# INTERIM REPORT 2017
JANUARY TO JUNE

SWISS POST

# SIMPLE YET SYSTEMATIC – SWISS POST.

## 4,094 million

francs in **operating income** as at 30 June 2017.

## 394 million

francs in **Group profit** as at 30 June 2017.

## 1,027.9 million

**addressed letters** were processed by Swiss Post in the first half of 2017.

## 62.3 million

**parcels** were delivered by Swiss Post in the first half of 2017.

## 117.7 billion

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

## 79.0 million

**passengers** were transported by PostBus in the first half of 2017.

# Interim Report January to June 2017

**Foreword**
by **Urs Schwaller,** Chairman of the Board of Directors,
and **Susanne Ruoff,** CEO

" —
Swiss Post needs good results. This is the only way we can remain innovative in the long term, invest in new services and business areas and create added value for our customers.

**Dear Reader**

We can look back on an exciting first half of 2017 and, on balance, achieved a good result. Over the past six months, Group profit rose to 394 million francs. That is 81 million francs more than the previous year. Operating profit (EBIT) also experienced a clearly positive trend, increasing by 164 million francs to 547 million francs. Of this, around 155 million francs were due to the improved result at PostFinance, and in particular to lower portfolio impairment losses and the encouraging level of net trading income. Other factors which contributed to the good result include efficiency measures, the restructuring of the postal network and the adjustment of our services to meet new customer habits and needs. Overall, the financial result is marked by declining volumes of letters and over-the-counter transactions, as well as by lower interest income.

Good results are vital to be able to tap into new sources of income as well as to operate and modernize an affordable and needs-based infrastructure. They allow Swiss Post to invest, for example, in new parcel centers and new services for customers, and provide funding for the pension fund.

We cannot overlook the challenges that have faced Swiss Post for some time now: the number of letters being sent is declining, margins in the fiercely competitive logistics market are falling, the passenger transport market is undergoing growing price pressure, and the ongoing low interest situation and a lack of profitable investment opportunities are placing an increasing strain on Swiss Post's financial service provider. Technological change and the associated challenges for Swiss Post will continue to be felt in the individual markets. However, we are adapting to the changes in the market and adopting a proactive approach.

Swiss Post funds the costs of the universal service defined by the legislator in full, i.e. without taxpayers' money, and finances all its investments from its own resources. By 2020, Swiss Post will have invested around 150 million francs in the construction of three new regional parcel centers in the cantons of Graubünden, Ticino and Valais, for example. Online retail continues to grow steadily, and customers increasingly want to receive their parcels as rapidly as possible. The three new logistics facilities in more remote areas will take the burden off the current major parcel centers in Härkingen, Daillens and Frauenfeld at peak times, shorten transport distances for local parcels, and strengthen the regions.

The topic of the development of the postal network was omnipresent in the first half of 2017. The media ran extensive reports on the subject, politicians gave their opinions and Swiss citizens expressed their concerns. We take these views seriously and put them to discussion. In our development of the postal network, we respond to cantonal and regional requirements and find individual solutions. In order to develop further, Swiss Post urgently requires entrepreneurial freedom.

In a recently published study by the Universal Postal Union (UPU), Swiss Post took first place, well ahead of any other postal organizations. This would not be possible without the hard work of our employees, who make a vital contribution to the success of Swiss Post with the huge commitment they show each day. They are the face of Swiss Post, and take care of the relationships with our customers. We would also like to thank them for the trust they place in us each day, and for their open attitude towards change and helping to shape it.

| | |
|---|---|
| **Urs Schwaller** | **Susanne Ruoff** |
| Chairman of the Board of Directors | CEO |

Presentation of figures

The amounts shown in the report are rounded. 0 is a rounded amount, indicating that the original figure was less than half of the unit used. A dash (–) in place of a figure indicates that the value is zero.

True-to-scale representation of figures in charts

Charts are shown to scale to present a true and fair view. Exceptions to the scale shown below are noted in each case.
20 mm is equivalent to one billion francs.
Percentages in charts are standardized as follows:
Horizontal: 75 mm is equivalent to 100 percent.
Vertical: 40 mm is equivalent to 100 percent.

Key for charts and tables

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

Languages

The report is available in English, German, French and Italian. The German version is authoritative.

# MANAGEMENT REPORT

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

# Key figures

Despite the difficult market environment, Swiss Post operates successfully in all four markets. In the first half of 2017, the company generated Group profit of 394 million francs (previous year: 313 million francs). Operating profit (EBIT) stood at 547 million francs (previous year: 383 million francs). The 164 million franc rise is mainly due to lower impairment losses needed on the investment portfolio.

**Group** | Key figures
2017 with prior year for comparison

| | | 2016 1.1 to 30.6. | 2017 1.1 to 30.6. |
|---|---|---|---|
| **Result** | | | |
| Operating income | CHF million | 4, 150 | 4,094 |
| Generated abroad [1] | CHF million | 581 | 567 |
| | % of operating income | 14.0 | 13.8 |
| Operating profit | CHF million | 383 | 547 |
| As a share of operating income | % | 9.2 | 13.4 |
| Generated abroad [1] | CHF million | 32.9 | 50.1 |
| | % of operating profit | 8.6 | 9.2 |
| Group profit | CHF million | 313 | 394 |
| **Employees** | | | |
| Headcount at Swiss Post Group | Full-time equivalents | 43,732 | 42,524 |
| Abroad [1] | Full-time equivalents | 7,379 [2] | 7,001 |
| **Investments** | | | |
| Investments | CHF million | 200 | 160 |
| Other property, plant and equipment, intangible assets | CHF million | 137 | 106 |
| Operating property | CHF million | 30 | 35 |
| Investment property | CHF million | 23 | 3 |
| Interests | CHF million | 10 | 16 |
| Degree of self-financed investment | % | 100 | 100 |
| **Value generation** | | | |
| Cash flow from operating activities | CHF million | 4,268 [3] | 3,198 |
| Economic value added | CHF million | 93 | 178 |
| **Financing** | | 31.12.2016 | 30.6.2017 |
| Total assets | CHF million | 126,609 [3] | 127,270 |
| Customer deposits (PostFinance) | CHF million | 110,465 [3] | 111,595 |
| Equity | CHF million | 4,881 | 6,395 |

1 Definition of “abroad” in accordance with the segmentation in the Financial Report.
2 The figure has been adjusted.
3 Figures have been adjusted (see Notes, Accounting changes).

# General developments

## The economy

Global economic growth in the first quarter was more robust than in previous quarters, due in large part to an upturn in the emerging economies. In the euro area, too, the economic recovery gained strength. Owing to the stronger economic growth, the labour market situation in advanced economies has continued to improve, with the US, Japan, the UK and Germany close to achieving full employment. Moreover, in almost all euro area member states, unemployment once again declined. The positive momentum from abroad thus again seems to have made itself only partly felt in the Swiss economy. An extensive analysis of the available economic indicators shows that the Swiss economy remains on the road to recovery. However, the upturn has not yet taken hold in all parts of the economy. In various industries, production capacities remain underutilized.

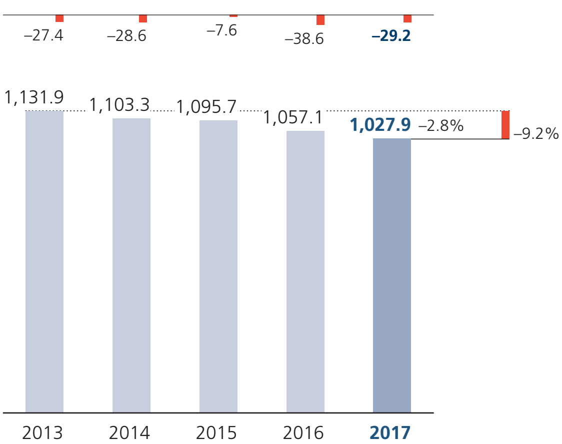
## Customers and sectors

### Communication market

Conventional products from PostMail and Post Offices & Sales continue to be replaced by digital products and services. Product volumes declined in the communication market. At the end of the second quarter of 2017, the number of addressed letters was down 2.8 percent on the previous year. Newspaper delivery volumes saw negative performance (–3.0 percent) due to changes in customer behaviour. The number of payments at the counter declined by 5.8 percent. Mail import and export volumes fell 5.2 percent year-on-year. The reliability and quality of these services continue to be guaranteed by the use of the latest technology and a mix of traditional and new access points. At Swiss Post Solutions, income from services provided fell year-on-year due to the sale of non-strategic activities and exchange rate trends. After adjustment for the above effects, Swiss Post Solutions generated growth of 6 percent. The products offered by Swiss Post Solutions for the outsourcing of business processes and innovative services in document solutions are meeting with growing demand.

No trend reversal in sight.

**Communication market | Addressed letters** in millions as at 30.6.
2013 to 2017
2013 = 100%

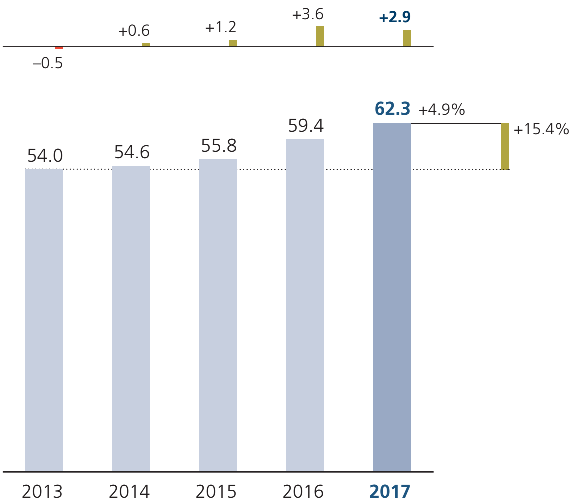


## Logistics market

The logistics market is gaining further momentum both nationally and internationally. New providers from the digital world are becoming established on the market. Customers are price-sensitive and have high expectations as regards quality. PostLogistics positions itself as the quality and cost leader in the following segments: national and international parcels, small consignments and warehousing, Innight, Express, Courier and e-commerce. Domestic parcel volumes carried by PostLogistics increased year-on-year (+5.3 percent). A decline of 0.2 percent was registered in terms of import and export volumes. The overall increase stood at 4.9 percent.

### Growth in online retail continues.

**Logistics market | Parcels** in millions as at 30.6.
2013 to 2017
2013 = 100%




## Financial services market

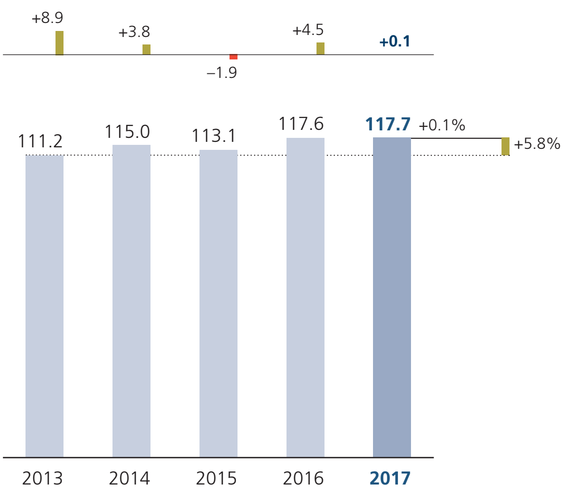
Despite gradual improvement, the situation on the domestic and international financial and capital markets with low and in some cases negative interest rates continues to present PostFinance with significant challenges. The competitive disadvantage in not being able to issue our own loans and mortgages persists. To guarantee PostFinance's long-term profitability in the current market environment, it is essential for us to diversify our income structure and to tap into new sources of income that do not depend on interest rate levels. PostFinance therefore intends to expand its services in the investment area in a targeted manner.

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

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

## Customer assets remain high.

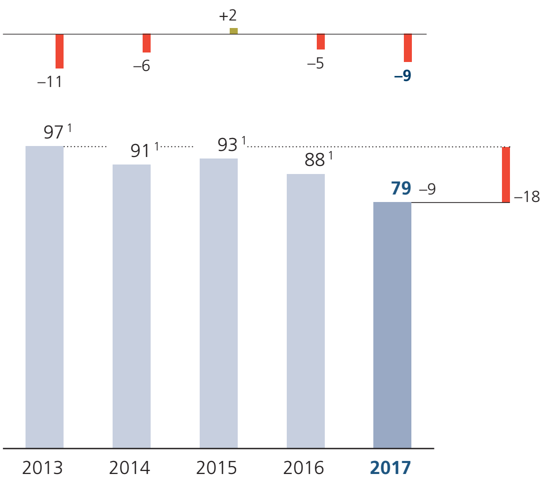
**Financial services market | Average customer assets** in CHF billion as at 30.6.
2013 to 2017
2013 = 100%




The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rates and lack of profitable investment opportunities weighed heavily on net interest income, further eroding interest margins. The increase in customer assets stood at 0.1 billion francs. PostFinance invests a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A large amount of liquidity is still held at the Swiss National Bank. Since January 2015, PostFinance has been charged negative interest on the sight deposit balance exceeding the defined exemption limit. In turn, PostFinance has established the necessary framework to be able to pass these costs on to major customers. In addition, a fee on the credit balance has been charged to private customers with cash assets of over one million francs since February 2017.

## Ongoing high pressure on interest margins.

**Financial services market | Interest margin** in basis points as at 30.6.
2013 to 2017



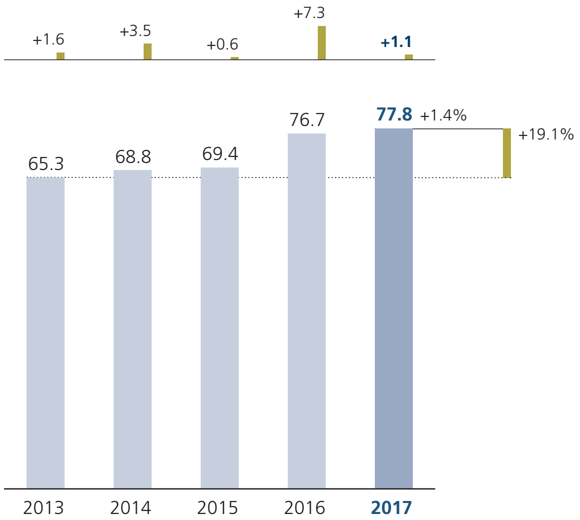

1 The definition of the interest margin was modified for 2016. The figures from 2013 to 2015 are not comparable.

### Passenger transport market

The national passenger transport market continues to show strong demand for mobility solutions. The rise in demand from the population is in contrast to the limited budgets of public entities, which is reflected in an increase in tenders for bus services. In this context, PostBus was still able to increase the number of kilometres covered by 1.4 percent to 77.8 million kilometres during the first half of 2017. The expansion of services in Switzerland contributed to this rise.

Further performance increase.

**Passenger transport market | Kilometres covered** in millions of km as at 30.6.
2013 to 2017
2013 = 100%




# Strategy

One of the things Swiss Post must do in order to meet the goals set by its owner is to create added value. Its chosen strategy for doing so has five strategic thrusts: exploiting and helping shape regulatory conditions, defending and developing core business, business performance and growth in selected markets, optimizing costs and improving efficiency, and ensuring competitive prices.

# Additions of subsidiaries, associates and joint ventures

PostFinance Ltd, based in Berne, acquired an additional 14.444 percent in Lendico Schweiz AG, based in Zurich, on 20 February 2017, and now holds 38.889 percent in the company.

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

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

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

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

Post CH Ltd, based in Berne, acquired 25 percent in Prime Data AG, based in Brugg, on 15 May 2017.

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

Overall, the effects on the consolidated financial statements of the above changes are not material in nature.

# Finances

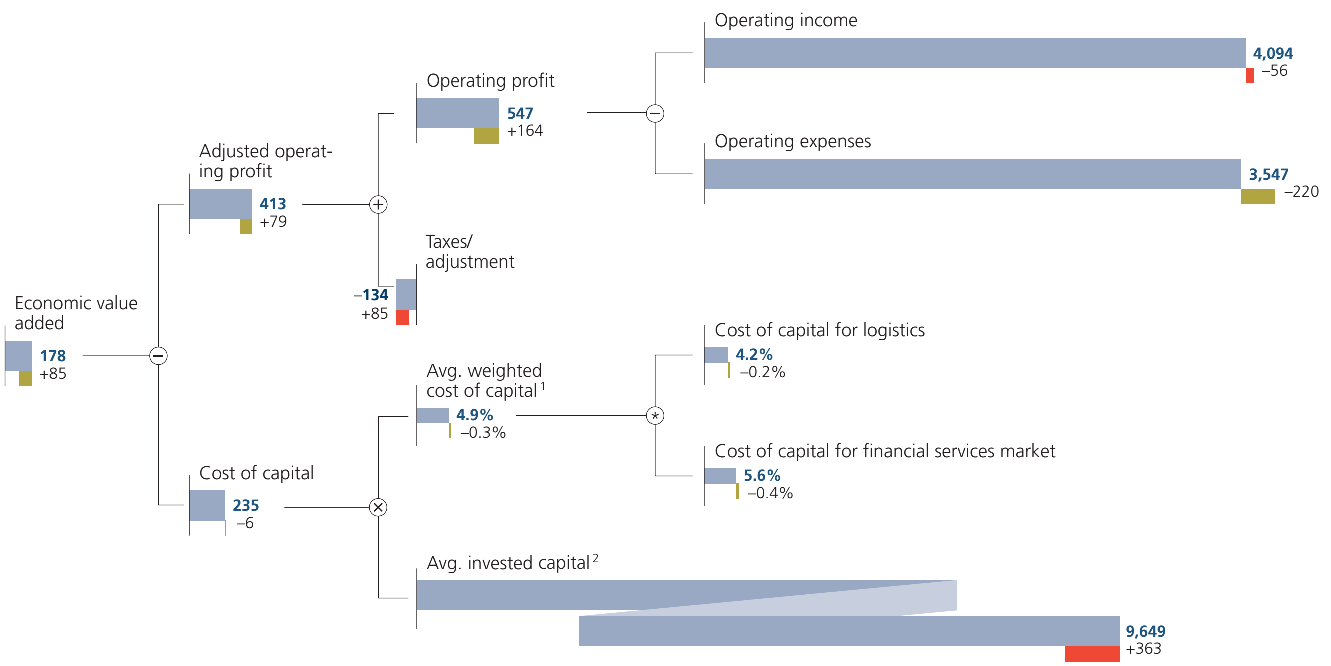
## Economic value added

In line with the Federal Council's financial goals, Swiss Post is expected to maintain and increase the company's value in the long term. Value added is created when the adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also factors in the risks and the capital employed.

Economic value added in the logistics unit is calculated from adjusted operating profit (NOPAT) minus capital costs (cost of capital for logistics multiplied by average invested capital, or NOA). In the financial services market, economic value added is calculated from earnings before tax (EBT) in accordance with IFRS minus capital costs (cost of capital in the financial services market multiplied by the relevant average capital amount). As at 30 June 2017, Swiss Post met the financial expectations of the Federal Council and generated economic value added of 178 million francs. This represents an increase of around 91.4 percent year-on-year (previous year: 93 million francs). The rise is principally due to the lower need for portfolio impairment losses. Capital costs declined despite increased capital requirements due to lower capital costs arising from interest rates.

Increase thanks to higher operating profit.

**Group | Economic value added** in CHF million as at 30.6.
2017




⊙ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).
1 Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity for the financial services market.
2 At PostFinance corresponds to average equity in accordance with Basel III of 4,560 million francs and in logistics units to the average net operating assets (NOA) of 5,089 million francs.

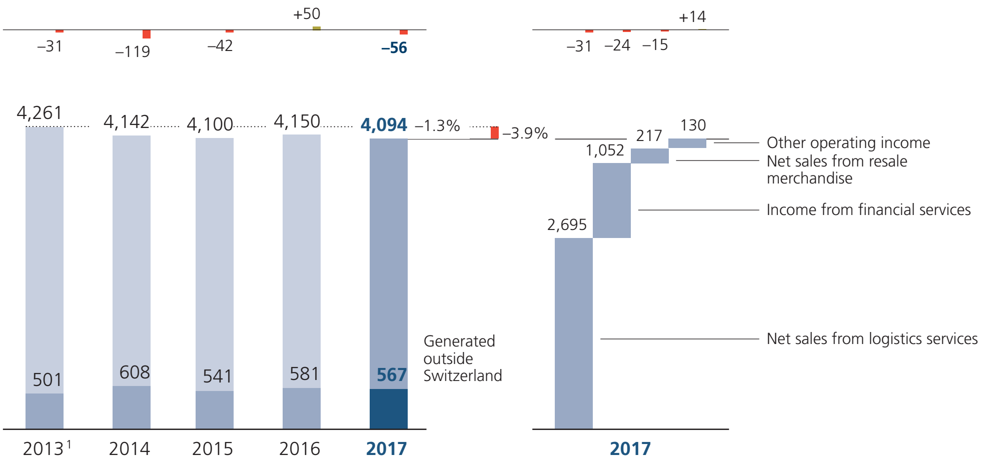
# Income statement

## Operating income

In the first half of 2017, operating income amounted to 4,094 million francs (previous year: 4,150 million francs). This represents a fall of about 1.3 percent. Operating income decreased mainly as a result of a decline in net sales from logistics services and lower interest income from financial services.

Ongoing decline in core activities.

**Group | Operating income** in CHF million as at 30.6.
2013 to 2017
2013 = 100%




1 Normalized figure.

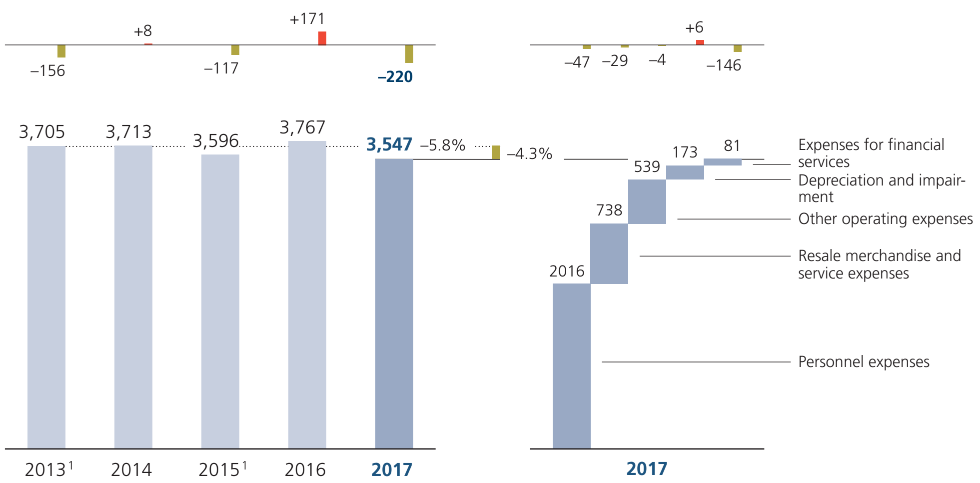
Net sales from logistics services dropped by 31 million francs due to declining volumes. This reduction was mainly attributable to declining revenues from letter processing. Income from financial services includes profit realized on the sale of equity positions. This profit was offset by declining interest income arising from persistently low interest rates. Net sales from resale merchandise suffered a decline of 15 million francs due to the adjustment of our product range. Other operating income increased by 14 million francs year-on-year, partly as a result of higher rental income.

## Operating expenses

Personnel expenses fell by 47 million francs year-on-year, mainly due to a reduction in costs for wages and salaries. Resale merchandise and service expenses decreased by 29 million francs to 738 million francs. Expenses for financial services declined by 146 million francs to 81 million francs. This was due to a reduction in the need for impairment on financial assets, as well as to lower interest expenses on customer deposits. Other operating expenses decreased by 4 million francs. Depreciation expenses increased by 6 million francs.

Decline due to reduced need for portfolio impairment losses.

**Group | Operating expenses** in CHF million as at 30.6.
2013 to 2017
2013 = 100%




1 Normalized figures.

## Operating profit

Operating profit increased by 164 million francs to 547 million francs year-on-year. This was due to the disposal of various equity positions in the first quarter of 2017 as well as to lower additional portfolio impairment losses needed on financial assets.

## Group profit

The result from associates and joint ventures stood at –20 million francs in the first half of 2017, mainly due to the impairment of a company. The financial result expressed as the net balance of financial income (10 million francs) and financial expenses (24 million francs) was up 7 million francs year-on-year. Expense for income taxes totalled 119 million francs. Group profit stood at 394 million francs, up 81 million francs year-on-year.

## Segment results

All the markets contributed to operating profit.

| **Group** \| Segment results<br>1.1 to 30.6.2017 with prior-year period | Operating income[1]<br>CHF million | | Operating result[1,2]<br>CHF million | | Margin[3]<br>Percent | | Headcount[4]<br>Full-time equivalents | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| PostMail | 1,485 | 1,429 | 183 | 186 | 12.3 | 13.0 | 16,283 | 15,873 |
| Swiss Post Solutions | 285 | 271 | 10 | 15 | 3.5 | 5.5 | 6,952 | 6,583 |
| Post Offices & Sales | 576 | 538 | –99 | –88 | | | 6,076 | 5,603 |
| **Communication market** | **2,197** | **2,096** | **94** | **113** | **4.3** | **5.4** | **29,311** | **28,059** |
| PostLogistics | 772 | 791 | 52 | 58 | 6.7 | 7.3 | 5,135 | 5,205 |
| **Logistics market** | **772** | **791** | **52** | **58** | **6.7** | **7.3** | **5,135** | **5,205** |
| PostFinance[5] | 1,126 | 1,111 | 237 | 392 | | | 3,642 | 3,508 |
| **Financial services market** | **1,126** | **1,111** | **237** | **392** | | | **3,642** | **3,508** |
| PostBus[6] | 457 | 464 | 21 | 20 | 4.6 | 4.3 | 3,200 | 3,236 |
| **Passenger transport market** | **457** | **464** | **21** | **20** | **4.6** | **4.3** | **3,200** | **3,236** |
| Other[7] | 457 | 449 | –21 | –34 | | | 2,444 | 2,516 |
| Consolidation | –1,008 | –959 | | –2 | | | | |
| **Group** | **4,150** | **4,094** | **383** | **547** | | | **43,732** | **42,524** |

1 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
2 Operating result corresponds to earnings before net non-operating financial income/expenses and taxes (EBIT).
3 The financial services market (PostFinance) uses the indicator return on equity; no margin is calculated for "Other"; negative margins are not reported.
4 Average expressed in terms of full-time equivalents (excluding trainees).
5 PostFinance Ltd also applies the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.
6 Within the field of regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
7 Includes service units (Real Estate and Information & Communication Technology) and management units (e.g. Human Resources, Finance and Communication).

### Communication market

PostMail: result up slightly year-on-year.

*PostMail*

PostMail recorded an operating profit of 186 million francs for the first half of 2017, exceeding the prior-year figure by 3 million francs.

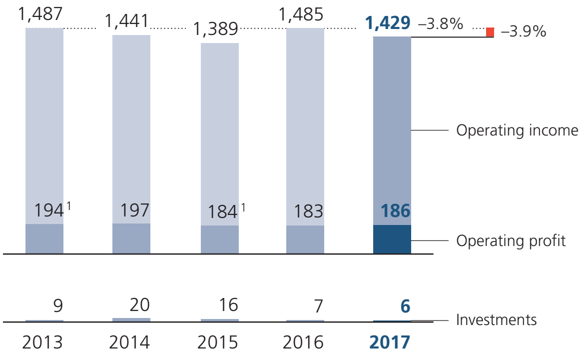
Operating income declined by 56 million francs year-on-year. Sales from addressed mail registered a downturn of 25 million francs. The fall in revenue was caused by declining volumes due to the ongoing digitization of communication, together with customer cost optimization measures in transaction post. The decrease in revenue represented 14 million francs in cross-border business. Lower volumes for exports and exchanges with Asendia subsidiaries contributed to the decline. Newspaper sales fell by 8 million francs due to a drop in subscriber numbers.

The declining volumes also had an effect on operating expenses, which were down 59 million francs overall, fully offsetting the decrease in sales. Reductions were principally seen in staff requirements as well as in payments for internal Swiss Post services and remuneration to foreign postal administrations.

Headcount fell by 410 full-time equivalents year-on-year due to lower staff requirements in sorting and delivery associated with declining volumes, as well as to optimization projects relating to operations.

Decline in core business.

**PostMail | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

Since 2013, PostMail has achieved an operating profit of around 180 million francs in the first half of each year, making a substantial contribution to the Group result.

Declining average annual volumes of addressed letters of just over 2 percent, as well as decreases in subscription newspapers and import consignments, contributed to lower operating income. The fall in revenue seen in recent years was absorbed on the expense side each year. The increase in operating income between 2015 and 2016 was due to the transfer of product responsibility for private customer letters from Post Offices & Sales to PostMail.

Investments of 12 million francs on average in the first half of the year ensured the continuing excellent quality of PostMail services. In recent years, investments have been made in distribution centers and in the optimization of sorting and delivery processes in particular.

## Swiss Post Solutions: higher contribution to results.

*Swiss Post Solutions*

Swiss Post Solutions achieved an operating profit of 15 million francs in the first half of the year. Operating profit was 5 million francs higher than the prior-year figure.

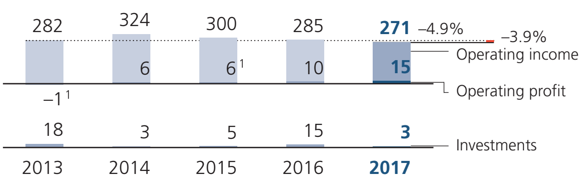
Operating income stood at 271 million francs, 14 million francs down on the previous year. This was essentially due to the sale of non-strategic activities (Swiss Post Solutions Card Systems GmbH) and the negative exchange rate effect caused by the weak British pound in the United Kingdom (–8 million francs). In contrast, higher operating income was achieved in Switzerland due to the start of two major projects, new business in Germany and France, and positive trends in the mailroom business in the United Kingdom. After adjustment for the above effects, Swiss Post Solutions generated growth of 6 percent.

Operating expenses totalled 256 million francs, down 19 million francs on the previous year. The decline was due to the items mentioned under operating income and recognized in expenses. Cost reductions were also achieved by measures to increase efficiency and improvement projects.

Average headcount fell by 369 to 6,583 full-time equivalents year-on-year. The decrease is mainly due to the sale of Swiss Post Solutions Card Systems GmbH (–169 employees) as well as to lower staff requirements in Vietnam (–131 employees), the US (–41 employees) and the United Kingdom (–33 employees).

Expansion of market position for comprehensive services.

**Swiss Post Solutions | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

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

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

## Post Offices & Sales: improvement in interim result.

*Post Offices & Sales*

Operating profit increased by 11 million francs as a result of network development and the consistent adaptation of resources to meet volume trends. Post Offices & Sales generated an operating result of –88 million francs in the first half of 2017.

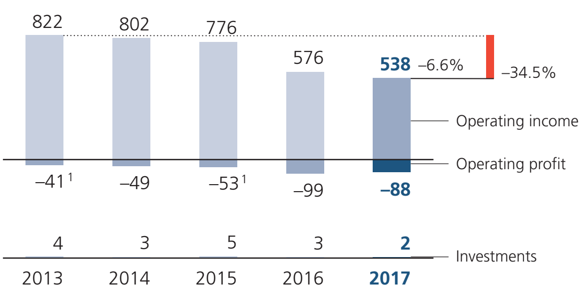
Operating income was down by 38 million francs year-on-year to 538 million francs. The drop in income from logistics products was mainly due to declining letter volumes (–13 million francs). Substitution of over-the-counter payment transactions by e-banking continues. The associated fall in revenue of 7 million francs could not be offset by other financial services. Net sales from non-postal brand-name items and philately products also declined by 16 million francs.

Operating expenses were cut by 49 million francs year-on-year to 626 million francs. The fall in sales of brand-name items led to a 14 million franc drop in resale merchandise expenses. Personnel expenses declined by 23 million francs. Other expenses decreased by 8 million francs.

Headcount of 5,603 full-time equivalents fell by 473 full-time equivalents year-on-year, due principally to developments in the post office network.

Decline in revenue due to customer behaviour.

**Post Offices & Sales | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

Responsibility for private customer products was transferred to PostMail and PostLogistics in 2016. The figures are therefore only comparable to a limited extent. The focus during the observation period has been on reducing the negative contribution to results. Network development plays an important role in this. The decline in operating income was largely absorbed by the measures introduced in the past few years.

Constant investments in recent years have ensured that Post Offices & Sales meets part of the universal service obligation

## Logistics market

### *PostLogistics*

PostLogistics: operating profit up year-on-year.

PostLogistics posted operating profit of 58 million francs in the first half of 2017, which was 6 million francs higher than the previous year's level.

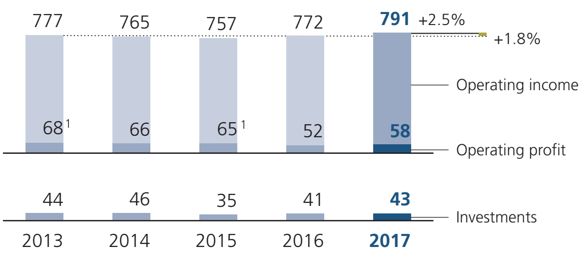
Operating income totalled 791 million francs, exceeding the previous year's total by 19 million francs. This rise was mainly due to higher parcel volumes. Demand also grew for value logistics solutions as well as for installation services and Innight (overnight express).

Operating expenses increased by 13 million francs year-on-year to 733 million francs. This rise was attributable to the increase in personnel expenses arising from the higher headcount and employee benefit expenses, as well as to higher costs for fuel, temporary employees, rent and depreciation.

Average headcount rose by 70 to 5,205 full-time equivalents, principally as a result of higher volumes in value logistics and the acquisition of new subsidiaries. Increased use was made of third-party transporters in the transport of postal items.

Stable trend in operating income over the last five years.

**PostLogistics | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

Following the stable results achieved in recent years, PostLogistics registered a drop in operating profit in 2016 and 2017. This decline was mainly due to higher expenses following the transfer of product responsibility for private customer parcels from Post Offices & Sales on 1 January 2016.

In the first half of 2017, operating income reached its highest level in five years. Development remained stable during this period. Greater competition and the associated loss of customers in small consignment transport and warehousing, falling prices in the parcel market and the closure of subsidiaries were successfully offset by the constant increase in parcel volumes. This was mainly due to growth in online trade.

Investments in the first half of 2017 were above the average level seen in recent years as a result of seasonal variations. However, further investments will be needed in connection with the future parcel processing strategy in order to continue to be able to process rising parcel volumes.

## Financial services market

### *PostFinance*

## PostFinance: higher operating profit.

In the first half of 2017, PostFinance recorded an operating profit of 392 million francs, representing an increase of 155 million francs year-on-year.

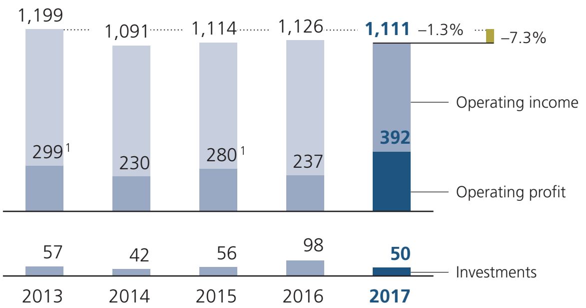
Operating income was down 15 million francs to 1,111 million francs, principally due to lower interest income, which was down 58 million francs year-on-year due to market conditions. The fall in the result was offset by a 28 million franc increase in revenue from financial assets and a 7 million franc rise in reversals of impairment. Other income exceeded the previous year's figure by 7 million francs due to a one-off payment (PostParc building lease interest).

Operating expenses decreased by 170 million francs year-on-year to 719 million francs. This decline was attributable to lower impairment losses of 117 million francs and a drop in interest expense due to customer interest rate cuts on savings.

Headcount stood at 3,508 full-time equivalents, down 134 year-on-year. As part of its new strategic focus, from July 2017 PostFinance is placing an emphasis on the simplification and digitization of its processes. Vacant positions were therefore only partly filled in the first half of the year.

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

**PostFinance | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

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

The interest differential business is the most important source of revenue for PostFinance. The ongoing low interest situation has eroded interest margins and had a negative effect on net interest income, leading operating income to decline in the last few years. This situation will remain a challenge for PostFinance over the next few years. Non-interest related revenue in net service and commission income and trading activities, which has increased in recent years, had a positive effect on operating income.

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

## Passenger transport market

*PostBus*

### PostBus: decline in operating profit.

PostBus posted operating profit of 20 million francs, which was one million francs lower than the prior-year figure. This was due to the non-recurring one-off item from the previous year (fuel reimbursement) of one million francs. Operating profit declined further due to a one million franc increase in fuel expenditure. This was offset by a reduction of one million francs in project expenses.

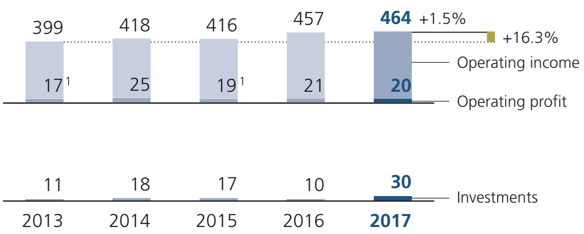
Operating income stood at 464 million francs in the first half of the year. The increase totalling 7 million francs was mainly due to a rise in transport-related remuneration.

Operating expenses were up 8 million francs to 444 million francs. The expansion of services, greater fuel expenditure and higher personnel expenses contributed to this increase.

Average headcount rose by 36 to 3,236 full-time equivalents. This was primarily due to the expansion of services in Switzerland and a rise in headcount in the area of mobility solutions.

Stable trends in the passenger transport market.

**PostBus | Operating income, operating profit and investments** in CHF million as at 30.6.
2013 to 2017




1 Normalized figures.

Average growth in operating profit of 4 percent has been seen over the past five years, with an increase from 17 million francs in 2013 to 20 million francs in 2017.

The greatest rise in operating profit was recorded in the second quarter of 2014 (+8 million francs). The decline in operating profit in the current financial year (–1 million francs) was mainly due to higher fuel expenditure.

Operating income grew by an average of 4 percent over the same period, increasing from 399 million francs in 2013 to 464 million francs in 2017. This rise is mainly due to the constant expansion of the range of services available.

17 million francs were invested on average during the first half of each of the past five years. In the current year, gross investments were 10 million francs up on the multi-year average due to the capitalization of new vehicles in Switzerland.

### Management and service units

## Management and service units: decline in operating profit.

The Other segment recorded a decline in the operating result of 13 million francs to –34 million francs in the first six months of 2017.

Operating income fell by 8 million francs to 449 million francs. The decrease was mainly due to a reduction in intra-Group income, as well as to non-recurring income from the sale of property, plant and equipment no longer required.

The 5 million franc increase in operating expenses to 483 million francs was principally attributable to higher personnel expenses.

Headcount rose by 72 to 2,516 full-time equivalents. Staff numbers increased year-on-year in the Corporate Center (+14), in Development & Innovation (+33), and in Informatics and Information Technology (+18).

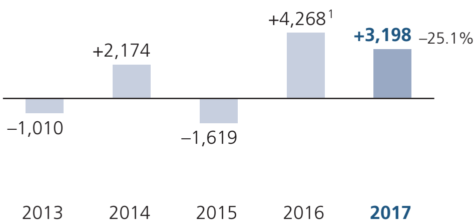
## Cash flow and investments

A positive cash flow from operating activities of 3,198 million francs was recorded in the first half of 2017. This inflow was due to the rise in the customer deposits balance sheet item and the reduction in financial assets. Customer deposits were partly recorded in amounts due from banks. Cash flow reporting includes the changes in items in the PostFinance balance sheet. For more information on changes in the consolidated cash flow statement, see page 30.

Operating cash flow is affected by banking operations from the PostFinance segment. Higher customer deposits lead to an increase in operating cash flow, while investment activities on the assets side result in outflows on the investment date.

Positive contribution from financial services.

**Group | Operating cash flow** in CHF million as at 30.6.
2013 to 2017




1 The figure has been adjusted (see Notes to the interim financial statements, Accounting changes).

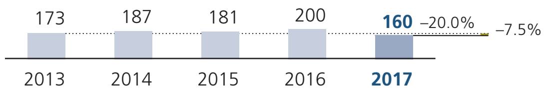
Pillar level reduced by a factor of 10 in relation to the standard benchmark.

Investments totalled 160 million francs, representing a decline of 40 million francs year-on-year. The total investment volume is made up of 101 million francs of property, plant and equipment, 3 million francs of investment property, 40 million francs of intangible assets and 16 million francs of investments in subsidiaries, associates and joint ventures.

Investments in the first half of each year have been between 150 and 200 million francs in recent years. On an annual basis, investments represent between 400 and 450 million francs. Important projects included investments in sorting centers, vehicle fleets, information technology platforms, the real estate portfolio and the improvement of operating processes. The decline in 2017 is due to the upcoming completion of the major construction project PostParc in Berne, as well as to lower investments in intangible assets.

Swiss Post is investing in the future.

**Group | Investments** in CHF million as at 30.6.
2013 to 2017




## Net debt

For the indicator net debt/operating profit before depreciation and amortization (EBITDA) 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 30 June 2017.

## Consolidated balance sheet

### Amounts due from banks

In comparison with 31 December 2016, amounts due from banks rose by 2,953 million francs. This increase was due to the transfer of financial assets on the assets side of the balance sheet and higher customer deposits on the liabilities side.

### Financial assets

In comparison with the end of 2016, financial assets decreased by 1,526 million francs as a result of the maturing of various assets and the lack of alternative investments. The resources freed as a result were invested with other financial institutions as a temporary solution.

### Property, plant and equipment

The carrying amount for property, plant and equipment fell by 61 million francs compared with 31 December 2016. In the first six months of 2017, depreciation and impairment on property, plant and equipment stood at around 151 million francs, up 5 million francs year-on-year.

### Customer deposits

Since 31 December 2016, customer deposits at PostFinance increased by 1,130 million francs to 111,595 million francs. As at 30 June 2017, customer deposits accounted for around 88 percent of the Group's total assets.

### Other liabilities (provisions)

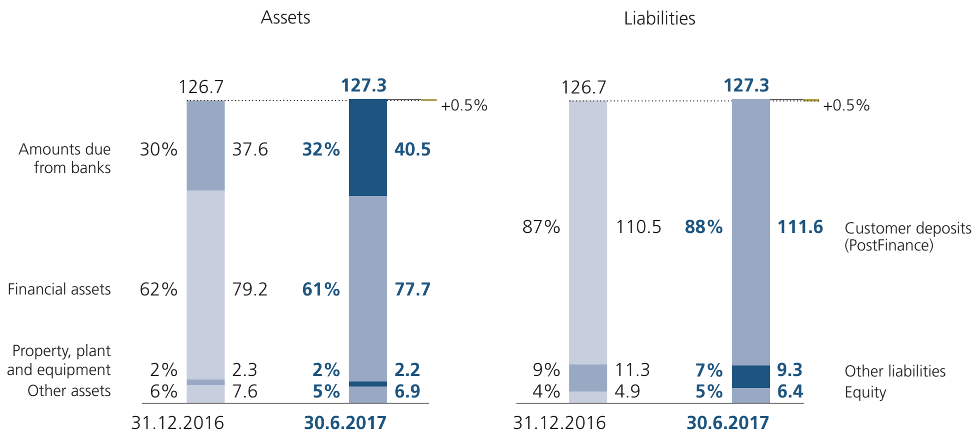
Provisions increased by 4 million francs to 464 million francs. Employee benefit obligations decreased by 1,788 million francs year-on-year to 3,292 million francs due to a change in an estimate. Explanatory notes on the change in estimate can be found in the Significant events and transactions section of the Notes to the interim financial statements.

### Equity

Appropriation of profit for 2016 (200 million francs of dividends paid to the Confederation) was taken into account in consolidated equity as at 30 June 2017 (6,395 million francs).

Stable growth in total assets.

**Group | Balance sheet structure** in CHF billion
As at 31.12.2016 and 30.6.2017



# Outlook

In its baseline scenario, the Swiss National Bank (SNB) anticipates that economic developments will remain favourable and that the international environment will also improve for Switzerland as a result. As far as the global economy is concerned, stronger growth was seen in 2017 than in any other year in the past six years. However, the baseline scenario remains subject to considerable risks due to political uncertainty and structural problems in a number of countries.

Supported by a more favourable international environment, the Swiss economy is expected to recover further in the course of the year. Export-oriented domestic sectors should benefit from positive stimuli from abroad. Industry surveys suggest a further improvement in economic expectations. As the industrial economic situation improves, the service industries are also likely to gain momentum.

The unchanged expansionary monetary policy implemented by the European Central Bank restricts the freedom of action of the SNB. There is currently no foreseeable end to the low interest rate situation in continental Europe. This remains a particular challenge for PostFinance Ltd, which operates in the financial services market. The regulatory framework in the communication, logistics and passenger transport markets is undergoing transformation. Swiss Post is adjusting to the changing environment and continuously adapting to customer requirements. Swiss Post expects to meet the financial goals of its owner again in 2017.

# GROUP INTERIM FINANCIAL STATEMENTS

The consolidated interim financial statements include all of Swiss Post's subsidiaries. They were prepared in accordance with IAS 34 "Interim Financial Reporting", are reviewed, and meet the requirements of the Postal Organization Act.

# Consolidated income statement

| **Group** \| Income statement<br>CHF million | 2016<br>1.1 to 30.6<br>reviewed | 2017<br>1.1 to 30.6<br>reviewed |
|---|---|---|
| Net sales from logistics services | 2,726 | 2,695 |
| Net sales from resale merchandise | 232 | 217 |
| Income from financial services | 1,076 | 1,052 |
| Other operating income | 116 | 130 |
| **Total operating income** | **4,150** | **4,094** |
| Personnel expenses | –2,063 | –2,016 |
| Resale merchandise and service expenses | –767 | –738 |
| Expenses for financial services | –227 | –81 |
| Depreciation and impairment | –167 | –173 |
| Other operating expenses | –543 | –539 |
| **Total operating expenses** | **–3,767** | **–3,547** |
| **Operating profit** | **383** | **547** |
| Financial income | 9 | 10 |
| Financial expenses | –30 | –24 |
| Net income from associates and joint ventures | 3 | –20 |
| **Group profit before tax** | **365** | **513** |
| Income taxes | –52 | –119 |
| **Group profit** | **313** | **394** |
| Group profit attributable to | | |
| Swiss Confederation (owner) | 313 | 394 |
| Non-controlling interests | 0 | 0 |

# Consolidated statement of comprehensive income

| **Group** \| Statement of comprehensive income<br>CHF million | 2016<br>1.1 to 30.6<br>reviewed | 2017<br>1.1 to 30.6<br>reviewed |
|---|---|---|
| **Group profit** | **313** | **394** |
| **Other comprehensive income** | | |
| Revaluation of employee benefit obligations | –645 | 1,852 |
| Change in deferred income taxes | 156 | –369 |
| **Items not reclassifiable in the consolidated income statement, after tax** | **–489** | **1,483** |
| Change in currency translation reserves | –5 | 0 |
| Change in share of other comprehensive income of associates and joint ventures | –1 | –1 |
| Change in fair value reserves from available-for-sale financial assets, net | 287 | –149 |
| Change in hedging reserves from cash flow hedges, net | 47 | –43 |
| Change in deferred income taxes | –61 | 30 |
| **Reclassifiable items in consolidated income statement, after tax** | **267** | **–163** |
| **Total other comprehensive income** | **–222** | **1,320** |
| **Total comprehensive income** | **91** | **1,714** |
| Total comprehensive income attributable to | | |
| Swiss Confederation (owner) | 91 | 1,714 |
| Non-controlling interests | 0 | 0 |

# Consolidated balance sheet

**Group** | Balance sheet

| CHF million | 31.12.2016 audited [1] | 30.6.2017 reviewed |
|---|---|---|
| **Assets** | | |
| Cash | 2,262 | 1,851 |
| Amounts due from banks | 37,571 | 40,524 |
| Interest-bearing amounts due from customers | 405 | 374 |
| Trade accounts receivable | 1,027 | 998 |
| Other receivables | 1,250 | 1,437 |
| Inventories | 78 | 63 |
| Non-current assets held for sale | 1 | 1 |
| Financial assets | 79,248 | 77,722 |
| Investments in associates and joint ventures | 144 | 128 |
| Property, plant and equipment | 2,272 | 2,211 |
| Investment property | 246 | 244 |
| Intangible assets | 476 | 516 |
| Current income tax assets | 5 | 5 |
| Deferred income tax assets | 1,624 | 1,196 |
| **Total assets** | **126,609** | **127,270** |
| **Liabilities** | | |
| Customer deposits (PostFinance) | 110,465 | 111,595 |
| Other financial liabilities | 3,475 | 3,406 |
| Trade accounts payable | 803 | 694 |
| Other liabilities | 1,251 | 1,251 |
| Provisions | 460 | 464 |
| Employee benefit obligations | 5,080 | 3,292 |
| Current income tax liabilities | 8 | 7 |
| Deferred income tax liabilities | 186 | 166 |
| **Total liabilities** | **121,728** | **120,875** |
| Share capital | 1,300 | 1,300 |
| Capital reserves | 2,279 | 2,279 |
| Retained earnings | 3,306 | 3,502 |
| Profits and losses recorded directly in other comprehensive income | –2,004 | –686 |
| **Equity attributable to the owner** | **4,881** | **6,395** |
| Non-controlling interests | 0 | 0 |
| **Total equity** | **4,881** | **6,395** |
| **Total equity and liabilities** | **126,609** | **127,270** |

1 Figures have been adjusted (see Note, Accounting changes).

# Consolidated statement of changes in equity

**Group** | Statement of changes in equity

| CHF million | Share capital | Capital reserves | Retained earnings | Profits and losses recorded directly in other comprehensive income | Equity attributable to the owner | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| **Balance as at 1.1.2016** | **1,300** | **2,279** | **2,950** | **–2,145** | **4,384** | **1** | **4,385** |
| Group profit | | | 313 | | 313 | 0 | 313 |
| Other comprehensive income | | | | –222 | –222 | 0 | –222 |
| **Total comprehensive income** | | | **313** | **–222** | **91** | **0** | **91** |
| Dividends | | | –200 | | –200 | – | –200 |
| Payments to acquire non-controlling interests | | | 0 | | 0 | 0 | – |
| **Total transactions with the owner** | | | **–200** | | **–200** | **0** | **–200** |
| **Balance as at 30.6.2016** | **1,300** | **2,279** | **3,063** | **–2,367** | **4,275** | **1** | **4,276** |
| **Balance as at 1.1.2017** | **1,300** | **2,279** | **3,306** | **–2,004** | **4,881** | **0** | **4,881** |
| Group profit | | | 394 | | 394 | 0 | 394 |
| Other comprehensive income | | | | 1,320 | 1,320 | 0 | 1,320 |
| **Total comprehensive income** | | | **394** | **1,320** | **1,714** | **0** | **1,714** |
| Dividends | | | –200 | | –200 | – | –200 |
| Adjustments in connection with disposals | | | 2 | –2 | – | – | – |
| **Total transactions with the owner** | | | **–198** | **–2** | **–200** | **–** | **–200** |
| **Balance as at 30.6.2017** | **1,300** | **2,279** | **3,502** | **–686** | **6,395** | **0** | **6,395** |

# Consolidated cash flow statement

**Group** | Cash flow statement

| CHF million | 2016 1.1 to 30.6 reviewed [1] | 2017 1.1 to 30.6 reviewed |
|---|---|---|
| Profit before tax | 365 | 513 |
| Interest expense/(income) (including dividends) | –546 | –524 |
| Depreciation and impairment | 205 | 173 |
| Net income from associates and joint ventures | –3 | 20 |
| Net gain on disposal of property, plant and equipment | –25 | –24 |
| Net increase in provisions | 87 | 69 |
| Other non-cash expenses/(income) | –12 | 56 |
| Change in net current assets: | | |
| (Increase) in receivables, inventories and other assets | –146 | –138 |
| Increase/(Decrease) in accounts payable and other liabilities | 126 | –102 |
| Change in items from financial services: | | |
| (Increase)/Decrease in financial assets | –3,335 | 1,232 |
| Change in customer deposits/interest-bearing amounts due from customers | 6,691 | 1,158 |
| Change in other receivables/liabilities | 223 | 269 |
| Interest and dividends received (financial services) | 733 | 612 |
| Interest paid (financial services) | –35 | –25 |
| Income taxes paid | –60 | –91 |
| **Cash flow from operating activities** | **4,268** | **3,198** |
| Purchases of property, plant and equipment | –106 | –101 |
| Acquisition of investment property | –23 | –3 |
| Purchases of intangible assets (excl. goodwill) | –61 | –40 |
| Purchases of subsidiaries, net of cash and cash equivalents acquired | –1 | –14 |
| Purchases of associates and joint ventures | –9 | –2 |
| Purchases of other financial assets | –156 | –101 |
| Proceeds from disposal of property, plant and equipment | 45 | 39 |
| Disposal of subsidiaries, net of cash proceeds | 2 | 4 |
| Proceeds from disposal of associates and joint ventures | – | 0 |
| Proceeds from disposal of other financial assets | 10 | 10 |
| Interest and dividends received (excl. financial services) | 5 | 5 |
| **Cash flow from investing activities** | **–294** | **–203** |
| Increase/(Decrease) in other financial liabilities | 5 | –352 |
| Interest paid (excl. financial services) | –1 | –2 |
| Payments to acquire non-controlling interests | 0 | – |
| Dividends paid to the owner | –200 | –200 |
| **Cash flow from financing activities** | **–196** | **–554** |
| Foreign exchange gains/(losses) on cash and cash equivalents | 0 | 1 |
| **Change in cash and cash equivalents** | **3,778** | **2,442** |
| Cash and cash equivalents at 1 January | 40,388 | 39,633 |
| **Cash and cash equivalents at 30 June** | **44,166** | **42,075** |
| Cash and cash equivalents include: | | |
| Cash | 2,118 | 1,851 |
| Amounts due from banks with an original term of less than 3 months | 42,048 | 40,224 |

1 Figures have been adjusted (see Notes, Accounting changes).

# Notes to the interim financial statements

## Business activities

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

## Basis of accounting

The condensed consolidated interim financial statements of Swiss Post Group as at 30 June 2017 were prepared in accordance with IAS 34 "Interim Financial Reporting" and are reviewed. The accounting principles applied are the same as those used for the Financial Report 2016, supplemented with the restrictions listed in the section titled "Accounting changes".

For more information on estimation uncertainty and management's judgement during the preparation of the consolidated financial statements, please refer to the Financial Report 2016, pages 90 to 91, and to the Significant events and transactions section of these interim financial statements 2017.

## Accounting changes

Since 1 January 2017, Swiss Post has applied various amendments to existing International Financial Reporting Standards (IFRS) and interpretations that have no material impact on the result or financial situation of the Group (see Financial Report 2016, page 82).

The new standards IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, come into force on 1 January 2018. The Swiss Post consolidated financial statements are affected by the introduction of both these standards.

### IFRS 9 Financial Instruments

*Classification of financial assets*
IFRS 9 introduces a new classification and measurement approach for financial assets. This is driven by the entity's business model for managing financial assets, provided that the financial instruments fulfil the cash flow conditions. IFRS 9 consists of three main classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). With the introduction of IFRS 9, the previous IAS 39 categories of "Financial instruments held to maturity", "Loans and receivables", and "Available for sale", will cease to exist.

After analysing its financial instruments, Swiss Post anticipates as at 30 June 2017 that with the exception of investment funds, the majority of its financial instruments will fulfil the cash flow conditions on 1 January 2018, and that in accordance with the business model applied, financial assets will be classified either at amortized cost or at fair value through other comprehensive income. As at 30 June 2017, investment funds with a carrying amount of 1,210 million francs fail to fulfil the cash flow conditions in accordance with IFRS 9 and do not qualify as equity instruments. On the changeover date they will be reclassified from the available-for-sale category to the fair value through profit or loss category. The gains/losses accrued will be transferred from other comprehensive income to retained earnings on the changeover date.

*Impairment losses on financial assets and contractual assets*
IFRS 9 replaces the retrospective model of incurred credit loss as per IAS 39 with a forward-looking model of expected credit loss (ECL). The new model requires an assessment of how the development of economic factors will influence the need for impairment losses. Historic and future input factors such as default probabilities, credit loss ratios and credit exposure at the time of default are taken into account together with additional parameters. The impairment model applies to financial assets

measured at amortized cost and financial assets measured at fair value through other comprehensive income. Equity instruments held in this last category are excluded from the model. According to IFRS 9, the need for impairment losses is estimated for each financial instrument on the basis of one of the following principles:

– 12-month expected credit loss: measured according to default events that are possible within the 12 months after the reporting date; or
– Lifetime expected credit loss: measured on the basis of all default events that are possible before the maturity of the financial instrument.

The lifetime expected credit loss is measured if the credit risk of a financial asset on the reference date has increased significantly since the addition of the financial instrument, or if financial assets were recognized in trade accounts receivable, lease receivables or contract assets as per IFRS 15. In all other cases, the 12-month expected credit loss is measured.

As at 30 June 2017, Swiss Post has not yet completed its preparation of the impairment model in accordance with IFRS 9. Large quantities of data, particularly regarding default probabilities and credit loss ratios, are needed to measure the need for impairment. This data requires detailed analysis and evaluation prior to publication of the need for impairment in the future. Any statements as at 30 June 2017 on the impact of the changeover would therefore be imprecise.

*Disclosure*
IFRS 9 requires comprehensive new disclosures, particularly regarding credit risk, expected credit losses and hedge accounting. The provisional assessment carried out by Swiss Post included an analysis to determine data gaps. Processes are currently being modified and systems introduced to allow the required data to be prepared from 1 January 2018.

*Transition*
Swiss Post is taking advantage of the option to waive the adjustment of comparative figures for 2017 in relation to classification and measurement as permitted by the standard. If, on the basis of the new guidelines, any changes should arise in the carrying amounts of financial assets as at 1 January 2018, they will be recognized in equity on the changeover date.

### IFRS 15 Revenue from Contracts with Customers

The new standard IFRS 15, Revenue from Contracts with Customers, will take effect on 1 January 2018. Detailed analyses of the effects of the new standard have shown that the adoption of the requirements of the new standard regarding the date and amount of revenue generated will require the implementation of minimal changes only at Swiss Post in relation to the current accounting principles in accordance with IAS 18. The only consequences will be reclassifications in the balance sheet and expanded disclosures in the notes due to the new presentation and disclosure requirements. Trade accounts receivable, other receivables, trade accounts payable and the contractual assets and contractual liabilities now subject to disclosure are likely to be affected by the reclassifications required in the balance sheet. Swiss Post has changed its accounting method in accordance with the transitional provisions of IFRS 15 and has decided to adopt a full retrospective application. Comparative figures will be modified accordingly, although only the balance sheet will be affected.

### Change in the recognition method for hire-purchase agreements for PostBus operators

As part of ongoing improvements to the chart of accounts, Swiss Post has established that the clarity of the balance sheet can be enhanced for readers by reclassifying receivables from hire-purchase agreements with PostBus operators. These receivables, which stood at 132 million francs as at 30 June 2017 (31 December 2016: 124 million francs), will therefore now be recognized and disclosed in other receivables, as a more accurate reflection of their underlying nature. These receivables were previously reported under trade accounts receivable.

### Changes in the disclosure of open item accounts

PostFinance modified the disclosure of open item accounts in the second quarter of 2017. A customer settlement account is now disclosed in amounts due from banks on the assets side of the balance sheet, and settlement accounts from ATMs are recognized in customer deposits on the liabilities side. These items were previously reported under cash holdings. The balance stood at 49 million francs as at 30 June 2017 (31 December 2016: 68 million francs). The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

### Changes to the classification of negative interest and accrued interest in the cash flow statement

On account of the ongoing low interest rate situation, it has emerged that interest paid and received can be presented more accurately in the cash flow statement in connection with negative interest and interest accrued. The prior-year figures were also adjusted as a result of this reclassification. This applies to interest expenses and interest income as well as to cash flows from interest received and paid (both from financial services and excluding financial services).

## Significant events and transactions

### Change in estimate

On 19 April 2017, the Foundation Board of the Swiss Post pension fund decided on measures to stabilize the employee benefits institution.

The benefits paid by the Swiss Post pension fund exceed the statutory minimum level. The standard retirement age is 65. The pension paid is calculated on the basis of the conversion rate, which is applied to the retirement assets saved by each insured person by the date of retirement. The conversion rate currently applicable for retirement at the age of 65 is 5.35 percent. The saved retirement assets are made up of the employer and employee contributions paid into the individual savings account of each insured person, together with any interest credited to the retirement assets. The interest rate applicable to retirement assets is determined by the Foundation Board each year.

At its meeting on 19 April 2017, the Foundation Board of the Swiss Post pension fund decided to decrease the technical interest rate from 2.25 percent to 1.75 percent, to reduce conversion rates from 5.35 percent to 5.10 percent, and to provide funding, in particular for compensation measures, as at 1 January 2018. In addition to this compensation reserve, supplementary age-dependent compensation will be granted to older insured persons (born in 1959 or earlier) who have nearly reached retirement age. The Swiss Post pension fund will be responsible for financing the compensation reserve and the age-dependent supplementary compensation. Swiss Post Ltd will also make a one-off payment of 100 million francs. As well as providing the 400 million francs needed to finance the increase in insurance cover for pensioners, it is therefore providing significantly more funding than it did the last time the basis was changed. The revaluation of the net obligation, with the current fair values of benefit plan assets on the date of the plan amendment and the current actuarial assumptions, taking risk sharing aspects into account, was recognized in other comprehensive income.

Swiss Post Group believes there to be a strong likelihood that the Swiss Post pension fund will need to implement further measures in the future. The latest measures taken in the Swiss Post pension fund have prompted Swiss Post Group to adjust the 2017 assumptions for the measurement of employee benefit obligations in accordance with IAS 19. Risk sharing characteristics are now also taken into account when determining financial assumptions. These characteristics limit the employer's share in the costs of future benefits and integrate the employee into the obligations to pay any additional contributions needed to correct underfunding. Such obligations are based on the formal regulations of the plan which, for a Swiss employee benefits plan, include the regulations of the employee benefits institution as well as the relevant laws, ordinances and directives on employee benefits, and above all the provisions contained in them regarding funding and measures to correct underfunding of employee benefits institutions.

The financial assumptions related to risk sharing are taken into account in two stages: with the implicit assumption of a future pension equal to the discount rate, the regulatory recurring contributions are insufficient to ensure the correct funding of the regulatory benefits promised by the Swiss Post pension fund. This results in a structural funding gap. In its assessment, Swiss Post anticipates that the measures taken by the Swiss Post pension fund so far are insufficient to cover the deficits that can be expected in the future. For the purpose of the actuarial calculations, it was assumed during the first stage that the Foundation Board would decide on measures to correct this funding gap (reduction in the conversion rate and compensation measures), in line with the formal regulations. This assumption involves taking a technical interest rate of 1.5 percent as a basis. Even assuming a future reduction in benefits, there is still a structural funding gap, which is divided mathematically between the employer and the employee in a second stage. It is assumed that the employer's obligation is legally restricted to 50 percent and effectively limited to 75 percent of the funding gap. The statutory provisions for correcting underfunding and the specific past conduct and measures taken by both the employer and the Foundation Board form the basis for this assumption. The assumption of a reduction in benefits and the restriction of the employer's share in the funding gap results in a decrease of 1,121 million francs in employee benefit obligations, which has been recognized in other comprehensive income as a change in estimate. Of this, 364 million francs represent the reduction in benefits assumed in the first stage. The effect of restricting the employer's share in the obligation in the second stage amounts to 757 million francs. Without taking risk sharing characteristics into account, the plan amendment would result in a negative past service cost of 188 million francs for actively insured persons.

No risk sharing aspects were taken into account in the financial assumptions for the purposes of the actuarial measurement as at 31 December 2016. The estimate process to establish the financial assumptions, taking risk sharing aspects into account, was modified in the 2017 financial year in order to provide a more realistic picture of the costs of the employee benefits plan to be expected by the company in the future. Given the current low interest rates, the non-consideration of risk sharing aspects results in an inaccurate representation of the net obligation recognized in the balance sheet and in an unrealistically high negative past service cost in the event of plan amendments.

Combined with the decision by the Swiss Post pension fund on 19 April 2017 to decrease the technical interest rate and hence the conversion rates as at 1 January 2018, the change in estimates represents a reduction in employee benefit expenses of 11 million francs as at 30 June 2017.

Irrespective of the introduction of risk sharing assumptions, the lump-sum capital withdrawal ratio has been increased to 25 percent. This adjustment takes into account the behaviour observed among new pensioners. Higher lump-sum capital withdrawal was ascertained recently when measures were implemented by the employee benefits institution. Increasing the lump-sum capital withdrawal ratio results in a positive effect of 260 million francs in the statement of comprehensive income.

## Actuarial assumptions

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

### Actuarial assumptions made in calculating annual employee benefit expenses

| Percent | 31.12.2016 | 30.6.2017 |
|---|---|---|
| Discount rate | 0.75 | 0.50 |

### Actuarial assumptions

| Percent | 31.12.2016 | 30.6.2017 |
|---|---|---|
| Discount rate | 0.50 | 0.50 |
| Expected change in salaries | 1.00 | 1.00 |
| Pension indexation | 0.00 | 0.00 |
| Interest on retirement assets | 1.00 | 1.00 |
| Staff turnover | 3.52 | 3.52 |
| Capital payment ratio | 10.00 | 25.00 |
| Current average life expectancy for a man/woman aged 65 | 22/24 years | 22/24 years |

### Employee benefit expenses

| CHF million | 30.6.2016 | 30.6.2017 |
|---|---|---|
| Current service cost | 311 | 308 |
| Service cost to be recognized | 0 | – |
| (Gains)/losses from plan settlements | 0 | – |
| Employee contributions | –113 | –114 |
| Administrative costs | 4 | 5 |
| Other plans, reclassifications | –5 | –5 |
| **Total employee benefit expenses recognized in personnel expenses** | **197** | **194** |
| Interest expense arising from employee benefit obligations | 75 | 51 |
| Interest income on assets | –58 | –39 |
| Other plans, reclassifications | – | –1 |
| **Total net interest expense recognized in financial expenses** | **17** | **11** |
| **Total employee benefit expenses recognized in the income statement** | **214** | **205** |

### New assessment elements entered in the statement of comprehensive income

| CHF million | 30.6.2016 | 30.6.2017 |
|---|---|---|
| Actuarial losses/(gains) | | |
| due to the adjustment of economic assumptions | 1,463 | –1,409 |
| due to experience adjustments | –286 | –55 |
| Income from plan assets (excluding interest income) | –532 | –388 |
| **Total revaluation gains recorded in other comprehensive income (OCI)** | **645** | **–1,852** |
| **Total employee benefit expenses** | **859** | **–1,647** |

## Cover status

### Summary of cover status

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| Present value of employee benefit obligations including assets set aside | 20,929 | 19,358 |
| Benefit plan assets at fair value | –15,856 | –16,070 |
| **Shortfall** | **5,073** | **3,288** |
| Employee benefit obligations excluding assets set aside | 5 | 3 |
| **Total recognized employee benefit obligations arising from defined benefit plans** | **5,078** | **3,291** |
| Employee benefit obligations arising from other benefit plans | 2 | 1 |
| **Total recognized employee benefit obligations** | **5,080** | **3,292** |

## Performance of recognized employee benefit obligations from defined benefit plans

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

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| **Balance at 1 January** | **4,844** | **5,078** |
| Employee benefit expenses arising from defined benefit plans | 435 | 211 |
| Revaluation gains recognized in other comprehensive income | 89 | –1,852 |
| Employer contributions | –290 | –145 |
| Pension payments by the employer | –1 | –1 |
| Translation differences | –1 | – |
| Company acquisitions, disposals or transfers | 2 | – |
| **Balance as at reference date** | **5,078** | **3,291** |

## Change in employee benefit obligations

### Change in employee benefit obligations

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| **Balance at 1 January** | **20,501** | **20,934** |
| Current service cost | 625 | 308 |
| Interest expense arising from employee benefit obligations | 150 | 51 |
| Actuarial (gains)/losses | 487 | –1,464 |
| Plan settlements | –4 | – |
| Company acquisitions, disposals or transfers | 3 | – |
| Restructuring | 1 | – |
| Benefits paid from plan assets | –826 | –467 |
| Pension payments by the employer | –1 | 0 |
| Plan amendments | –2 | – |
| Translation differences | 0 | –1 |
| **Balance as at reference date** | **20,934** | **19,361** |
| Employee benefit obligations including assets set aside | 20,929 | 19,358 |
| Employee benefit obligations excluding assets set aside | 5 | 3 |
| **Total employee benefit obligations** | **20,934** | **19,361** |

## Change in plan assets

### Change in fair value of plan assets

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| **Balance at 1 January** | **15,657** | **15,856** |
| Interest income on assets | 116 | 39 |
| Income from plan assets (excluding interest income) | 399 | 388 |
| Employee contributions | 227 | 114 |
| Employer contributions | 290 | 145 |
| Plan settlements | –2 | – |
| Benefits paid from plan assets | –826 | –467 |
| Administrative costs | –10 | –5 |
| Company acquisitions, disposals or transfers | 5 | – |
| Translation differences | 0 | – |
| **Balance as at reference date** | **15,856** | **16,070** |

## Segment information

**Segments** | Results

| CHF million<br>Up to or as at 30.6.2016 | PostMail | Swiss Post Solutions | Post Offices & Sales | PostLogistics | PostFinance[2] | PostBus[3] | Other[4] | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|---|
| Operating income | | | | | | | | | |
| from customers | 1,406 | 266 | 221 | 626 | 1,105 | 455 | 71 | | 4,150 |
| from other segments | 79 | 19 | 355 | 146 | 21 | 2 | 386 | –1,008 | – |
| **Total operating income**[1] | **1,485** | **285** | **576** | **772** | **1,126** | **457** | **457** | **–1,008** | **4,150** |
| **Operating profit**[1] | **183** | **10** | **–99** | **52** | **237** | **21** | **–21** | | **383** |
| Net financial income | | | | | | | | | –21 |
| Net income from associates and joint ventures | 1 | 0 | – | 1 | 1 | 0 | 0 | | 3 |
| Income taxes | | | | | | | | | –52 |
| **Group profit** | | | | | | | | | **313** |
| Headcount[5] | 16,283 | 6,952 | 6,076 | 5,135 | 3,642 | 3,200 | 2,444 | | 43,732 |

| Up to or as at 30.6.2017 | PostMail | Swiss Post Solutions | Post Offices & Sales | PostLogistics | PostFinance[2] | PostBus[3] | Other[4] | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|---|
| Operating income | | | | | | | | | |
| from customers | 1,352 | 255 | 207 | 649 | 1,088 | 462 | 81 | | 4,094 |
| from other segments | 77 | 16 | 331 | 142 | 23 | 2 | 368 | –959 | – |
| **Total operating income**[1] | **1,429** | **271** | **538** | **791** | **1,111** | **464** | **449** | **–959** | **4,094** |
| **Operating profit**[1] | **186** | **15** | **–88** | **58** | **392** | **20** | **–34** | **–2** | **547** |
| Net financial income | | | | | | | | | –14 |
| Net income from associates and joint ventures | 3 | 0 | – | 3 | –27 | 0 | 1 | | –20 |
| Income taxes | | | | | | | | | –119 |
| **Group profit** | | | | | | | | | **394** |
| Headcount[5] | 15,873 | 6,583 | 5,603 | 5,205 | 3,508 | 3,236 | 2,516 | | 42,524 |

1 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
2 PostFinance Ltd also applies the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.
3 Within the field of regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
4 Includes service units (Real Estate and Information & Communication Technology) and management units (e.g. Human Resources, Finance and Communication).
5 Average expressed in terms of full-time equivalents (excl. trainees).

## Significant changes in segment assets and liabilities

In comparison with 31 December 2016, the segment assets of PostFinance rose by 1,003 million francs to 120,043 million francs, particularly with regard to amounts due from banks. The rise is due to higher customer deposits and other financial liabilities on the liabilities side. The segment liabilities of PostFinance increased by 1,020 million francs to 114,781 million francs in comparison with 31 December 2016. Financial assets were transferred to amounts due from banks within the segment assets of PostFinance. Liabilities in the “Other” segment were down 1,215 million francs to 3,040 million francs compared with 31 December 2016, mainly as a result of lower employee benefit obligations, with the increase in trade accounts receivable and other liabilities somewhat lessening the effect.

## Additions and disposals of subsidiaries, associates and joint ventures

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

PostFinance Ltd, based in Berne, acquired an additional 14.444 percent in Lendico Schweiz AG, based in Zurich, on 20 February 2017, and therefore now holds 38.889 percent in the company.

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

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

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

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

Post CH Ltd, based in Berne, acquired 25 percent in Prime Data AG, based in Brugg, on 15 May 2017.

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

Overall, the effects on the consolidated financial statements of the above changes are not material in nature.

## Financial instruments

### Carrying amounts and fair values of financial instruments

The carrying amounts and the corresponding fair values of financial assets and liabilities are as follows on 31 December 2016 and 30 June 2017:

| Fair values and carrying amounts of financial instruments and other assets | 31.12.2016 | | 30.6.2017 | |
|---|---|---|---|---|
| CHF million | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets measured at fair value** | | | | |
| Financial assets | | | | |
| Available for sale | | | | |
| Bonds | 13,206 | 13,206 | 16,993 | 16,993 |
| Shares | 500 | 500 | 44 | 44 |
| Funds | 1,246 | 1,246 | 1,211 | 1,211 |
| Positive replacement values | 65 | 65 | 113 | 113 |
| **Financial assets not measured at fair value** | | | | |
| Financial assets | | | | |
| Held to maturity | 47,215 | 49,249 | 43,512 | 45,126 |
| Loans | 17,008 | 17,419 | 15,840 | 16,178 |
| **Financial liabilities measured at fair value** | | | | |
| Other financial liabilities | | | | |
| Negative replacement values | 269 | 269 | 261 | 261 |
| Deferred purchase price payments (earn out) | 1 | 1 | 9 | 9 |
| **Financial liabilities not measured at fair value** | | | | |
| Other financial liabilities | | | | |
| Private placements | 1,270 | 1,362 | 1,270 | 1,372 |

The carrying amounts of cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and payable, other receivables excluding accrued income and prepaid expenses and other liabilities excluding accrued expenses and deferred income, customer deposits (PostFinance) and other financial liabilities (excl. private placements) represent a reasonable estimate of fair value. These financial instruments are therefore not reported above.

### Fair value hierarchy

Financial instruments measured at fair value are assigned to one of three levels in the fair value hierarchy on the reference date. The level to which they are assigned depends on the lowest level parameter, which is used for determining the fair value of the financial instrument. For purposes of disclosure, the same applies to financial instruments that are excluded from fair valuation.

Level 1 Quoted prices in an active market: fair value is determined on the basis of quoted prices in the active market for the specific assets and liabilities. The market price at the balance sheet date is mandatory and may not be adjusted.

Level 2 Valuation method based on observable model inputs: positions that are not traded on an active market but whose fair value is measured on the basis of similar assets and liabilities traded on active markets or using valuation techniques are classified as level 2. In principle, recognized valuation techniques and directly or indirectly observable market data should be used as model parameters. Possible input parameters for level 2 fair values are prices in active markets for comparable assets and liabilities under normal market conditions. Fair values calculated using the DCF method with model inputs based on observable market data are classified as level 2.

The DCF method involves estimating the present value of the expected cash flows from assets or liabilities. A discount rate is applied, which corresponds to the creditworthiness required on the market for similar instruments with similar risk and liquidity profiles. The discount rates needed for the calculation are determined on the basis of standard market yield curve modelling and models.

Level 3 Valuation method based on unobservable model inputs: fair value is determined using valuation techniques and significant inputs specific to the company that are not observable in the market.

Fair values are determined as follows:

| Fair value of financial instruments | 31.12.2016 | | | | 30.6.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| CHF million | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| Available for sale | | | | | | | | |
| Bonds | 13,206 | 10,708 | 2,497 | 1 | 16,993 | 14,000 | 2,992 | 1 |
| Shares | 500 | 500 | – | 0 | 44 | 44 | – | 0 |
| Funds | 1,246 | 0 | 1,246 | – | 1,211 | 0 | 1,211 | – |
| Positive replacement values | 65 | – | 65 | – | 113 | – | 113 | – |
| Held to maturity [1] | 49,249 | 38,704 | 10,545 | – | 45,126 | 36,033 | 9,093 | – |
| Loans [2] | 17,419 | – | 17,401 | 18 | 16,178 | – | 16,159 | 19 |
| Negative replacement values | 269 | – | 269 | – | 261 | – | 261 | – |
| Deferred purchase price payments (earn out) | 1 | – | – | 1 | 9 | – | – | 9 |
| Private placements | 1,362 | – | 1,362 | – | 1,372 | – | 1,372 | – |

1 Financial assets held to maturity are recognized at amortized cost using the effective interest method.
2 Loans are measured at amortized cost. In the case of the loans to PostBus operators (54 million francs, 31.12.2016: 63 million francs) and "Other" (17 million francs, 31.12.2016: 16 million francs), the fair values on the balance sheet date correspond approximately to the carrying amounts given in the balance sheet.

As at 31 December 2016, no financial assets were reclassified within the fair value hierarchy. Available-for-sale financial assets of 251 million francs were reclassified from level 1 to level 2 as at 30 June 2017. Reclassifications between the different levels are carried out at the end of each reporting period. For an instrument to be assigned to level 1, it must be traded on an active market (public stock exchange), have a quoted price on the reference date and be available in sufficient quantities to ensure a liquid market.

Interests amounting to around 10 million francs (31 December 2016: around 8 million francs) are measured at cost in "available-for-sale" shares. The overview above and the table on page 40 (Carrying amounts and fair values of financial instruments) therefore do not include the values of these interests.

## Amounts due from banks

In comparison with 31 December 2016, amounts due from banks increased by 2,953 million francs. Cash reserves remain high, and are mostly held at the Swiss National Bank.

### Breakdown of major country exposures

Country risks are controlled by establishing country portfolio limits which encourages a broad diversification of international financial assets. An overview of major country exposures as at 31 December 2016 and 30 June 2017 is given below:

Summary of main country exposures [1]

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| Switzerland | 47,401 | 45,645 |
| USA | 4,061 | 4,771 |
| France | 4,869 | 4,724 |

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

### Net income from financial assets

Gains and losses on the disposal and early repayment of available-for-sale financial assets are presented as net income from the disposal of available-for-sale financial assets (income from financial services). In the reporting period, they amounted to a gain of 101 million francs (prior-year period: gain of 99 million francs). Two equity portfolios were sold during the reporting period, resulting in the disclosed gain.

## Investment commitments

As at 30 June 2017, investment commitments totalled 164 million francs (31 December 2016: 118 million francs). This amount is essentially attributable to the "PostParc" project in Berne.

## Seasonal nature

Swiss Post's business activity is affected by a small number of seasonal influences. These primarily include customer deposits in the PostFinance segment which stand at a high level at year-end. For various reasons (13th monthly salary payment, invoice receipts credited at year-end, etc.), both private and business customers hold a large amount of liquidity. To a lesser extent, this also applies to this Interim Report. The Christmas season has a positive impact on the logistics units, whereas the summer months are weaker.

## Appropriation of profit

The General Meeting of Swiss Post Ltd held on 25 April 2017 decided to pay a dividend totalling 200 million francs. The dividend was paid on 26 April 2017.

## Related companies and parties

The transactions between Swiss Post and related companies and parties carried out in the first six months of 2017 are comparable with the transactions mentioned in the 2016 consolidated annual financial statements (see Financial Report 2016, page 153).

## Events after the reporting period

Prior to the approval of this Interim Report by the Board of Directors' Audit, Risk & Compliance Committee on 28 August 2017, no events came to light which either would have resulted in changes to the carrying amounts of the Group's assets and liabilities or would have to be disclosed in this section of the Report.

# Independent Auditor's Report on the Review of Consolidated Interim Financial Information

**To the Board of Directors of Swiss Post Ltd, Berne**

**Introduction**
We have been engaged to review the accompanying consolidated condensed balance sheet of Swiss Post Ltd as at 30 June 2017 and the related consolidated condensed income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the 6-month period then ended, and selected explanatory notes (the consolidated interim financial information) on pages 26 to 43. The Board of Directors is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

**Scope of Review**
We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting.*

KPMG AG

| | |
|---|---|
| Rolf Hauenstein<br>Licensed Audit Expert | Stefan Andres<br>Licensed Audit Expert |

Gümligen-Berne, 28 August 2017

# POSTFINANCE INTERIM FINANCIAL STATEMENTS

PostFinance Ltd reports to the Group in accordance with Group IFRS guidelines and issues its financial statements pursuant to the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 “Accounting – Banks”).

# Reconciliation of profit

PostFinance Ltd reports to the Group in accordance with Group IFRS guidelines and issues its financial statements pursuant to the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 "Accounting – Banks"). The ARB valuation principles differ from the IFRS rules. The following table shows the differences between the two accounting standards and reconciles the profit in accordance with IFRS with the ARB financial statements.

**PostFinance Ltd** | Reconciliation of profit

| CHF million | 2016 1.1 to 30.6 | 2017 1.1 to 30.6 |
|---|---|---|
| **PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation** | **237** | **392** |
| Management/licence fees/net cost compensation | –15 | –5 |
| **PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation** | **222** | **387** |
| Net income from associates | 1 | 2 |
| Operating profit from subsidiaries | 12 | – |
| Net financial income | –3 | –17 |
| **Earnings before tax (EBT)** | **232** | **372** |
| Income taxes | –56 | –60 |
| **PostFinance Ltd half-year profit reported to the Group as per IFRS** | **176** | **312** |
| Amortization of revalued held-to-maturity financial assets | –26 | –14 |
| Valuation differences for financial assets as per ARB | 46 | –23 |
| Realized gains from (earlier than scheduled) sales | –4 | –33 |
| Reversal of impairment/impairment on loans | 3 | – |
| Valuation differences between IAS 19 and Swiss GAAP ARR 16 | 13 | –7 |
| Depreciation of revalued real estate | –2 | –2 |
| Amortization of goodwill | –100 | –100 |
| Valuation differences for investments as per ARB | –2 | –33 |
| Realized gains on investments | 1 | 2 |
| Adjustment of deferred tax effects as per IFRS | 23 | 27 |
| **PostFinance Ltd half-year profit as per ARB** | **128** | **129** |

The main material positions in the reconciliation of profit are as follows:

- Swiss Post reports its segments based on operating profit before management, licence fees and net cost compensation. For this reason, the reconciliation of profit includes a corresponding offset of 5 million francs on the operating profit in accordance with IFRS.

- The goodwill capitalized as part of the conversion to a company limited by shares in 2013 is amortized by 200 million francs annually.

# POSTFINANCE LTD STATUTORY INTERIM FINANCIAL STATEMENTS

The following pages show the PostFinance Ltd statutory financial statements in accordance with the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 “Accounting – Banks”).

# Balance sheet

**PostFinance Ltd** | Balance sheet as per ARB

| CHF million | 31.12.2016 | 30.6.2017 |
|---|---|---|
| **Assets** | | |
| Liquid assets | 37,453 | 40,020 |
| Amounts due from banks | 4,397 | 4,300 |
| Amounts due from securities financing transactions | 84 | 116 |
| Amounts due from customers | 13,169 | 12,123 |
| Mortgage loans | 0 | 0 |
| Positive replacement values of derivative financial instruments | 65 | 113 |
| Financial investments | 61,742 | 61,426 |
| Accrued income and prepaid expenses | 598 | 552 |
| Participations | 101 | 73 |
| Tangible fixed assets | 1,259 | 1,279 |
| Intangible assets | 1,200 | 1,100 |
| Other assets | 311 | 271 |
| **Total assets** | **120,379** | **121,373** |
| Total subordinated claims | 1 | 12 |
| of which subject to mandatory conversion and/or debt waiver | – | – |
| **Liabilities** | | |
| Amounts due to banks | 2,406 | 2,139 |
| Liabilities from securities financing transactions | 723 | 1,700 |
| Amounts due in respect of customer deposits | 109,709 | 110,180 |
| Negative replacement values of derivative financial instruments | 268 | 261 |
| Cash bonds | 114 | 100 |
| Accrued expenses and deferred income | 138 | 141 |
| Other liabilities | 8 | 3 |
| Provisions | 20 | 38 |
| Bank´s capital | 2,000 | 2,000 |
| Statutory capital reserve | 4,682 | 4,682 |
| of which tax-exempt capital contribution reserve | 4,682 | 4,682 |
| Profit | 311 | 129 |
| **Total liabilities** | **120,379** | **121,373** |
| Total subordinated liabilities | – | – |
| of which subject to mandatory conversion and/or debt waiver | – | – |
| **Off-balance-sheet transactions** | | |
| Contingent liabilities | 0 | 18 |
| Irrevocable commitments | 709 | 708 |

# Income statement

**PostFinance Ltd** | Income statement as per ARB

| CHF million | 2016 1.1 to 30.6 | 2017 1.1 to 30.6 |
|---|---|---|
| Interest and discount income | 93 | 89 |
| Interest and dividend income from financial investments | 408 | 356 |
| Interest expense | –26 | 3 |
| **Gross result from interest operations** | **475** | **448** |
| Changes in value adjustments for default risks and losses from interest operations | –71 | 14 |
| **Net result from interest operations** | **404** | **462** |
| Commission income from securities trading and investment activities | 19 | 22 |
| Commission income from lending activities | 8 | 9 |
| Commission income from other services | 313 | 311 |
| Commission expenses | –241 | –219 |
| **Result from commission business and services** | **99** | **123** |
| **Result from trading activities and the fair value option** | **98** | **105** |
| Result from the disposal of financial investments | 24 | 67 |
| Income from participations | 1 | 2 |
| Result from real estate | 33 | 43 |
| Other ordinary income | 53 | 50 |
| Other ordinary expenses | – | –8 |
| **Other result from ordinary activities** | **111** | **154** |
| **Operating income** | **712** | **844** |
| Personnel costs | –250 | –260 |
| General and administrative expenses | –241 | –257 |
| **Operating expenses** | **–491** | **–517** |
| Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets | –128 | –160 |
| Changes to provisions and other value adjustments, and losses | –3 | –5 |
| **Operating result** | **90** | **162** |
| Extraordinary income | 73 | 3 |
| Taxes | –35 | –36 |
| **Half-year profit** | **128** | **129** |

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