 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.

Anyone who thinks about e-commerce should think of Swiss Post.

Markets

The strategic objectives and thrusts are ensured by the following solutions and market strategies:

E-commerce is a central connecting element between the services offered in the communication, logistics and retail financial markets. By progressively combining modular services from individual markets to form an integral range, and consistently gearing its product portfolio and services to meet the needs of senders and recipients, Swiss Post can position itself as a key service provider along the e-commerce value chain. In doing so, Swiss Post can promote sustainable and profitable customer relationships in the long term.

Communication

PostMail

PostMail's core business is the acceptance, sorting and delivery of letters, newspapers and promotional mailings for all customers in Switzerland. Through ongoing optimization of its logistics and information technology, PostMail is streamlining its processes and keeping costs under control. By deploying the latest technology, PostMail strives to attain maximum reliability and quality with excellent value for money. Letters are specifically positioned as a means of communication that will stand out from other competing media due to their stronger impact, by increasing the level of recognition of a company and improving the image of the sender for example. These marketing advantages are reflected in higher numbers of visitors and sales rates in e-commerce and other areas. PostMail will continue to invest in the letters business and optimize its infrastructure. It will develop existing services to meet the needs of customers and will specifically encourage growth in direct marketing. Synergies from the Mail International merger will be achieved in the import and export business in Switzerland. New growth opportunities can be found 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 a leading provider of comprehensive document processing services and solutions for outsourcing paper-based business processes. The 7,500 or so employees at SPS serve business customers in the insurance, banking, telecommunications, media, retail, energy and travel and transportation sectors. SPS operates in all the major economic areas around the globe and generates around 70 percent of its sales abroad. Its core markets are Switzerland, Germany, the UK and the USA.

Post Offices & Sales

Post Offices & Sales is seeking to make its services both customer-friendly and cost-effective. To do so, the unit is constantly developing its sales network. The range of logistics products for private customers will be further simplified and made available for new uses.

Logistics

PostLogistics

PostLogistics has positioned itself as the quality and cost leader in the CEP submarkets (courier, express, parcels) nationally and internationally, small consignments and warehousing, international transport, overnight logistics and e-commerce/e-fulfilment. Its core business lies in the domestic CEP segment. It intends to develop its position through consistent cost management, increased automation and the expansion of value-added services for sending and receiving customers. In the international CEP segment, PostLogistics positions itself as a market leader in cross-border logistics and customs clearance. In small consignment and warehousing logistics, as well as in overnight logistics, PostLogistics offers add-on services. Within international transport, PostLogistics plans to strengthen its presence and safeguard its connections to cross-border networks. Swiss Post and PostLogistics are looking to share in the strong growth in e-commerce, by combining various individual services along the value chain into an end-to-end offer, with logistics and the core parcels business at PostLogistics as the focal point.

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Retail finance

PostFinance

PostFinance focuses consistently on its core business and aims to be the first choice for Swiss private and business customers who want to manage their finances independently. Customers appreciate the straightforward, functional relationship with PostFinance via its open access channels and the most user-friendly, yet attractively priced services on the market. PostFinance offers private customers and small and medium-sized enterprises a clearly structured range of products that are user-friendly and easy to understand. When it comes to major business customers and banks, PostFinance ensures that product solutions are ideally suited to customer processes.

PostFinance wants to defend its market share and remain the number one in payment transactions. With this in mind, it is modernizing its core banking system and expanding its product range. It is adopting a new look in digital contact points and extending the personal finance management area (e-cockpit) for private customers. It is consistently developing mobile payment solutions. The aim is to tap into new sources of revenue by achieving growth along the value chain.

A new value proposition is being established for major business customers in connection with working capital management. The emphasis is on offering integral advice in all areas of working capital management. The aim is to expand and integrate current services to create solutions that are optimally tailored to the process chain and to customer requirements together with comprehensive advice.

Passenger transport

PostBus

PostBus intends to build on its leading position in bus transport, 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 and system 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 objectives of the Federal Council. In accordance with its owner's objectives, 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 objectives 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 objectives. Besides economic value added, which is included as a key figure in the calculation of the variable performance component of management remuneration (please also see "Determination of remuneration" in the Annual Report), operating profit (before management, licence fee and net cost compensation) is an important financial objective. The units have a large degree of freedom within the framework of strategic planning and the budget. 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 is considered from two different standpoints: the management structure and the legal structure. These different structures are taken into account in the reporting, which, in turn, 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 objectives 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, it is 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 targets
The annual targets are to help achieve the quantitative and qualitative objectives formulated in the strategies. They cover the following areas: market, service provision, resources, management and organization. The success in meeting the annual targets 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, and also form the basis for target agreements between the CEO and the unit heads. 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 on all levels. They are designed to provide insight into the main developments, plans as well as problems and measures in respect of the corresponding 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 budget variance. The periodicity of the commentary depends on the key figure on which it is based and the variance.

Group profit affected by liability for taxation

Business performance

Key figures

Swiss Post successfully completed the transition to its new legal form and remains on track in the first year following its conversion to a public limited company. In 2013, it achieved Group profit normalized to take account of one-off items of 626 million francs (previous year: 772 million francs). The decline of 146 million francs is due to the Group result being fully subject to taxation for the first time following the conversion to the new legal form. Adjusted operating profit (EBIT) rose to 911 million francs (previous year: 860 million francs). This increase of 51 million francs was achieved thanks to solid income on the financial and investment markets and good cost management. All four markets contributed to this result.

Group | Key figures

2013 with previous year for comparison

		2013	2012
Results			
Operating income ¹	CHF million	8,575	8,576
Generated abroad	CHF million ²	1,031	1,025
	% of operating income	12.0	12.0
Reserved services	CHF million ³	1,237	1,360
	% of operating income	14.4	15.9
Operating profit ¹	CHF million	911	860
As a share of operating income	%	10.6	10.0
Generated abroad	CHF million ²	47	35
	% of operating profit	5.2	4.1
Group profit ¹	CHF million	626	772
Employees			
Headcount at Swiss Post Group	Full-time equivalents	44,105	44,605
Abroad	Full-time equivalents	6,779	6,621
Financing			
Total assets	CHF million	120,383	120,069
Customer deposits (PostFinance)	CHF million	109,086	110,531
Equity	CHF million	5,637	3,145
Investments			
Investments	CHF million	453	443
Other property, plant and equipment, intangible assets	CHF million	364	228
Operating property	CHF million	–	162
Investment property	CHF million	48	19
Investments	CHF million	41	34
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities	CHF million	–367	13,424
Value added	CHF million ⁴	5,688	5,314
Economic value added	CHF million	135	269

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

Additional key figures and explanatory notes can be found in the table of figures (for reference source, see page 174).

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One-off items

Swiss Post's financial result (Group) includes three one-off items in 2013. These did not lead to any adjustment of the previous year's figures. The one-off items and their financial impact are explained in detail on page 30. The non-consideration (normalization) of the three one-off items allows comparison with the previous year and provides an accurate representation of the current operating business performance.

Drivers

The economy

According to the Swiss National Bank (SNB), growth in the global economy in 2013 was modest by historical standards, despite far calmer global financial markets. Economic growth in the second half of the year was driven mainly by the United States, the United Kingdom and China. Development was much weaker in the euro zone and in many emerging economies. The economic situation in Switzerland remained favourable in the second half of the year, which was reflected in correspondingly robust growth levels. According to initial estimates, growth continued at the same rate as in the first half of the year. It was broadly based across different sectors. The ongoing positive economic situation on the domestic market helped boost activity. Economic growth in Switzerland, Swiss Post's most important market, nonetheless remained below its long-term average.

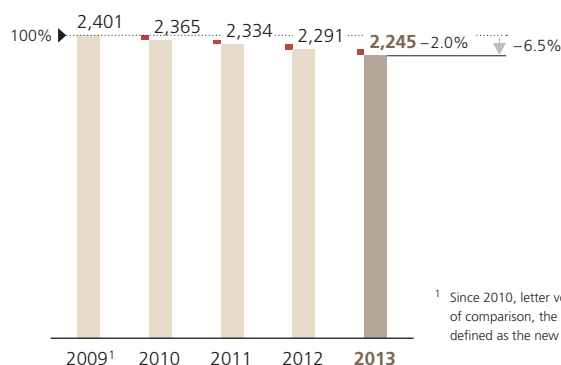
Communication market

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 2013 was 2 percent lower year-on-year. Unaddressed mail increased by around 1.7 percent year-on-year as a result of acquisitions. On the other hand, newspaper delivery volumes saw negative performance (–3.2 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 6.2 percent year-on-year. At Swiss Post Solutions, income from services provided remained largely unchanged.

Decline in addressed letters

Communication market | Addressed letters
2009 to 2013 showing change from prior year / over four years
2009 = 100%¹, figures expressed in millions



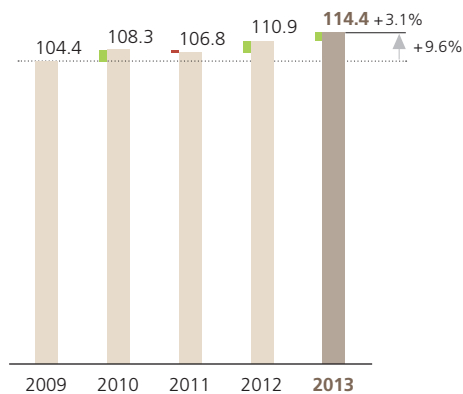
Ongoing positive trend in parcel volumes

Logistics market

The logistics sector continues to be characterized by increasing competition and price pressure, both nationally and internationally. Customers are price-sensitive and have high expectations as regards quality. As a result of deregulation and changing customer needs, there is increasing overlap between the courier, express and parcels segments and traditional dispatch. Parcel volumes increased year-on-year, both domestically (+ 3.1 percent) and in terms of imports and exports (+ 12.5 percent). This is due to a rise in online trade and the integration of the import/export activities of Swiss Post International.

Ongoing positive trend in parcel volumes

Logistics market | Parcels
2009 to 2013 showing change from prior year/over five years
2009 = 100%, figures expressed in millions



Continued rise in customer deposits

Retail financial market

PostFinance recorded a further increase in average customer deposits 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 deposits in 2013 totalled 106,542 million francs. This represents an increase of around 7 percent year-on-year.

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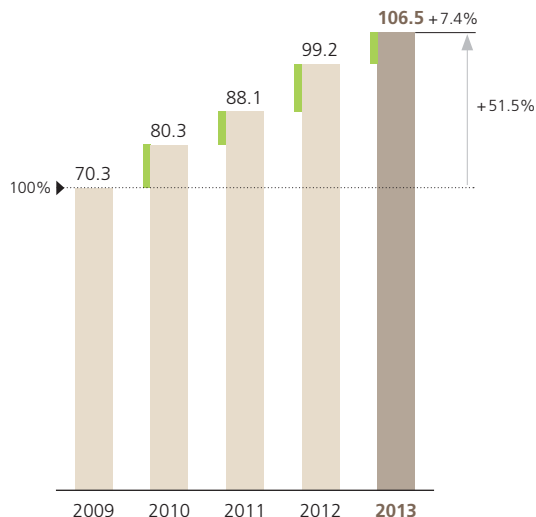
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Steady increase in average customer deposits

Retail financial market | Average customer deposits (PostFinance)

2009 to 2013 showing change from prior year / over five years

2009 = 100%, CHF billion



Marked increase in passenger numbers

Passenger transport market

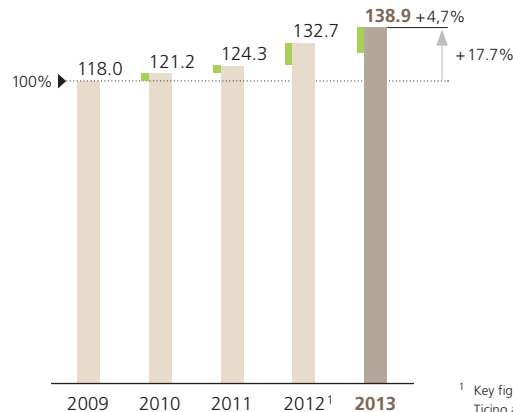
The national passenger transport market is growing steadily. As the budgets of public sector organizations which act as contracting bodies for transport services are squeezed once again, the pressure on prices is set to increase even more, slowing the further expansion of the public transport network. PostBus has been operating urban bus networks and bus routes in France for a number of years. In 2013, PostBus increased the number of kilometres covered by 4 percent, recording a total of 134 million kilometres. Special transport in Switzerland contributed to this figure, as did the expansion of services in France. In Switzerland, PostBus carried around 139 million passengers in 2013. This represents an increase of 4.7 percent over the previous year.

Marked increase in passenger numbers

Passenger transport market | Number of passengers (Switzerland)

2009 to 2013 showing change from prior year / over five years

2009 = 100%, passengers in millions



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

Profit situation

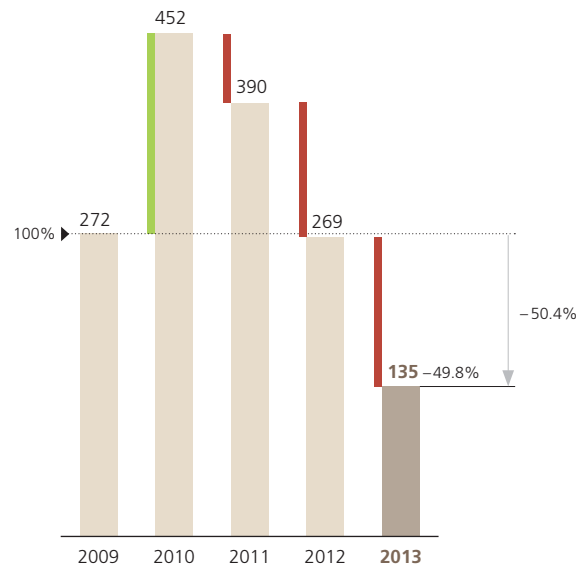
Economic value added

Tax burden reduces economic value added

In line with the Federal Council's financial targets, Swiss Post is expected to maintain and increase economic value added. 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 target, 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 57).

Tax burden reduces economic value added

Group | Normalized economic value added
2009 to 2013 showing change from prior year / over five years
2009 = 100%, CHF million



Economic value added in the Logistics unit is calculated from adjusted operating profit (NOPAT) minus capital costs (cost of capital for Logistics times average invested capital, or NOA). In the retail financial market, it is calculated from earnings before tax (EBT) in accordance with IFRS minus capital costs (cost of capital in the retail financial market times relevant average capital).

As at 31 December 2013, Swiss Post met the financial expectations of the Federal Council and generated normalized economic value added of 135 million francs. This is around 50 percent less than in the previous year (269 million francs). The decrease is mainly due to Swiss Post being fully subject to taxation for the first time.

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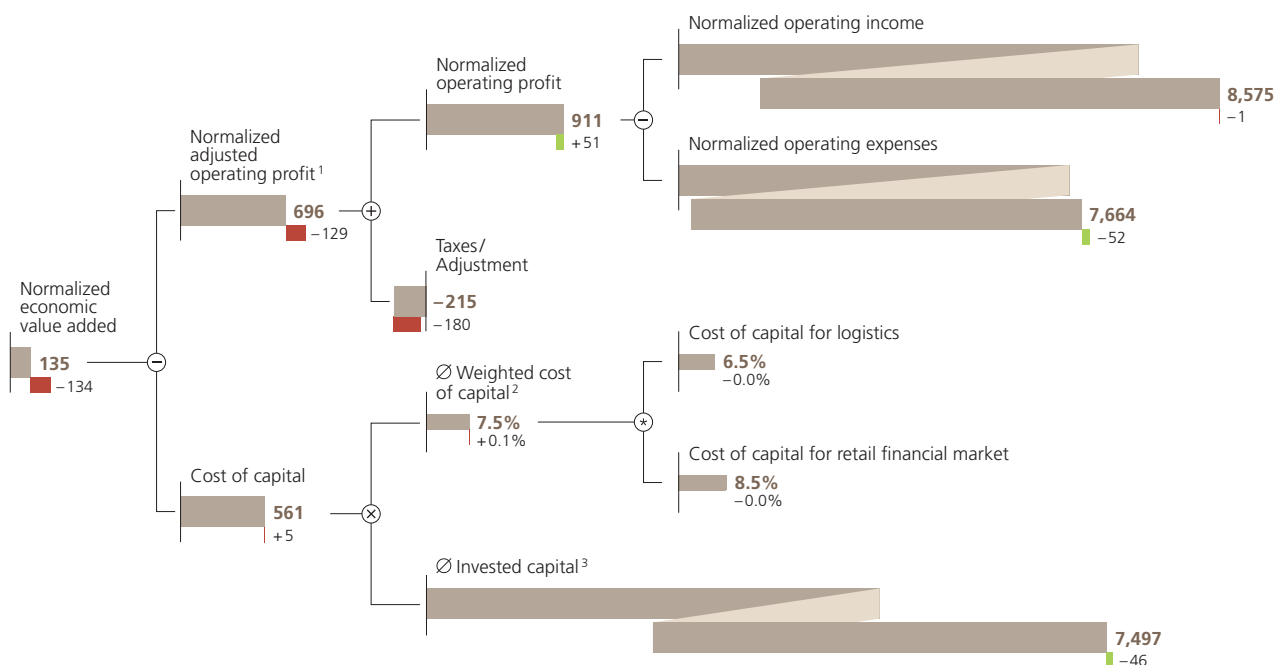
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Tax burden holds back growth in economic value added

Group | Normalized economic value added

2013 showing change from prior year
CHF million, percentage points



⊖ Weighted with the average invested capital in logistics and in the retail financial market (PostFinance).

¹ Net operating profit after tax (NOPAT).

² Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity capital for the retail financial market (PostFinance).

³ At PostFinance corresponds to ⌀ average equity in accordance with Basel II (CHF 3,917 million) and in logistics units to the ⌀ average net operating assets (NOA) of CHF 3,580 million.

Income statement

Operating income

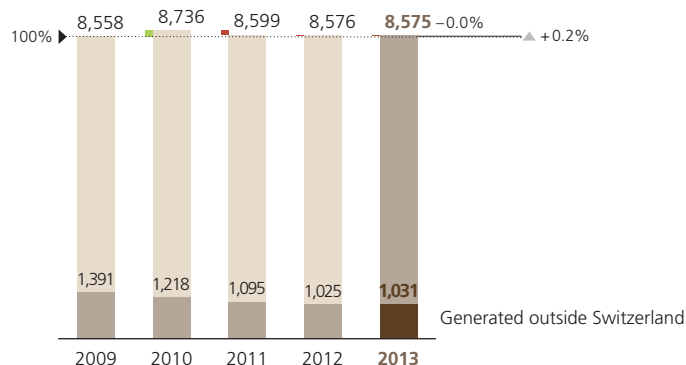
Normalized operating income stood at 8,575 million francs in 2013 (previous year: 8,576 million francs).

Stable profit situation

Normalized operating income on a par with previous year

Group | Normalized operating income

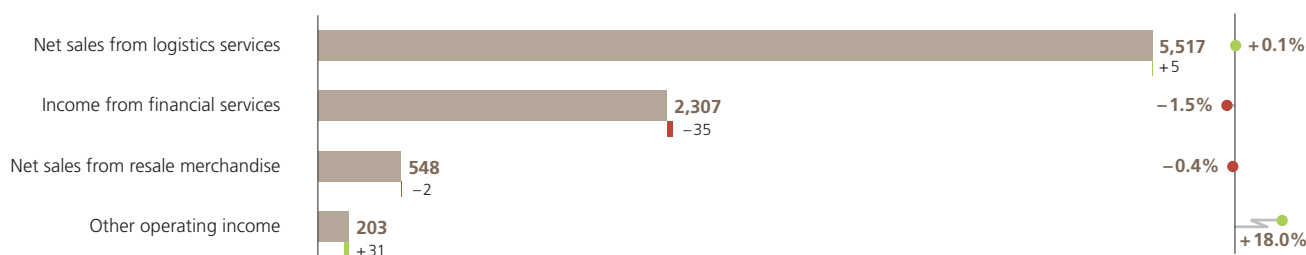
2009 to 2013 showing change from prior year / over five years
2009 = 100%, CHF million



Normalized net sales from logistics services increased by 5 million francs to 5,517 million francs year-on-year. Net sales from resale merchandise were stable. In income from financial services, lower interest income due to market conditions could only be partially offset by higher income from the disposal of financial assets and the rise in commission and service income. Other operating income increased by 31 million francs year-on-year following sales of property, plant and equipment.

Stable operating income from various services

Group | Normalized operating income
2013 showing change from prior year
CHF million, percent



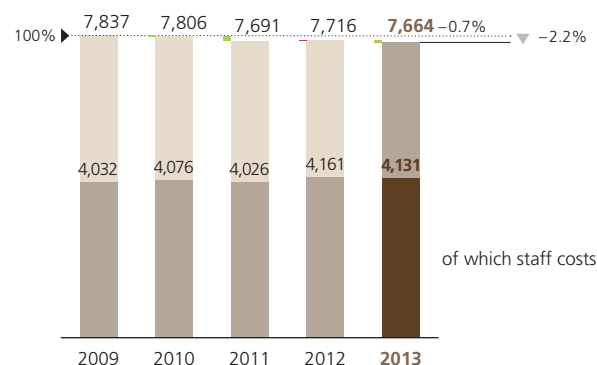
Considerably less expenses for financial services

Operating expenses

Normalized operating expenses fell by 52 million francs to 7,664 million francs year-on-year (previous year: 7,716 million francs). The share of normalized staff costs in total normalized operating expenses remained stable and stood at about 54 percent in 2013.

Stable operating expenses

Group | Normalized operating expenses
2009 to 2013 showing change from prior year / over five years
2009 = 100%, CHF million



The decrease in normalized staff costs was primarily due to the lower average headcount. Resale merchandise and service expenses remained at the previous year's level. Expenses for financial services fell significantly by 88 million francs to 492 million francs due to lower interest expense (previous year: 580 million francs). Other operating expenses remained stable in 2013. Depreciation and amortization costs increased slightly.

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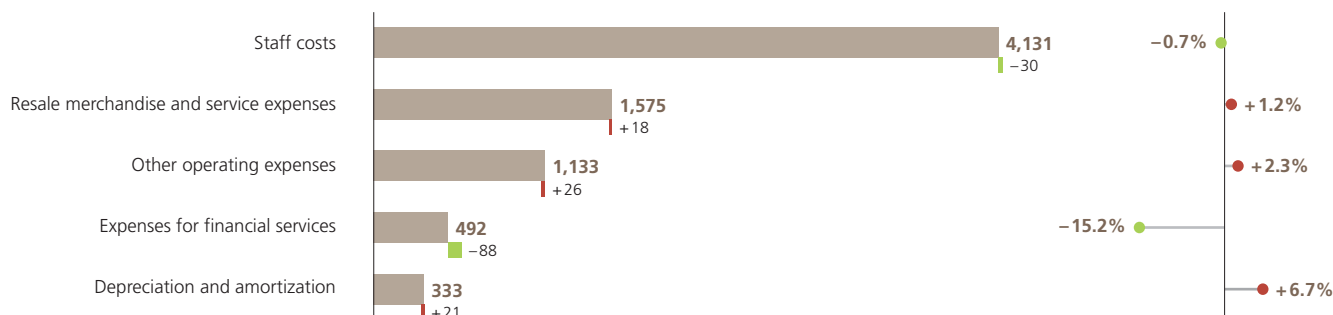
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Stable operating expenses

Group | Normalized operating expenses
2013 showing change from prior year
CHF million, percent

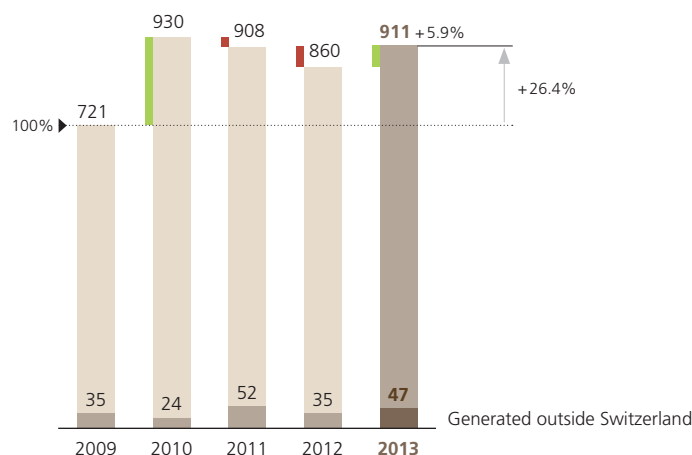


Operating profit

The year-on-year increase in normalized operating profit is attributable primarily to lower expenses. The aforementioned expense and income trends led to an improvement of 51 million to 911 million francs in normalized operating profit.

Significant increase in profitability

Group | Normalized operating profit
2009 to 2013 showing change from prior year / over five years
2009 = 100%, CHF million



**Liability for
taxation reduces
Group profit**

Group profit

Income from associates and joint ventures stood at 7 million francs, down from 10 million francs the previous year. Financial income fell by 8 million francs year-on-year. Financial expenses rose by 11 million francs over the previous year, partly as a result of loan amortization. Normalized income tax expense increased by 175 million francs to 213 million francs. This rise was partly due to the fact that Swiss Post subsidiaries became liable for tax on earnings for the first time, which resulted in a normalized Group profit of 626 million francs. Excluding the one-off items noted at the beginning of this report, Group profit stands at 1,751 million francs.

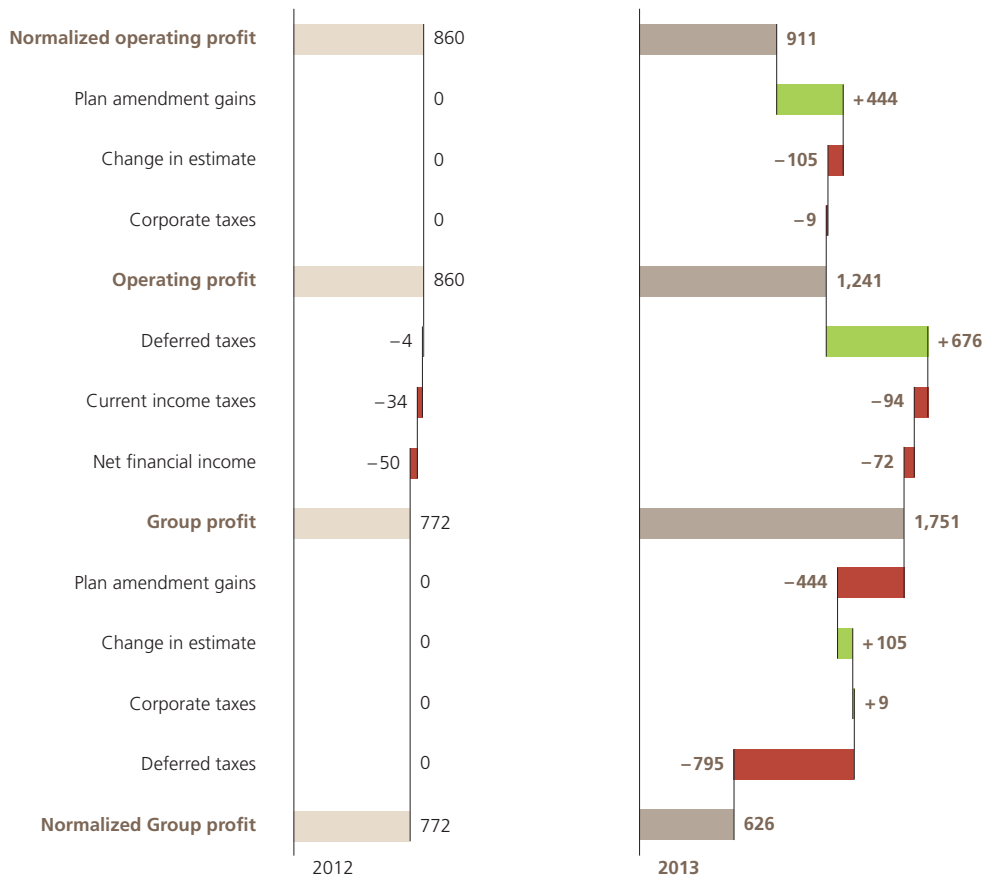
One-off items

As mentioned in the introduction, Swiss Post's financial result includes the following one-off items in 2013 (normalization):

- Income tax income due to the initial recognition of deferred taxes arising from full liability for taxation with effect from 1 January 2013, as well as 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.

Group profit and operating profit affected by significant one-off items

Group | Normalized Group profit
2012 and 2013
CHF million



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Segment results

Overview

All the markets contributed to operating profit.

Group Segment results		Operating income ¹		Operating profit ^{1,2}		Margin ³
1.1. to 31.12.2013 with prior-year period						
CHF million, percent		2013 ⁷	2012	2013 ⁷	2012	2013 ⁷
Communication market		4,891	4,780	238	42	4.9
PostMail		2,959	3,102	324	346	10.9
Swiss Post Solutions		616	549	5	3	0.8
Post Offices & Sales		1,697	1,509	-91	-307	
Logistics market						
PostLogistics		1,581	1,535	133	149	8.4
Retail financial market						
PostFinance ⁴		2,377	2,356	537	623	
Passenger transport market						
PostBus ⁵		812	778	28	35	3.4
Other ⁶		897	938	-25	7	
Consolidation		-2,364	-2,191	-	4	
		8,575	8,576	911	860	

1 Operating income and operating profit by segment are now reported before management, licence fee and net cost compensation. Prior-year figures have been adjusted.

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

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

4 PostFinance is regulated by the Swiss Financial Market Supervisory Authority (FINMA) and therefore subject to its Bank Accounting Guidelines (BAG). There are differences between BAG and IFRS.

5 In the field of regional public transport, PostBus is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between RKV and IFRS.

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

7 Normalized figures.

The normalization mentioned in the introduction had an impact on operating expenses and hence on operating profit in all the segments. However, operating income was only affected by normalization in the Post Offices & Sales segment.

Communication market

PostMail

In 2013, PostMail registered normalized operating profit of 324 million francs (before normalization: 491 million francs), some 22 million francs less than the previous year, primarily as a result of higher employee benefit expenses and a rise in payments for internal services.

Operating income decreased by 143 million francs year-on-year and stood at 2,959 million francs. International business was hit hardest by the decline, which is a result of the outsourcing of international letter business to Asendia, a joint venture established in collaboration with France's La Poste. As with volume trends, sales from addressed mail and newspapers also registered a downturn.

Normalized operating expenses were reduced by 121 million francs year-on-year to 2,635 million francs. Again, this was primarily due to the outsourcing of international business to the joint venture Asendia and the associated reduction in staff and service expenses.

Headcount declined by 700 full-time equivalents year-on-year. This reduction was due to foreign subsidiaries joining the Asendia joint venture on the one hand, and to efficiency improvements on the other.

PostMail: result
down slightly
year-on-year

Swiss Post Solutions: operating profit on a par with previous year

Swiss Post Solutions

Swiss Post Solutions posted normalized operating profit of 5 million francs (before normalization: 15 million francs), which was 2 million francs higher than the previous year's level. Significantly higher earnings were recorded in Italy, in France as a result of non-recurring restructuring costs, and for the ePost Product House. In contrast, income fell in Germany due to the poor performance of the Cards unit and the loss of revenues from first shipment of electronic health cards. The decrease in the UK can be explained by the non-recurring one-off effect from the previous year and the acquisition costs for Pitney Bowes. The loss of Barclays, a major customer, led to a slight reduction in the US. Swiss Post Solutions carried out two acquisitions in 2013. Scalaris AG has belonged to the Swiss Post Solutions unit since the end of February, and Pitney Bowes Management Services in the UK was taken over at the beginning of September. In the course of the financial year, both acquisitions had a net impact of 2 million francs on operating profit.

At 616 million francs, operating income was 67 million francs up on the previous year. Of this, 42 million francs were generated by the newly acquired entities. Solid growth was achieved in the Document Output unit, in Italy and in France/the Benelux countries in particular. The ePost Product House increased operating income by around 6 million francs. This increase more than offset the loss of revenues from first shipment of electronic health cards in Germany, the discontinuation of the consulting business and lower sales from Cards. Business in Switzerland slowed slightly due to high competitive pressure. The loss of major customer Barclays in the US could not be fully offset. Activities were sold off to allow a greater focus of the business model on document solutions. This generated 20 million francs of extraordinary income, offset by extraordinary expenses on a similar scale.

Normalized operating expenses rose by 65 million francs year-on-year. Of this, 40 million francs were generated by acquisitions. Operating expenses grew in line with operating income, as margin expansion in growth areas was undone by margin erosion in the Cards business.

Average headcount rose from 6,502 to 6,798 full-time equivalents year-on-year. The increase represents an average of 296 extra full-time equivalents, due primarily to the addition of employees from newly acquired companies and a slight rise in headcount in various countries as a result of new business. In contrast, a reduction in personnel was recorded in the consulting business in Germany.

Post Offices & Sales

In 2013, Post Offices & Sales recorded normalized operating profit of –91 million francs (before normalization: –110 million francs) and improved operating profit by 216 million francs year-on-year. The fall in sales of logistics products was offset by savings on the expense side.

Normalized operating income was up by 188 million francs year-on-year to 1,697 million francs. The decline in volumes of the logistics products letters and parcels led to a fall in sales of 7 million francs. Income from resale merchandise increased slightly by 2 million to 513 million francs thanks to philately-related products. Higher internal payments for services led to a 194 million franc increase in revenue from financial products and business customers, despite lower volume trends.

Normalized operating expenses were cut by 28 million francs year-on-year to 1,788 million francs. Volume trends for postal products led to a fall in expenses of around 4 million francs. The remaining expenses were reduced by a further 23 million francs, primarily due to consistent cost management and positive effects from the development of the post office network in terms of staff costs and rental expenses.

Headcount totalled 6,591 full-time equivalents, 133 fewer than the previous year as a result of developments in the post office network.

Post Offices & Sales: improvement in operating profit

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PostLogistics: solid operating profit achieved

Logistics market

PostLogistics

PostLogistics achieved normalized operating profit of 133 million francs (before normalization: 189 million francs), representing a fall of 16 million francs year-on-year. This decline in the normalized result was due to the payment of full costs to Post Offices & Sales.

Operating income totalled 1,581 million francs, exceeding the previous year's total by 46 million francs. This was mainly attributable to the integration of Swiss Post International products as of 1 January 2013, and to an increase in parcel volumes of around 3 percent (private customers and business customers in Switzerland), due to online retail and other areas.

Normalized operating expenses increased year-on-year by a total of 62 million francs to 1,448 million francs. Normalized staff costs were down 13 million francs on the previous year, largely due to lower headcount and the lower related costs for wages and salaries. Trading and service expenses rose by a total of 60 million francs year-on-year in relation to the payment of full costs to Post Offices & Sales and greater reliance on third-party transporters. Other operating expenses increased by 14 million francs year-on-year to a total of 337 million francs on account of a number of new IT projects and a reduction in charges allocated to the Group.

Average headcount fell by 94 to 5,426 full-time equivalents. The main reasons for this decline were optimization measures in the transport unit and the liquidation of IT ServiceHouse AG.

Retail financial market

PostFinance

In 2013, PostFinance recorded normalized operating profit of 537 million francs (before normalization: 588 million francs), representing a decrease of 86 million francs year-on-year.

Net interest income fell by 24 million francs year-on-year. Given the difficult market environment and the associated less profitable investment opportunities, customer interest rates had to be adjusted to market conditions. Higher reversals of impairment on financial assets were recorded compared to the prior-year period (59 million francs, previous year: 26 million francs). PostFinance recorded net commission and service income of 166 million francs (–137 million francs or –45 percent year-on-year). Compared to the prior-year period, commission and services expenses, in particular, rose sharply due to changes in internal payments for services (585 million francs, previous year: 413 million francs). Commission and service income increased slightly year-on-year (751 million francs, previous year: 717 million francs). Overall, normalized operating income remained high at 1,491 million francs.

At 954 million francs, normalized operating expenses including depreciation and amortization were higher than the previous year (+44 million francs). Non-staff costs stood at 451 million francs, which represents an increase of 25 million francs year-on-year. With a slight decrease in headcount and lower other staff costs, normalized staff costs (over 474 million francs) were lower than the previous year (–3 million francs).

Passenger transport market

PostBus

PostBus achieved normalized operating profit of 28 million francs (before normalization: 65 million francs), 7 million francs below the previous year's level.

The operating income of 812 million francs exceeded the previous year's figure by 34 million francs, due primarily to the expansion of services in Switzerland and France. Other influential factors in Switzerland included mandates for additional journeys, tariff measures and the adjustment of cost apportionment for transport revenue. A shift can be seen from individual travel to fare network and all-inclusive ticket travel.

PostFinance: lower normalized operating profit

PostBus: solid result achieved

Management and service units: lower operating profit recorded

Normalized operating expenses were up by 42 million francs year-on-year to 784 million francs. This was mainly due to an increase in the number of kilometres covered, a rise in the number of employees, and to project expenses. Growth in operating expenses in France was primarily the result of market entry in the Menton transport network and the expansion of interurban services. Additional project costs of 4 million francs to boost future competitiveness combined with a rise in normalized employee benefit expenses were the main causes of the increase in costs in Switzerland.

Headcount increased by 180 full-time equivalents compared to the prior-year period. The highest growth was experienced in France.

Management and service units:

In 2013, the "Other" segment recorded normalized operating profit of –25 million francs (before normalization: 3 million francs). The normalization includes plan amendment gains of around 38 million francs and expenses for additional corporate taxes of around 9 million francs. The result for the prior-year period was 7 million francs.

Operating income of 897 million francs fell by 41 million francs year-on-year.

Normalized operating expenses decreased by 9 million francs to 922 million francs. The income and expense trends were mainly influenced by the transfer of real estate to PostFinance Ltd (with effect from January 2013). This transfer of real estate was undertaken as part of the conversion of Swiss Post from a public-law institution to a public limited company with special legal status.

At 2,152 headcount remained roughly at the previous year's level.

Acquisitions

Switzerland

On 28 February 2013, Swiss Post Solutions Ltd acquired Scalaris AG, a company headquartered in Opfikon, Switzerland. This acquisition allows Swiss Post Solutions to strengthen its horizontal business process outsourcing activities with forward-looking IT-based solutions. Scalaris AG operates in Switzerland and Germany and employs 90 staff. It was merged with Swiss Post Solutions Ltd, based in Zurich, on 3 July 2013 with retroactive effect to 1 April 2013.

On 25 September 2013, Direct Mail Company AG acquired Prisma Medienservice AG, a company headquartered in St. Gallen, thereby expanding its direct marketing activities. Prisma Medienservice AG operates in eastern Switzerland, neighbouring Graubünden, the Principality of Liechtenstein and the Lucerne region. The company employs around 1,100 people.

United Kingdom

On 1 September 2013, Swiss Post Solutions Ltd, based in Richmond, acquired services in the areas of Mailroom and document solutions from Pitney Bowes Limited in the United Kingdom and Pitney Bowes Ireland Limited in the Irish Republic. Swiss Post Solutions can strengthen its international market presence as a result of this acquisition. The takeover includes a high-quality customer base, several investments and all the company's 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 130.

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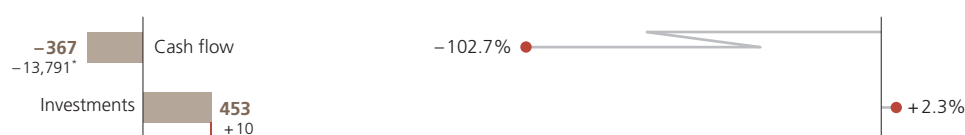
Assets and financial situation

Cash flow and investments

Cash flow declined by 13,791 million francs to –367 million francs year-on-year. Cash flow reporting now includes the changes in items from financial services (PostFinance), which is reflected in the negative cash flow change in the period under review. For more information on changes in the consolidated statement of cash flows, see page 66 or refer to Note 2, Basis of accounting, Accounting changes, in the Notes to the consolidated annual financial statements on page 68.

Change in customer deposits entails operative cash drain

Group | Internal financing
2013 showing change from prior year
CHF million, percent



* Difference cannot be shown

Overall, effective investments in property, plant and equipment (315 million francs), investment property (48 million francs), intangible assets (49 million francs) and investments (41 million francs) were up 10 million francs on the previous year. Excluding the positions from financial services, cash flow was sufficient 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 will be reflected in higher investments in comparison with the previous financial year. Investments will be carried out primarily 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 2013.

Consolidated balance sheet

Receivables due from banks

In comparison with 31 December 2012, receivables due from banks decreased by around 0.8 billion francs.

Financial assets

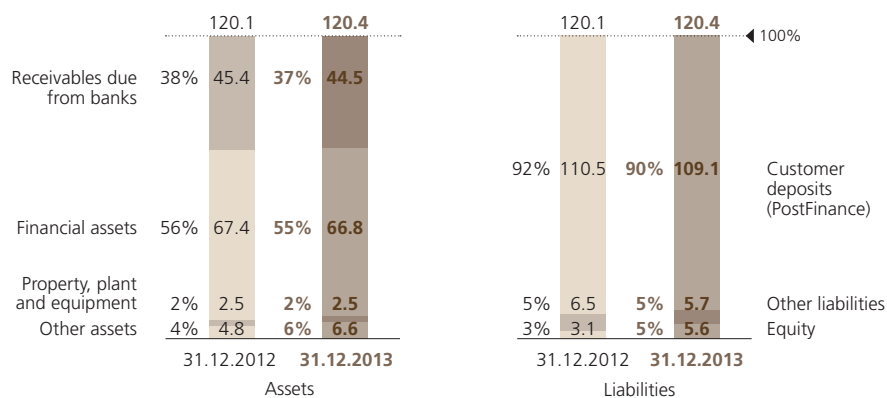
In comparison with the end of 2012, financial assets fell by around 0.5 billion francs.

Property, plant and equipment

The carrying amount of property, plant and equipment rose by 9 million francs compared with 31 December 2012. In 2013, depreciation and amortization increased by 21 million francs, reaching around 333 million francs.

Slight increase in total assets compared to 31.12.2012

Group | Balance sheet structure
As at 31.12.2012 and 31.12.2013
CHF billion

**Customer deposits**

Since 31 December 2012, customer deposits at PostFinance declined by around 1.4 billion francs to just over 109 billion francs. As at 31 December 2013, customer deposits accounted for around 90 percent of the Group's total assets.

Other liabilities (provisions)

Provisions (including employee benefit obligations) fell by 940 million francs. This was essentially due to a 956 million franc reduction in employee benefit obligations. Accounting changes are explained on page 68. All other provisions changed only marginally in comparison.

Equity

Effective consolidated equity as at 31 December 2013 (5,637 million francs) was calculated net of the appropriation of profit for 2012. The conversion of Swiss Post into a public limited company with special legal status and PostFinance into a public limited company regulated by FINMA became effective on 26 June 2013. The subsidiaries mentioned were equipped with sufficient equity.

Appropriation of profit

The appropriation of profit is determined by legal provisions and by the requirements of the business. The key issues are an appropriate capital structure and the financing of investments. Any profit remaining after transfers to reserves is handed over to the owner.

The proposed appropriation of profit of Swiss Post Ltd can be found on page 142.

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Non-financial results of a material nature

In addition to the financial target (EBIT of between 700 and 800 million francs) and the aim of holding "the leading market position in Switzerland", Swiss Post has set itself the following strategic objectives (see pages 12 and 16):

- Customer satisfaction: at least 75 points on a scale of 0–100
- Employee commitment: at least 80 points on a scale of 0–100
- Sustainability: –15,000 t CO₂ emissions per year until the end of 2013
- Universal service: unrestricted regulatory audit certificate

Customer satisfaction

Customers have been very satisfied with Swiss Post for years.

The 2013 customer survey gave the high value of 80 points on a scale of 0–100 points for the entire Group, beating the previous year's result by one point. Figures above 80 are considered to reflect very high levels of satisfaction, whereas figures below 65 are seen as critical.

Private customers

With regard to individual Group units, the scores remained stable among private customers. The Post Offices & Sales unit was able to maintain its high score of 86 points achieved in the previous year. Last year's scores were borne out for service packages by PostFinance (85 points) and PostBus services among leisure travellers (83 points) and commuters (74 points). In the past two years, satisfaction with alternative services offered by postal agencies and the home delivery service has also improved significantly.

The recipient customer index on the delivery quality of letter mail again confirms the previous year's result with 92 points. This is the seventh time in a row that the score is higher than 90 points. Customers are particularly satisfied with the specialist competency and appearance of delivery staff, and their friendliness received the top mark of 96 points.

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

Business customers

On average, business customers were more satisfied than the previous year, in particular where customer communication is concerned. They rated the six business units at between 78 and 83 out of a maximum of 100 points. Cross-border solutions by PostMail International (79 points) and the services by Post Offices & Sales (82 points) received better scores, whereas Swiss Post Solutions was given a slightly lower score than the previous year with 79 points.

Employee commitment

Committed and satisfied employees at Swiss Post

Swiss Post employees are satisfied with their employer and are committed to their work and the success of the company, as shown by the results of the 2013 employee satisfaction survey. The response rate of 77 percent was the highest so far. Questionnaires were distributed to just under 49,000 members of staff.

Many employees regard Swiss Post as an attractive employer. High identification and motivation levels prove that the members of staff surveyed are proud to work for the company. They support the products and service offered by Swiss Post and are committed to making them a success. This is also reflected by the high score of 82 out of 100 points (previous year: 83 points) for the commitment index. This is the central element of the survey and is made up of questions on motivation, identification and staff turnover.

Taking the Group as a whole, the picture that emerged was similar to last year. Employee satisfaction again scored 75 points, while the rating for customer focus reached 79. Teamwork and collaboration with managers were generally judged to be positive. Mutual support and the perceived ability to contribute to the success of the company received particularly good scores. The overall work situation (work content, processes, workload and working conditions) was rated just as highly as in previous years, at 75 points.

As in previous years, the questions concerning strategy scored an average positive value of 68 points (previous year: 67 points). Questions included whether Swiss Post has changed for the better and whether employees have confidence in Swiss Post management. Despite falling to 70 points, one statistically significant point lower than last year's level (71 points), management's rating remained relatively high. All the other questions related to unit fitness scored similar average positive values: strategy, communication, innovation and development.

Further information on employees can be found in the Annual Report on page 37.

Sustainability

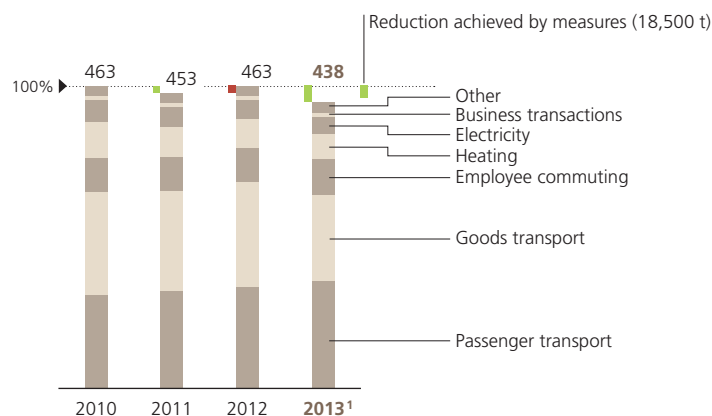
CO₂ reduction target exceeded

With its dual focus on climate protection and energy, Swiss Post continued to implement its 2011–2013 sustainability strategy in the past year. The target was to implement measures to reduce CO₂ emissions by 15,000 tonnes per year by the end of 2013. With a reduction of more than 18,500 tonnes, this target has been surpassed. Swiss Post has implemented a comprehensive package of measures. This includes expanding emission-free letter delivery by using electric scooters, covering all its electricity consumption with "naturemade basic" certified renewable energy sources within Switzerland, introducing measures for better vehicle utilization and optimizing routes. Energy savings potential in building services and Swiss Post buildings were also identified, and steps taken towards optimization.

Swiss Post's greenhouse gas emissions remain stable, despite an increase in parcel volumes and business growth at PostBus. If measures had not been taken as part of the sustainability strategy, CO₂ emissions would have been 18,500 tonnes higher. Heat requirements were continually reduced.

Swiss Post's greenhouse gas performance is stable

Group | Direct and indirect greenhouse gas emissions by process
2010 to 2013
2010 = 100%, 1000 t CO₂ equivalent

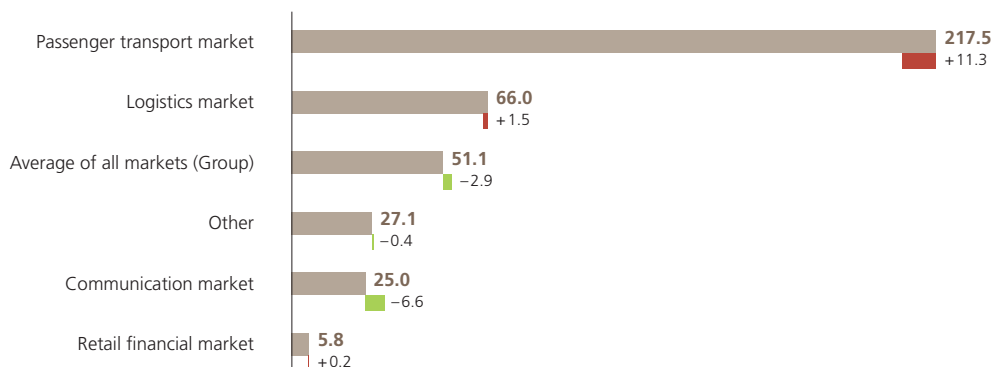


¹ Reduction in goods transport by air following outsourcing of air freight to Asendia

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Relative greenhouse gas emissions in average of all markets improved

Group| Direct and indirect greenhouse gas emissions by market
2013 showing change from previous year
Relative, t CO₂ equivalent per million CHF operating income



With its sustainability strategy for 2014–2016, Swiss Post is aiming to achieve a CO₂ efficiency improvement of at least 10 percent by the end of 2016 (base year 2010). This Group target has been redefined 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. Social issues such as education, health and procurement are being integrated into the strategy and related measures are being developed.

Further information on sustainability can be found in the Annual Report on page 43.

Universal service

Swiss Post considers its statutory mandate as a minimum target.

The universal service as laid down by the Postal Services Act encompasses services for the acceptance, transport and delivery of letters (up to one kilogram), parcels (up to 20 kilograms), newspapers and magazines in permanently inhabited areas on at least five working days a week, as well as payment transaction services (see also Statutory framework on page 12).

Universal services are tailored to customers' current needs, are reasonably priced and are provided on the same basis for everyone through a nationwide network of access points. Swiss Post aims to fulfil its statutory mandate by focusing on its customers and providing them with consistent high quality.

External auditors are commissioned each year by PostCom to ensure compliance with the legal requirements for financing the universal service. The most recent audit certificate from March 2013 refers to the financial year 2012 and the postal legislation valid at the time.

Swiss Post regards the mandate to provide the universal service and the Federal Council's strategic objectives as an opportunity to prove that the trust placed in it is justified. It considers the statutory universal service obligation as a minimum target. 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. At the same time, it takes account of complex political, regulatory and commercial specifications. The only way for Swiss Post to meet its universal service obligation in the long term without having to drastically modify its services is by paying equal attention to all these requirements.

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 & Compliance Committee and the Board of Directors.

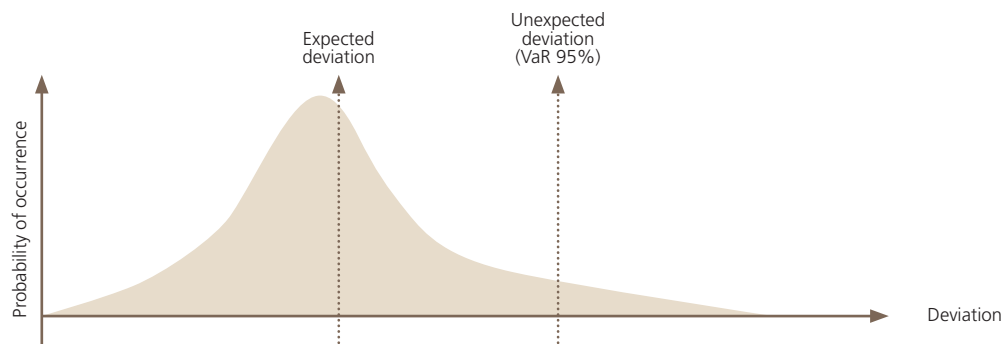
Risk simulation

The risk management method underwent further development in 2013. Monte Carlo simulation techniques are now 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 or historic event data. Further progress in risk management involved implementing an integrated IT application.

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 deviation for the next twelve months, while value-at-risk (95 percent) is used for unexpected deviations.

Risk indicators



Aggregation levels

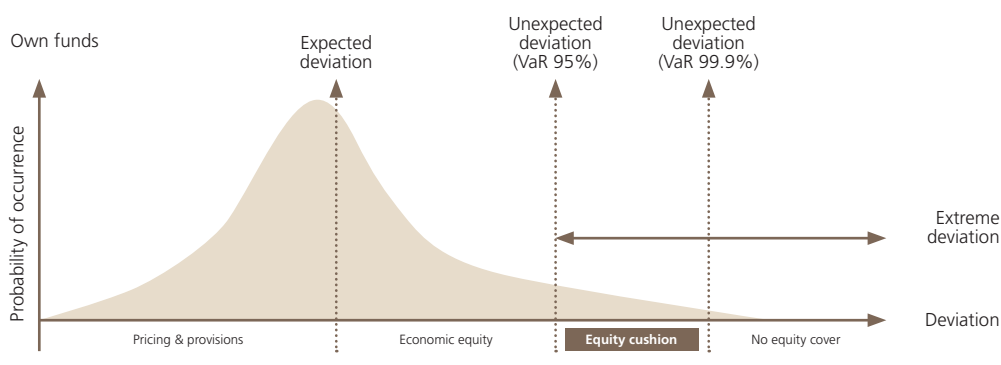
Expected value and value-at-risk (95 percent) risk indicators are identified for the Group, its strategic subsidiaries and their units.

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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 management process



- Risk identification
Risks and opportunities are defined as potential deviations from planned earnings before tax. Group strategy and a company-wide basic catalogue of risks form the basis for risk identification.
- Risk assessment
Every six months, managers and technical specialists measure the risks that have been identified. Risks are assessed either 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, 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 Controlling / Accounting, Strategy, Crisis Management / BCM and Group Audit units. The different organizational units coordinate their processes, integrate their reporting documents and pool their analysis findings.

Risk situation

An analysis of the risk situation at Swiss Post at the end of 2013 showed that economic equity is sufficient to cover unexpected losses. The Group's risk-bearing capacity is thereby guaranteed. In most Group units, expected losses do not exceed envisaged operating profit. Risk appetite is therefore covered to a large extent.

Based on the latest measurements (Monte Carlo simulation), the Group can expect potential losses of around 60 million francs in the next twelve months. An unexpected potential loss (VaR 95 percent) of 445 million francs was also calculated. The Group's risk situation is divided between PostFinance (12 percent), PostBus (4 percent) and the remaining Group units (84 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 at risk approach, is described in the "Risk management at PostFinance" section on page 120.

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. 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 risks

The exogenous risks that pose the greatest threat to income and assets are changes in the regulatory conditions governing the universal service obligation, price regulation and falling volumes in the letters market and in the post office network.

Many Swiss Post services fall under the universal service obligation. This regulatory risk can impact sales and lead to a decline in earnings. The lack of flexibility in setting prices is a further risk for Swiss Post Group. 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.

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Endogenous risks

Possible material damage and liability insurance losses, default risks in important letter and logistics centres and risks related to growth strategies were the largest internal risks.

Opportunities

Swiss Post's business area is affected by a range of external factors that offer potential opportunities as well as risks. Trends in the field of 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 12.

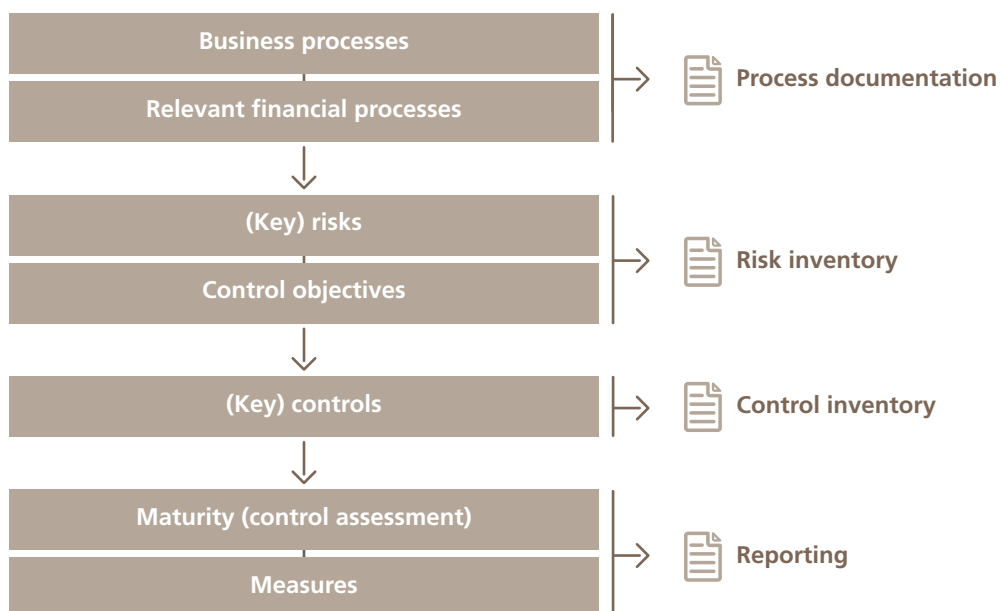
For more information on risk management at Swiss Post, see page 119.

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 728a, 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 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. High-level 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 can be 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 objective 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 2013, all the units and hence the Group as a whole were able to achieve at least the desired maturity level. A total of 211 processes were documented as ICS-relevant and assessed as such. Around 31 percent of the processes assessed reached maturity level 4 – integrated. 37 percent, i.e. 296 of the 798 risks identified are regarded as high-level risks. In the course of 2013, 633 key controls were documented in accordance with the ICS Finance Regulation and their maturity assessed by means of pre-set questionnaires. Around 51 percent of the controls assessed reached maturity level 4 – integrated. Three of the 633 controls assessed did not reach the desired maturity level of 3, and are being reviewed.

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Outlook

According to the Swiss National Bank (SNB), global GDP growth is expected to strengthen gradually in the coming quarters. In the United States, the slow but steady recovery in the labour market and rising property prices are supporting consumer spending. The particularly expansive economic policy in Japan is boosting activity. Given far calmer international financial markets and growing international trade, the euro zone should gradually emerge from recession. In addition, the fiscal burden will ease in most member states next year. The revival in world trade will also boost the emerging economies. However, given that some of these countries are trying to curb strong credit growth and dampen inflation expectations, economic growth is unlikely to reach the peaks of the recent past.

The prospects for growth in Switzerland have not changed significantly since the SNB's last assessment. After a temporary recovery, the SNB expects a perceptible slowdown in growth in the short term. Some positive impetus can be expected from sectors focusing on the domestic market, which are benefiting from a comparatively robust labour market, immigration and favourable credit conditions. By contrast, subdued economic growth abroad, particularly in the euro zone, has weighed on sentiment somewhat among Swiss exporters. The SNB expects the Swiss economy to gradually pick up in line with the general recovery in the world economy. For the most part however, most risks facing the global economy, and, in turn, Switzerland, remain in place.

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.