INTERIM REPORT 2018
JANUARY TO JUNE

SWISS POST

SIMPLE YET SYSTEMATIC – SWISS POST.

3,866 million

francs in **operating income**
as at 30 June 2018.

218 million

francs in **Group profit**
as at 30 June 2018.

971.7 million

addressed letters were processed
by Swiss Post in the first half of 2018.

66.7 million

parcels were delivered by Swiss Post
in the first half of 2018.

122.4 billion

francs represents the level of **average customer assets** held by PostFinance
as at 30 June 2018.

77.3 million

kilometres were covered by PostBus
in the first half of 2018.

Interim Report January to June 2018

Foreword
by **Urs Schwaller,** Chairman of the Board of Directors
and **Ulrich Hurni,** Interim CEO

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Although Swiss Post is on the right track and is achieving sound results in many units, the 2018 interim results are impacted by provisions at PostBus and dwindling income at PostFinance.

Dear Reader

The first half of 2018 was influenced by the events surrounding PostBus. Swiss Post promised to provide full transparency and to pay back every franc owed in a straightforward manner. We have kept this promise. Under the auspices of the Federal Office of Transport (FOT) and together with the Conference of Cantonal Directors of Public Transport (CPT), the amount to be repaid to the Confederation, the cantons and the municipalities has been determined. PostBus will repay 188.1 million francs for the period 2007 to 2018 in accordance with these provisions. PostBus also intends to make a voluntary repayment of 17.2 million francs for the period prior to 2007. The money is available.

This represents a major step for Swiss Post in redressing the matter and is a fundamental requirement in order to make a fresh start. The employees, the public, the owner and all our partners must be able to rely on Swiss Post and each of its subsidiaries. For this reason further steps are required. We are now doing our utmost to implement all the measures decided upon.

It is important to rectify the incidents. And it is just as important not to lose sight of Swiss Post's general position and to look to the future. Swiss Post is fundamentally well positioned and on the right track: we are recording a further increase in revenue in the parcels business. Growth in online retail continues unabated and our high-quality logistics services are in great demand. In the letters business, the decline in volumes was absorbed by more efficient delivery and processes while income remains stable.

Swiss Post operates successfully in its core business. This is mainly thanks to our employees. They are the face of Swiss Post and offer high-quality services to ensure that our company not only meets, but exceeds market requirements and legal provisions. This was confirmed by the Universal Postal Union in its most recent study. Swiss Post was ranked the best in the world for the second time in a row. This award is an honour, but also an obligation, as we must now continue to pursue our set goals.

In the course of its 170-year history, Swiss Post has set itself apart in responding to change in an agile manner and even taking on pioneering roles. This is what we are doing today and will strive to do in the future as well. The restructuring of the postal network is part of this strategy and is having its first positive impact on the interim results. The PostalNetwork loss shrunk from –88 million francs to –60 million francs. This is an immediate consequence of the restructuring of the postal network and was a key goal of the new network strategy.

Although Swiss Post is on the right track and is achieving sound results in many units, the 2018 interim results are impacted by provisions at PostBus and dwindling income at PostFinance. Operating profit (EBIT) decreased from 538 million francs to 281 million francs year-on-year. Group profit stands at 218 million francs, a fall of 167 million francs year-on-year.

This Interim Report reveals the challenges faced by Swiss Post. The sharply declining results at PostFinance speak for themselves. This year there are no one-off effects in the accounts unlike 2017, which saw the sale of an equity portfolio of around 100 million francs. This makes the impact of the ongoing low interest rates all the more noticeable. PostFinance's interim results (EBIT: 145 million francs) are significantly lower than last year.

This development was not unexpected and Swiss Post has reiterated the problem. Swiss Post therefore welcomes the key decision taken by the Federal Council to lift the ban on PostFinance issuing its own loans and mortgages. We are pleased that this political process, which is important to us, is now being initiated. From Swiss Post's perspective, there now needs to be a debate in terms of the overall picture. We will also be committed to such a discussion within the working group that has now been set up.

Major challenges require bold, decisive action. Whether it's the situation at PostFinance, the restructuring of the postal network or the clarification of the incidents at PostBus: we are continuing our journey because it is the right path to take and will make the company fit for the future.

Urs Schwaller
Chairman of the
Board of Directors

Ulrich Hurni
Interim 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 revenue in competition. The minority is accounted for by letters weighing less than 50 grams, where Swiss Post is in competition with electronic services. 85 percent of operating income is generated in Switzerland.

Key figures

All four markets helped to generate the operating profit of 281 million francs. The prior-year figure stood at 538 million francs. Increases were recorded year-on-year in the communication and logistics market. These were due partly to efficiency measures and partly to positive trends in parcel volumes. By contrast, the financial services market suffered a decline compared to the previous year. This was attributable to non-recurring one-off capital gains of 109 million francs from the sale of shares in the prior-year figure, as well as the market-related lower interest income in the current year. The passenger transport market registered a decline in the operating result due to lower income from services. Between 1 January and 30 June 2018 Swiss Post generated a Group profit of 218 million francs, 167 million francs down on the previous year.

Group | Key figures 2018 with prior year for comparison		2017 1.1 to 30.6.	2018 1.1 to 30.6.
Result			
Operating income [1]	CHF million	4,080	3,866
generated abroad and in cross-border business [1,2]	CHF million	560	593
	% of operating income	13.7	15.3
Operating profit	CHF million	538	281
As a share of operating income	%	13.2	7.3
generated abroad and in cross-border business [1,2]	CHF million	50.1	36.1
	% of operating profit	9.3	12.8
Group profit	CHF million	385	218
Employees			
Headcount at Swiss Post Group	Full-time equivalents	42,524	41,555
Abroad [2]	Full-time equivalents	7,001	7,186
Investments			
Investments	CHF million	160	198
Other property, plant and equipment, intangible assets	CHF million	105	84
Operating property	CHF million	33	33
Investment property	CHF million	3	11
Interests	CHF million	16	70
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities	CHF million	3,198	4,096
Economic value added	CHF million	173	3
Financing		31.12.2017	30.6.2018
Total assets [1]	CHF million	127,421	132,418
Customer deposits (PostFinance) [1]	CHF million	113,195	114,791
Equity	CHF million	6,569	6,862

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

General developments

The economy

The global economy expanded robustly overall in the first half of the year. Growth in the US and China was strong and broad-based. The pace of economic expansion slowed in the euro area and Japan, albeit partly due to temporary factors. On the whole, international goods trade remained dynamic. In the US, inflation has almost reached the target level set by the Federal Reserve. The Fed therefore plans to continue its normalization of monetary policy. In the euro area, by contrast, core inflation has continued to move sideways in recent months. The European Central Bank (ECB) therefore intends to pursue its asset purchase programme until December 2018, and to leave its key rates at their present levels at least through the summer of 2019. The Swiss economy continued to recover as expected, GDP once again grew faster than estimated potential in the first quarter. On the output side, growth was driven primarily by services, which gained momentum compared with the previous quarters. Overall capacity utilization has improved further on the back of this favourable development, while unemployment has also dropped lower still in recent months.

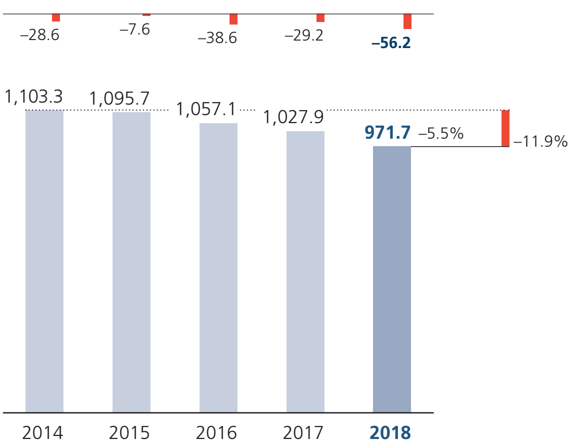
Customers and sectors

Communication market

Letter mail and over-the-counter transactions have been undergoing fundamental structural change for some time now. Customers are using digital products and services more and more frequently. Demand for traditional postal services is therefore falling. This is leading to declining volumes of the corresponding products in the communication market. At the end of the second quarter of 2018, the number of addressed letters was down 5.5 percent on the previous year. Newspaper delivery volumes saw negative performance (–3.9 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 2.2 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 rose by 5.5 percent year-on-year. The products offered by Swiss Post Solutions to help companies with the outsourcing of business processes and with innovative services in document solutions are meeting with growing demand.

Declining letter volumes due to digitization.

Communication market | Addressed letters in millions as at 30.6.
2014 to 2018
2014 = 100%

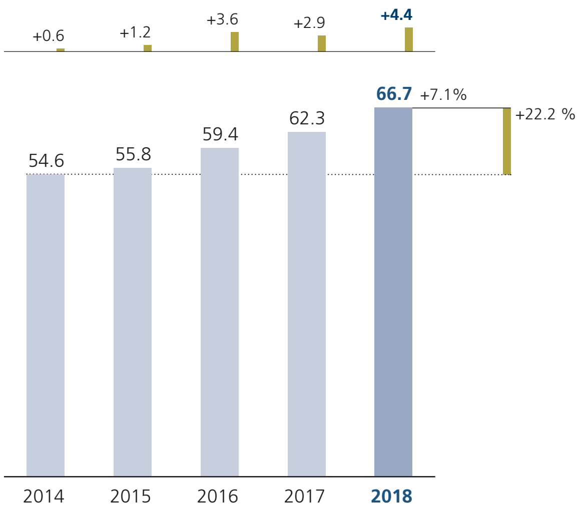


Logistics market

The fully deregulated logistics market is highly competitive. The ongoing internationalization in e-commerce is boosting parcel growth. Parcel senders and recipients have high expectations as regards quality. There is a demand for rapid delivery, flexible recipient services and seamless international processing (incl. customs clearance). Orders from Swiss customers continue to rise. PostLogistics positions itself as the quality and cost leader in the following segments: national and international parcels, small consignments and warehousing, Innight, Express, the transport of valuables, Courier and e-commerce. Domestic parcel volumes carried by PostLogistics increased year-on-year (+7.5 percent). A slight increase of around 1 percent was registered in terms of import and export volumes. The overall increase stood at 7.1 percent.

E-commerce continues to boost parcel volumes.

Logistics market | Parcels in millions as at 30.6.
2014 to 2018
2014 = 100%



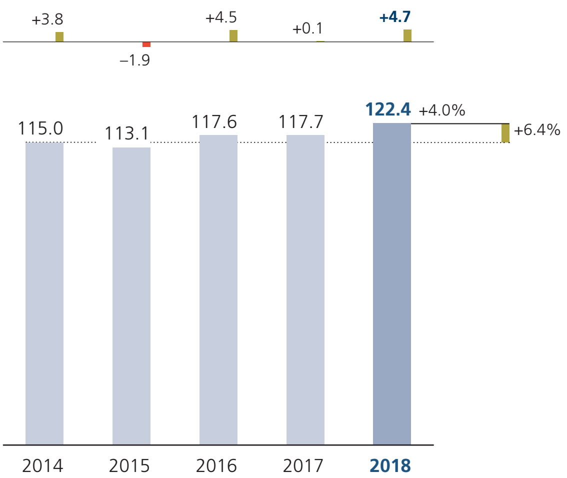
Financial services market

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 is therefore expanding its services in the investment area in a targeted manner.

In addition, customer requirements are changing quickly. Society, and with it the banking world, are rapidly becoming more and more digital. PostFinance is therefore focusing its strategy even more closely on the digital world and developing from a traditional financial service provider into a "digital powerhouse" that makes it as easy as possible for customers to manage their money.

Customer assets continue to grow.

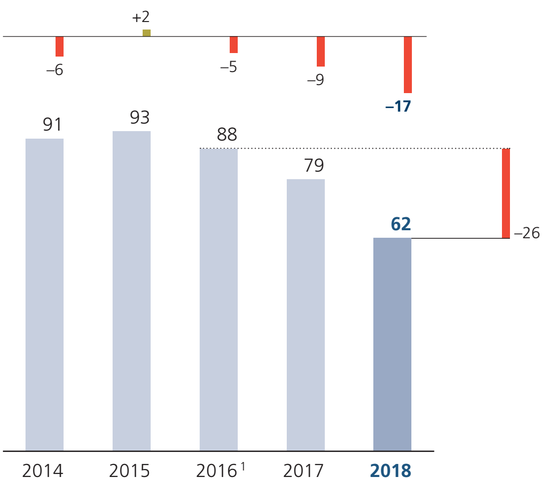
Financial services market | Average customer assets in CHF billion as at 30.6.
2014 to 2018
2014 = 100%



The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rates and lack of profitable investment opportunities weighed on interest income, further eroding interest margins. The increase in customer assets stood at 4.7 billion francs. PostFinance invests a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A very 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 customer asset fee has been charged to private customers with cash assets of over one million francs since February 2017.

Low interest margins due to market conditions.

Financial services market | Interest margin in basis points as at 30.6.
2014 to 2018
2016 = 100%



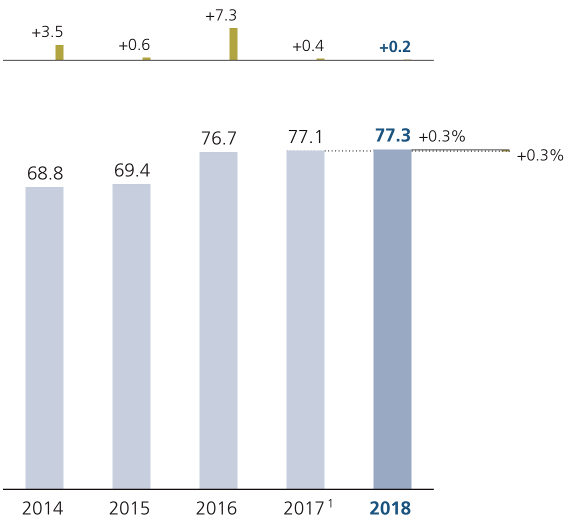
1 The definition of the interest margin was modified for 2016. The figures from 2014 to 2015 are not comparable with the figures from 2016 to 2018.

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. PostBus has also been operating urban bus networks and bus routes in France for a number of years. In the first half of 2018, PostBus increased the number of kilometres covered by 0.3 percent year-on-year, recording a total of 77.3 million kilometres. The expansion of services in Switzerland contributed to this rise.

Services provided continue to increase.

Passenger transport market | Kilometres covered in millions of km as at 30.6.
2014 to 2018
2017 = 100%



1 The definition of kilometres covered was modified in 2017. The figures from 2014 to 2016 are not comparable with the figures from 2017 to 2018.

Strategy

In line with the Federal Council's financial goals, Swiss Post is expected to maintain the positive economic value added in the long term. Its chosen strategy for doing so has four strategic thrusts: adapt, grow, optimize, and help shape regulatory conditions See also pages 5 to 18 of the Annual Report 2017. One of the things Swiss Post must do in order to meet the goals set by its owner is to create added value.

Additions and disposals of subsidiaries, associates and joint ventures

PostFinance Ltd, based in Berne, acquired a further 5.78 percent in both moneymeets GmbH and moneymeets community GmbH, based in Cologne (Germany), on 10 January 2018, in addition to the 20.39 percent already held. This gives PostFinance Ltd a 26.17 percent share in both companies.

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

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

SwissSign Group Ltd., based in Opfikon, was founded on 28 February 2018. SwissSign Group Ltd. will integrate the activities of the present-day SwissSign Ltd., based in Opfikon, and further develop the existing SwissID solution. SwissSign Ltd. was originally a subsidiary of Swiss Post, and became a joint venture between Swiss Post and SBB (50 percent share each) in May 2017. Post CH Ltd, based in Berne, holds 17 percent of the newly founded SwissSign Group Ltd. For Swiss Post, this means that SwissSign Ltd. will no longer be reported in the consolidated financial statements using the equity method as of February 2018, but will be held as a financial asset. The shareholders of SwissSign Group Ltd. primarily consist of a mix of state-owned enterprises and companies from the financial and insurance sectors. Alongside Swiss Post are companies such as SBB, Swisscom, Credit Suisse, Raiffeisen, SIX, UBS, Zürcher Kantonalbank, Axa, Baloise, Helvetia, Mobiliar, Swiss Life, Vaudoise, Zürich, CSS and SWICA, which all form part of the wide-ranging group. With SwissID, the company will offer an open and simple system for digital identification, which meets all legal data protection requirements.

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

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

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

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

Finances

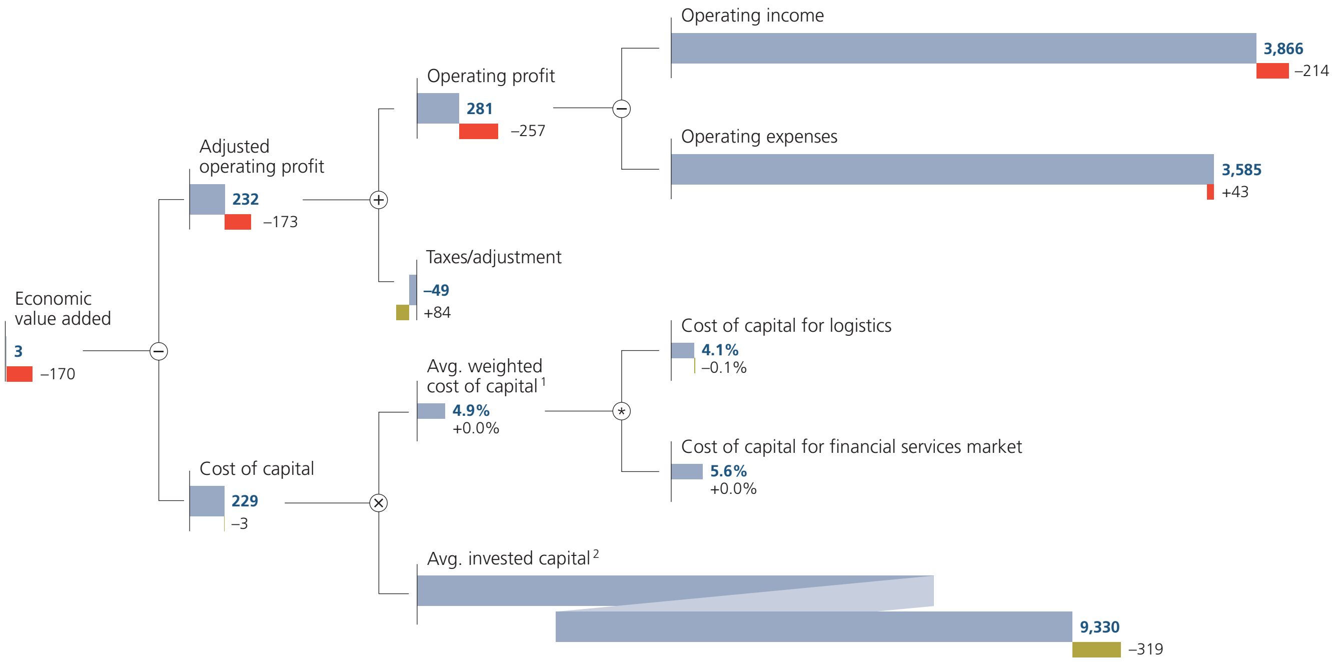
Economic value added

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 2018, Swiss Post met the financial expectations of the Federal Council and generated positive economic value added of 3 million francs. This figure was 170 million francs down year-on-year. The decline is due to the lower operating income and negative profit trends which have been hit heavily by the development of the financial services market and repayments to the Federal Office of Transport (FOT). The earnings effect could not be offset by lower capital costs.

Negative economic value added due to the development of the financial services market and reimbursements to the FOT.

Group | Economic value added in CHF million as at 30.6.
2018



⊙ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).
1 Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity for the financial services market.
2 At PostFinance corresponds to average equity in accordance with Basel III of 4,910 million francs and in logistics units to the average net operating assets (NOA) of 4,420 million francs.

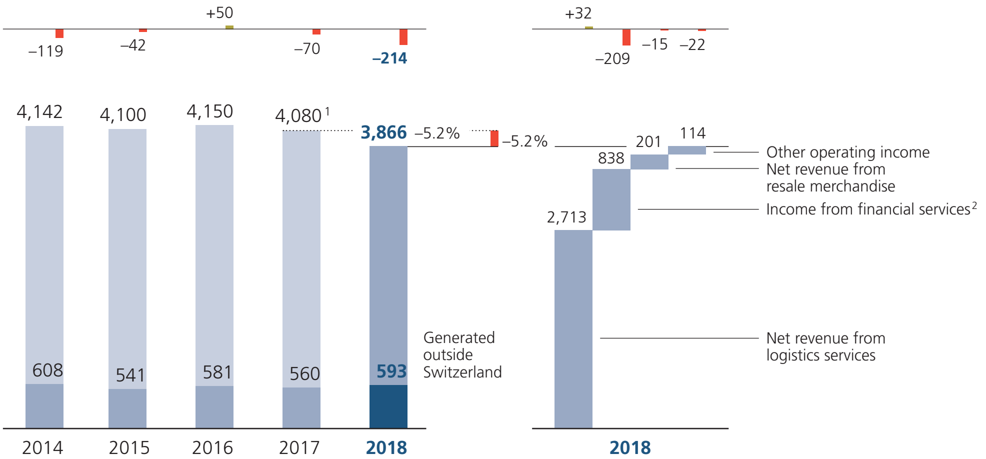
Income statement

Operating income

In the first half of 2018, operating income amounted to 3,866 million francs (previous year: 4,080 million francs). This represents a fall of about 5.2 percent. Operating income decreased mainly as a result of the decline in income from financial services due to lower interest income.

Lower income from the financial services and passenger transport markets.

Group | Operating income in CHF million as at 30.6.
2014 to 2018
2017 = 100%



1 Figures have been adjusted (see Notes, Accounting changes).
2 Including "Other revenue from financial services" of 496 million francs as at 30 June 2018 (previous year: 712 million francs)

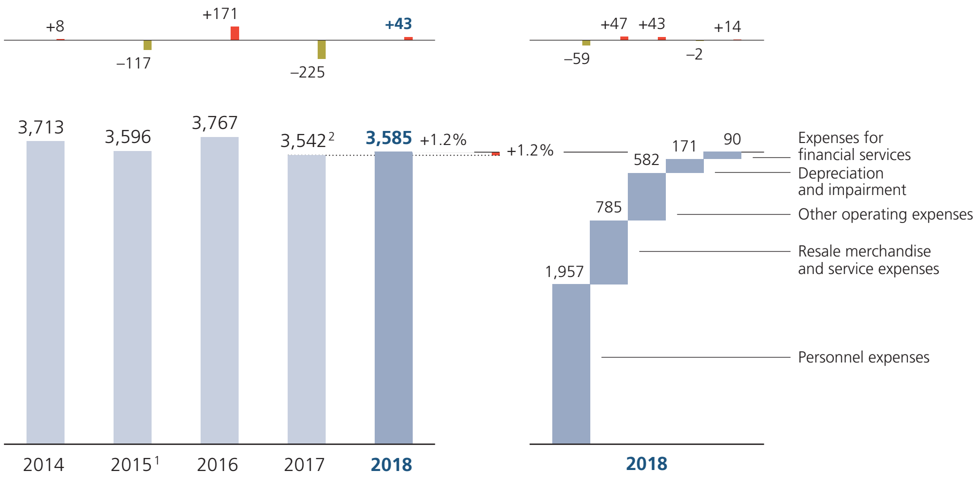
A rise of around 1 percent in net revenue from logistics services was achieved, while income from financial services declined by 209 million francs. This is mainly due to non-recurring one-off capital gains of 109 million francs from the sale of shares in the previous year and the current market-related lower interest income, which decreased by 76 million francs. Net revenue from resale merchandise suffered a decline of 15 million francs due to the adjustment of our product range. Other operating income decreased by 22 million francs year-on-year.

Operating expenses

Personnel expenses were down 59 million francs to 1,957 million francs due to the lower headcount – principally as a result of the reduction in costs for wages and salaries and the decrease in employee benefit expenses. Resale merchandise and service expenses increased by 47 million francs to 785 million francs, partly due to volume-related higher compensatory payments in international postal traffic and the cost of temporary staff. Expenses for financial services rose by 14 million francs to 90 million francs due to the need for impairments and higher interest expense. Other operating expenses rose by 43 million francs. Higher consultancy expenses for IT projects paid a key role in the increase. Depreciation and impairment expenses fell by 2 million francs.

Higher operating expenses due to project costs.

Group | Operating expenses in CHF million as at 30.6.
2014 to 2018
2017 = 100%



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

Operating profit

Operating profit decreased by 257 million francs to 281 million francs year-on-year. This difference was mainly due to the change in operating income and heavily influenced by income from financial services. Non-recurring one-off capital gains of 109 million francs from the sale of shares in the previous year and current market-related lower interest income are worthy of mention here.

Group profit

7 million francs of income were generated from associated companies and joint ventures in the first half of 2018. The financial result expressed as the net balance of financial income (13 million francs) and financial expenses (26 million francs) was up 1 million francs year-on-year. Income tax expense was also down (57 million francs) due to the decline in the result. Group profit stood at 218 million francs, down 167 million francs year-on-year.

Segment results

With the exception of the passenger transport market, all the markets contributed to operating profit.

Group | Segment results 1.1. to 30.6. with prior-year period	Operating income [1] CHF million		Operating result [1, 2] CHF million		Margin [3] Percent		Headcount [4] Full-time equivalents	
	2017	2018	2017	2018	2017	2018	2017	2018
PostMail	1,429	1,381	186	199	13.0	14.4	15,873	15,048
Swiss Post Solutions	271	286	15	14	5.5	4.9	6,583	6,720
PostalNetwork	538	515	–88	–60			5,603	4,879
Communication market	**2,096**	**2,052**	**113**	**153**	**5.4**	**7.5**	**28,059**	**26,647**
PostLogistics	791	820	58	73	7.3	8.9	5,205	5,266
Logistics market	**791**	**820**	**58**	**73**	**7.3**	**8.9**	**5,205**	**5,266**
PostFinance [5]	1,106	881	392	145			3,508	3,383
Financial services market	**1,106**	**881**	**392**	**145**			**3,508**	**3,383**
PostBus [6]	455	473	11	–29	2.4		3,236	3,306
Passenger transport market	**455**	**473**	**11**	**–29**	**2.4**		**3,236**	**3,306**
Other [7]	449	452	–34	–59			2,516	2,953
Consolidation	–959	–942	–2	–2				
Group	**4,080**	**3,866**	**538**	**281**	**13.2**	**7.3**	**42,524**	**41,555**

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 function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).

Communication market

PostMail: prior-year result surpassed.

PostMail

PostMail recorded an operating profit of 199 million francs for the first half of 2018, exceeding the prior-year figure by 13 million francs.

Operating income fell by 48 million francs. Revenue from addressed letters in Switzerland alone dropped by 29 million francs. The decline in volumes and revenue was due to substitution by electronic media and cost optimizations by customers. Newspaper revenue dropped by 9 million francs year-on-year due to a decline in subscriber numbers.

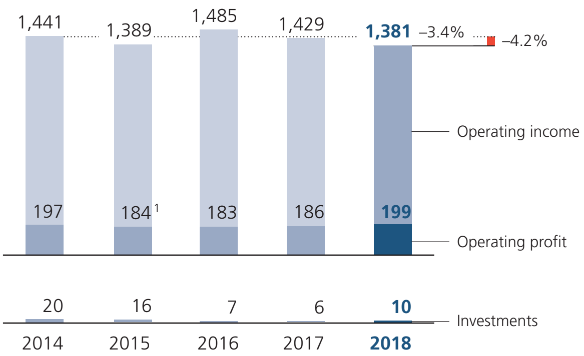
Positive trends were observed in the import business due to slightly higher volumes and foreign exchange effects. Higher revenue was also recorded for new products in supplementary business areas, such as information collection and the collection and delivery of non-postal products on delivery rounds.

Operating expenses declined by 61 million francs, affected by lower volumes in a similar way to operating income. Significant reductions were principally seen in staff requirements as well as in payments for internal Swiss Post services. Lower premises costs and employee benefit expenses also contributed to the decline.

Headcount fell by 825 full-time equivalents year-on-year due to lower staff requirements in sorting and delivery associated with declining volumes, as well as to optimization projects relating to operations. Transfers of personnel due to the introduction of functional management and the associated central bundling of management functions led to a further decline.

Structural change has no impact on operating profit.

PostMail | Operating income, operating profit and investments in CHF million as at 30.6.
2014 to 2018



1 Normalized figures.

Since 2014, PostMail has achieved an operating profit of over 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 around 3 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 PostalNetwork to PostMail.

Investments of 9 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: positive contribution to results.

Swiss Post Solutions

As part of the consistent implementation of the strategic thrusts “Growth in core business” and “Promoting new business”, Swiss Post Solutions acquired the business process outsourcing HR processes business unit (payroll accounting, travel expense management and document processing) from the DXC Technology Group in June 2018. The associated expansion of the service portfolio of Swiss Post Solutions is another milestone in the strategic focus on developing into a provider of an integrated, innovative end-to-end portfolio with intelligent automation in document solutions. Consolidated revenue since 1 June 2018 stood at 3 million francs.

Swiss Post Solutions achieved an operating profit of 14 million francs overall. Operating profit amounted to 3 million francs, down 1 million francs year-on-year as a result of acquisition costs.

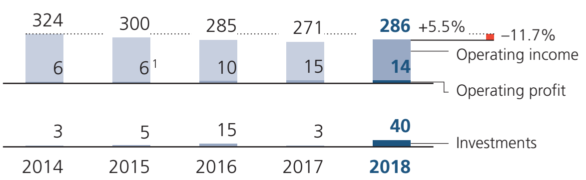
At 286 million francs, operating income was 15 million francs up on the previous year. This was partly due to operating income from the newly acquired business unit, as well as to an increase in operating income associated with higher volumes and new customer transactions of 11 million francs in Germany, the United Kingdom and the US. The increase year-on-year represents a total of 6 percent.

Operating expenses totalled 272 million francs, up 16 million francs on the previous year. This includes 3 million francs of expenses associated with the acquisition of the above-mentioned business unit. Implementation costs in connection with two large orders in the US and Germany also weighed on the result.

Average headcount rose by 137 to 6,720 full-time equivalents year-on-year. The increase is mainly due to higher staff requirements in Vietnam (+296), Germany (+71, including +51 in connection with the newly acquired business unit), Switzerland (+18) and the US (+15), which were partly offset by the sale of activities in Slovakia (–85) and decreases in the United Kingdom (–122) and France (–45).

Higher operating income due to volumes and acquisitions.

Swiss Post Solutions | Operating income, operating profit and investments in CHF million as at 30.6.
2014 to 2018



1 Normalized figures.

Swiss Post Solutions has generated operating profit every year for the past five years. The constant positive trend in operating profit is the result of the consistent implementation of strategic measures. These mainly concern the optimization of the portfolio of solutions and interests. 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), the sale of Swiss Post Solutions Card Systems GmbH (in 2016), the sale of Swiss Post Solutions s.r.o. (in 2018) and the acquisition of the business process outsourcing HR processes business unit from the DXC Technology Group (in 2018). The ongoing implementation of projects to improve profitability and save costs in all countries also contributed to the positive operating result.

PostalNetwork: improvement in interim result.

PostalNetwork

Thanks to network development and the consistent adaptation of resources to meet volume trends, combined with efficiency increases, losses in the core business of letters and inpayments were more than offset and operating profit increased by 28 million francs. PostalNetwork generated a result of –60 million francs in the first half of 2018.

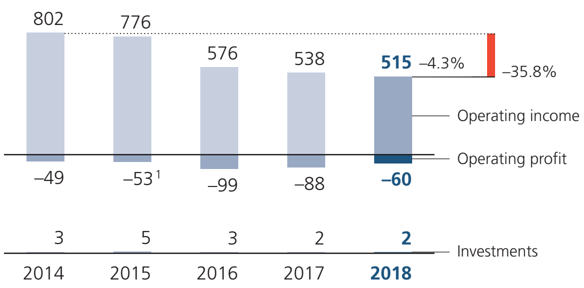
Operating income was down by 23 million francs year-on-year to 515 million francs. Income from logistics products dropped by 3 million francs. This was essentially due to declining letter volumes in the network of just under 4 percent, while the number of parcels transported via the network increased by more than 8 percent. The decrease in payment transactions which has been observed for quite some time continued due to substitution through e-banking (–5.8 percent). Declining volumes in payment transactions resulted in a 4 million franc drop in revenue. The 14 million franc decline in net revenue from resale merchandise year-on-year can be explained by adjustments to the range.

Operating expenses were cut by 51 million francs year-on-year to 575 million francs. Personnel expenses were 38 million francs below the previous year's level, due largely to a drop in headcount attributable to network development and efficiency increases. Other expenses were reduced by a further 5 million francs.

Headcount of 4,879 employees fell by 724 full-time equivalents year-on-year. This was due to the transfer of 120 full-time equivalents to the Finance, Communication, Human Resources and ICT units, as well as to the significant developments in the postal network.

Network development leads to improvement in operating result.

PostalNetwork | Operating income, operating result and investments in CHF million as at 30.6.
2014 to 2018



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 absorbed by the measures introduced in the past few years. Further efficiency increases in the network led to a significant improvement in results from 2017.

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

Logistics market

PostLogistics

PostLogistics: operating profit up year-on-year.

PostLogistics posted operating profit of 73 million francs in the first half of 2018, which was 15 million francs higher than the previous year's level. The upward trend was mainly due to a rise in parcel volumes.

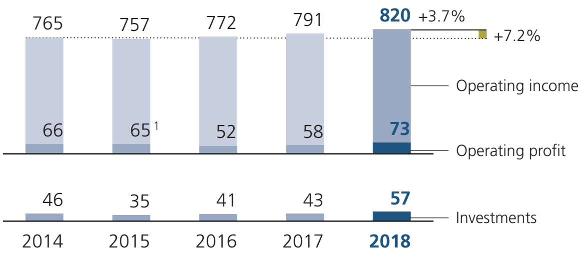
Operating income totalled 820 million francs, exceeding the previous year's total by 29 million francs. This rise was due to the acquisition of companies and greater demand for value logistics solutions as well as to higher parcel volumes.

Operating expenses increased by 14 million francs year-on-year to 747 million francs. The rise was mainly attributable to volume-related higher expenses for parcels and to the acquisition of companies.

Average headcount increased by 61 to 5,266 full-time equivalents due to the effects mentioned above.

Highest interim result for several years.

PostLogistics | Operating income, operating profit and investments in CHF million as at 30.6.
2014 to 2018



1 Normalized figures.

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

In the first half of 2018, operating income also reached its highest level in five years. This was mainly due to the continued rise in parcel volumes – caused by growth in online retail – and to the acquisition of companies. It more than offset the loss of customers in small consignments transport and warehousing.

Investments in the first half of 2018 were above the average level seen in recent years due to the acquisition of companies.

Financial services market

PostFinance

PostFinance: significant decline in operating profit.

In the first half of 2018, PostFinance recorded an operating profit of 145 million francs, representing a decrease of 247 million francs year-on-year.

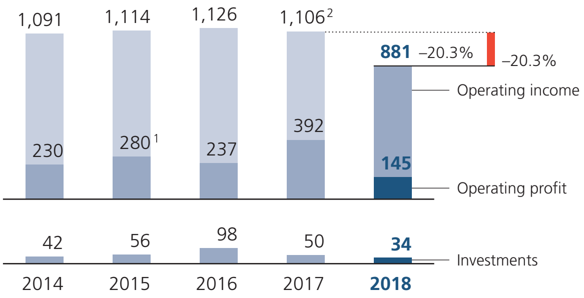
Operating income was down 225 million francs to 881 million francs. This is mainly due to non-recurring one-off capital gains of 109 million francs from the sale of shares in the previous year and the current market-related lower interest income, which decreased by 76 million francs. Trading profit/loss was down 15 million francs due to market fluctuations. Lower reversals of impairment of 14 million francs were also recorded on financial assets.

At 736 million francs, operating expenses were 22 million francs up on the previous year. This was principally due to the 10 million franc increase in project costs in office and administrative expenses, 5 million franc rise in depreciation and 6 million franc increase in negative interest expense. In contrast, personnel expenses were down 7 million francs year-on-year.

Average headcount stood at 3,383 full-time equivalents, down 125 full-time equivalents year-on-year. As part of its new strategic focus, since July 2017 PostFinance has placed an emphasis on the simplification and digitization of its processes. Vacant positions were therefore only partly filled.

Collapse in earnings due to low interest margins.

PostFinance | Operating income, operating profit and investments in CHF million as at 30.6.
2014 to 2018
2017 = 100%



1 Normalized figures.
2 Figures have been adjusted (see Notes, Accounting changes). The figures from 2014 to 2016 are not comparable with the figures from 2017 to 2018.

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 risen significantly over the past few years. The business activities of PostFinance were integrated into a private limited company under private law in 2013. As part of its capitalization, PostFinance Ltd acquired a real estate portfolio, which it has continued to invest in ever since. Investments were also made in modernizing the core banking system, which was successfully rolled out at the end of March 2018.

Passenger transport market

PostBus: correction of excess compensatory payments weighs on operating result.

PostBus

PostBus recorded a negative operating result of –29 million francs. This represents a decline of 40 million francs compared with the prior-year period.

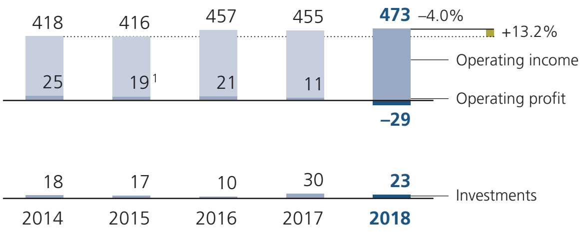
The 18 million franc rise in operating income year-on-year is primarily due to the expansion of services in Switzerland.

Operating expenses increased by around 58 million francs. The provision recognized for excess compensatory payments received, an impairment loss on intangible assets (–9 million francs) and the agreed payment for the settlement of a legal dispute in France (–7 million francs) were the main reasons for the increase. The expansion of services also led to greater expenditure on fuel and staff. The launch of new urban networks at PubliBike also contributed to the rise.

Average headcount rose by 70 to 3,306 full-time equivalents. Centralizations resulted in a reduction in administrative staff in Switzerland, although this effect was more than offset by the expansion of services.

Reimbursement of excess compensatory payments to the FOT weighs on the result.

PostBus | Operating income, operating profit and investments in CHF million as at 30.6.
2014 to 2018



1 Normalized figures.

The settlement of a legal dispute in France mentioned above, impairment on intangible assets and recognition of the necessary reimbursement to the FOT of excess compensatory payments received in previous years resulted in a decrease in the operating result compared with figures over the past few years.

The reimbursement to the FOT is reflected in the five-year comparison of operating income in a similar way to the operating result. The positive business trend is currently impacted by the incidents associated with the above-mentioned reimbursement to the FOT.

18 million francs were invested on average in the period up to the interim financial statements in each of the past five years. These investments were mainly for replacements and new acquisitions in the vehicle fleet. Investment requirements varied between 2014 and 2018, principally as a result of mid-year acquisitions in previous years, expansions of services and vehicle procurement cycles.

Function units

Function units: decline in operating profit.

The Other segment recorded a decline in the operating result of 25 million francs to –59 million francs in the first six months of 2018.

At 452 million francs, operating income was on a par with the previous year (449 million francs).

The increase in operating expenses of more than 28 million francs to 511 million francs was principally attributable to the higher headcount. This was due to the introduction of functional management and the associated centralization of management functions. This project and the harmonization of value streams led to additional project costs.

Headcount rose by 437 to 2,953 full-time equivalents for the above reasons.

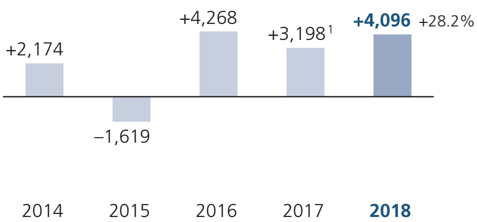
Cash flow and investments

A positive cash flow from operating activities of 4,096 million francs was recorded in the first half of 2018. This increase is due to changes in items from financial services. Cash flow reporting includes the changes in items in the PostFinance balance sheet. For more information on 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.

High contribution from financial services.

Group | Operating cash flow in CHF million as at 30.6.
2014 to 2018



1 The figure has been adjusted (see Notes, Accounting changes).

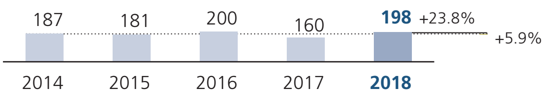
Pillar level reduced by a factor of 10 in relation to the standard benchmark.

Investments totalled 198 million francs, representing an increase of 38 million francs year-on-year. The total investment volume is made up of 102 million francs of property, plant and equipment, 11 million francs of investment property, 15 million francs of intangible assets and 70 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. Swiss Post will invest in automation steps to increase efficiency and achieve inorganic growth once again this year.

Investments in the first half of the year on a par with average of recent few years.

Group | Investments in CHF million as at 30.6.
2014 to 2018



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 2018.

Consolidated balance sheet

Amounts due from banks

In comparison with 31 December 2017, amounts due from banks rose by 4,404 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 2017, financial assets increased by 1,323 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 33 million francs compared with 31 December 2017. In the first six months of 2018, depreciation and impairment on property, plant and equipment stood at around 134 million francs, down 17 million francs year-on-year.

Customer deposits

Since 31 December 2017, customer deposits at PostFinance increased by 1,596 million francs to 114,791 million francs. As at 30 June 2018, customer deposits accounted for around 87 percent of the Group's total assets.

Other liabilities (provisions)

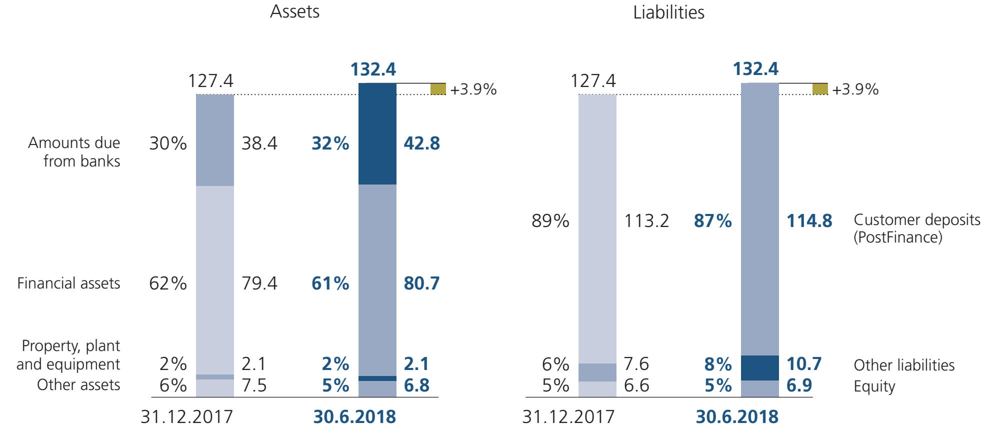
Provisions increased by 4 million francs to 576 million francs in relation to year-end 2017. Employee benefit obligations stood at 2,248 million francs, taking into account the plan amendment as at 1 January 2018 and the risk-sharing introduced in the previous financial year. This represents a decline of 378 million francs.

Equity

Consolidated equity as at 30 June 2018 amounted to 6,862 million francs, net of the appropriation of profit for 2017 of 200 million francs. The General Meeting was held in June 2018.

Stable balance sheet.

Group | Balance sheet structure in CHF billion
As at 31.12.2017 and 30.6.2018



Outlook

Leading indicators suggest that the economic recovery will continue. The Swiss National Bank (SNB) expects GDP growth to remain at around 2 percent for 2018 and unemployment to decrease further.

Underpinned by favourable financing conditions and sound income growth, economic activity in the next few quarters is likely to expand once again at a more robust rate. The positive outlook nevertheless remains subject to various risks, including political imponderables in Italy as well as uncertainty over the protectionist tendencies outside the euro area and the shape of future relations between the EU and the UK. Overall, the SNB has left its growth forecasts for the euro area virtually unchanged. However, owing to the muted growth at the beginning of the year, the forecast for 2018 is slightly lower than three months ago at 2.1 percent. For 2019, by contrast, it is marginally higher at 1.6 percent.

There is not yet any 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 continues to face a challenging environment, despite positive prospects for the economy as a whole. Swiss Post is convinced that in continuing along its chosen path, it can continue to achieve the goals set for the future. However, it is likely to become more difficult to attain its targets in the coming years.

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

CHF million	2017 1.1 to 30.6 reviewed [1]	2018 1.1 to 30.6 reviewed
Revenue	3,944	3,752
Other operating income	136	114
Total operating income	**4,080**	**3,866**
Personnel expenses	–2,016	–1,957
Resale merchandise and service expenses	–738	–785
Expenses for financial services	–76	–90
Depreciation and impairment	–173	–171
Other operating expenses	–539	–582
Total operating expenses	**–3,542**	**–3,585**
Operating profit	**538**	**281**
Financial income	10	13
Financial expenses	–24	–26
Net income from associates and joint ventures	–20	7
Group profit before tax	**504**	**275**
Income taxes	–119	–57
Group profit	**385**	**218**
Group profit attributable to		
Swiss Confederation (owner)	385	218
Non-controlling interests	0	0

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

Consolidated statement of comprehensive income

Group | Statement of comprehensive income

CHF million	2017 1.1 to 30.6 reviewed	2018 1.1 to 30.6 reviewed
Group profit	**385**	**218**
Other comprehensive income		
Revaluation of employee benefit obligations	1,852	408
Change in unrealized profits/losses from fair value reserves in equity instruments FVTOCI		26
Change in deferred income taxes	–369	–86
Items not reclassifiable in the consolidated income statement, after tax	**1,483**	**348**
Change in currency translation reserves	0	–2
Change in share of other comprehensive income from associates and joint ventures	–1	1
Change in unrealized profits/losses from fair value reserves in debt instruments FVTOCI		–83
Change in fair value reserves from available-for-sale financial assets, net	–149	
Unrealized profits/losses from cash flow hedges	–43	72
Realized profits/losses from cash flow hedges reclassified to the income statement		–38
Change in deferred income taxes	30	10
Reclassifiable items in consolidated income statement, after tax	**–163**	**–40**
Total other comprehensive income	**1,320**	**308**
Total comprehensive income	**1,705**	**526**
Total comprehensive income attributable to		
Swiss Confederation (owner)	1,705	526
Non-controlling interests	0	0

Consolidated balance sheet

Group | Balance sheet

CHF million	1.1.2017[1]	31.12.2017[1]	30.6.2018 reviewed
Assets			
Cash	2,262	2,536	1,837
Amounts due from banks	37,571	38,379	42,783
Interest-bearing amounts due from customers	417	360	412
Trade accounts receivable	929	997	948
Contract assets	96	60	56
Other receivables	1,252	1,454	1,539
Inventories	78	67	55
Non-current assets held for sale	1	1	1
Financial assets	79,248	79,366	80,689
Investments in associates and joint ventures	144	138	149
Property, plant and equipment	2,272	2,106	2,073
Investment property	246	290	295
Intangible assets	476	500	534
Current income tax assets	5	10	10
Deferred income tax assets	1,624	1,157	1,037
Total assets	**126,621**	**127,421**	**132,418**
Liabilities			
Customer deposits (PostFinance)	110,477	113,195	114,791
Other financial liabilities	3,475	2,144	5,743
Trade accounts payable	516	554	464
Contract liabilities	287	375	346
Other liabilities	1,357	1,180	1,235
Provisions	503	572	576
Employee benefit obligations	5,080	2,626	2,248
Current income tax liabilities	8	14	6
Deferred income tax liabilities	186	192	147
Total liabilities	**121,889**	**120,852**	**125,556**
Share capital	1,300	1,300	1,300
Capital reserves	2,279	2,279	2,279
Retained earnings	3,157	3,439	3,550
Profits and losses recorded directly in other comprehensive income	–2,004	–449	–267
Equity attributable to the owner	**4,732**	**6,569**	**6,862**
Non-controlling interests	0	0	0
Total equity	**4,732**	**6,569**	**6,862**
Total equity and liabilities	**126,621**	**127,421**	**132,418**

1 Figures have been adjusted (see Notes, 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 1.1.2017 reported	**1,300**	**2,279**	**3,306**	**–2,004**	**4,881**	**0**	**4,881**
Adjustment for compensatory payments under subsidy law			–149		–149		–149
Balance as at 1.1.2017	**1,300**	**2,279**	**3,157**	**–2,004**	**4,732**	**0**	**4,732**
Group profit			385		385	0	385
Other comprehensive income				1,320	1,320	0	1,320
Total comprehensive income			**385**	**1,320**	**1,705**	**0**	**1,705**
Dividends			–200		–200	–	–200
Adjustments in connection with disposals			2	–2	–	–	–
Total transactions with the owner			**–198**	**–2**	**–200**	**–**	**–200**
Balance as at 30.06.2017	**1,300**	**2,279**	**3,344**	**–686**	**6,237**	**0**	**6,237**
Balance as at 31.12.2017 reported	**1,300**	**2,279**	**3,483**	**–449**	**6,613**	**0**	**6,613**
Adjustment for compensatory payments under subsidy law			–44		–44		–44
Changeover effect from the application of IFRS 9 after tax			93	–126	–33	–	–33
Balance as at 1.1.2018	**1,300**	**2,279**	**3,532**	**–575**	**6,536**	**0**	**6,536**
Group profit			218		218	0	218
Other comprehensive income				308	308	0	308
Total comprehensive income			**218**	**308**	**526**	**0**	**526**
Dividends			–200		–200	–	–200
Total transactions with the owner			**–200**		**–200**	**–**	**–200**
Balance as at 30.6.2018	**1,300**	**2,279**	**3,550**	**–267**	**6,862**	**0**	**6,862**

Consolidated cash flow statement

Group | Cash flow statement CHF million	2017 1.1 to 30.6 reviewed [1, 2]	2018 1.1 to 30.6 reviewed
Profit before tax	504	275
Interest expense/(income) and dividends	–455	–372
Depreciation and impairment	173	175
Net income from associates and joint ventures	20	–7
Net gain on disposal of property, plant and equipment	–24	–23
Profits/losses from the derecognition of financial assets		5
Net increase in provisions	78	26
Other non-cash expenses/(income)	56	–21
Change in net current assets:		
(Increase)/Decrease in receivables, inventories and other assets	–136	4
(Decrease in) accounts payable and other liabilities	–102	–83
Items from financial services:		
Change in customer deposits (PostFinance)/interest-bearing amounts due from customers	1,156	1,545
Change in other financial liabilities	269	3,595
Change in financial assets	1,232	
Change in financial assets FVTPL obligatory, derivatives		77
Acquisition of financial assets at amortized cost		–16,623
Disposal and reimbursement of financial assets at amortized cost		15,525
Acquisition of financial assets FVTOCI		–350
Disposal and reimbursement of financial assets FVTOCI		0
Interest and dividends received	543	459
Interest paid	–25	–19
Income taxes paid	–91	–92
Cash flow from operating activities	**3,198**	**4,096**
Purchases of property, plant and equipment	–101	–102
Acquisition of investment property	–3	–11
Purchases of intangible assets (excl. goodwill)	–40	–15
Purchases of subsidiaries, net of cash and cash equivalents acquired	–14	–60
Purchases of associates and joint ventures	–2	–10
Purchases of other financial assets	–101	–43
Proceeds from disposal of property, plant and equipment	39	37
Disposal of subsidiaries, net of cash proceeds	4	0
Proceeds from disposal of associates and joint ventures	0	0
Proceeds from disposal of other financial assets	10	7
Interest and dividends received (excl. financial services)	5	18
Cash flow from investing activities	**–203**	**–179**
Increase/(Decrease) in other financial liabilities	–352	–5
Interest paid (excl. financial services)	–2	–7
Dividends paid to the owner	–200	–200
Cash flow from financing activities	**–554**	**–212**
Foreign exchange gains/(losses) on cash and cash equivalents	1	0
Change in cash and cash equivalents	**2,442**	**3,705**
Cash and cash equivalents at 1 January	39,633	40,465
Cash and cash equivalents at the end of the reporting period	**42,075**	**44,170**
Cash and cash equivalents include:		
Cash	1,851	1,837
Receivables due from banks with an original term of less than 3 months	40,224	42,333

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

Notes 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 2018 were prepared in accordance with IAS 34 Interim Financial Reporting and reviewed.

When drawing up the condensed interim financial statements in accordance with IAS 34 Interim Financial Reporting, the management must make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The actual amounts may differ from these estimates. The results achieved so far in the 2018 financial year are not necessarily indicative of future business performance. For more information on estimation uncertainty and management's judgement during the preparation of the financial statements, please refer to the Financial Report 2017, pages 92 and 93.

In principle, the accounting policies applied in the condensed interim financial statements are based on the same policies used in the Group financial statements for the 2017 financial year, with the exception of the standards listed below, which have been applied throughout the Group since 1 January 2018.

Accounting changes

IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, have been applied at Swiss Post since 1 January 2018. Since 1 January 2018, various amendments to existing International Financial Reporting Standards (IFRS) and interpretations have also been applied that have no material impact on the result or financial situation of the Group (see Financial Report 2017, page 81).

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

IFRS 9 Financial Instruments

The requirements set out in IFRS 9 concern the recognition and measurement of financial assets and financial liabilities and of contract assets. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

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

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

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

Debt instruments
The classification and measurement approach for debt instruments is driven by the business model applicable for the management of the debt instruments provided that the financial instruments fulfil the cash flow conditions (see page 33). IFRS 9 consists of three main classification categories for debt instruments:

- Amortized cost
- FVTOCI (fair value through other comprehensive income)
- FVTPL (fair value through profit or loss)

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

Swiss Post defines business models as follows:

Financial instruments for achieving contractual cash flows (held to collect) – at amortized cost
Debt instruments in the core and non-core portfolios intended for generating contractual cash flows and for holding positions to maturity.

The following sales are compatible with the business model:

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

Financial instruments for achieving contractual cash flows and sales revenue (held to collect and sell) – FVTOCI
Debt instruments in the core and non-core portfolios intended for generating contractual cash flows and sales revenue.

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

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

Swiss Post takes into account the terms of the contract for the financial instrument when assessing whether the contractual cash flows solely lead to payments of principal and interest. This also involves assessing whether the financial asset includes a contractual provision which could influence the date or the amount of contractual cash flows. A provision of this kind could result in non-compliance with this test. Swiss Post takes the following points into account in its evaluation:

- Conditional events which could influence the amount and the date of cash flows
- Components with a leverage effect
- Early repayment clauses and extension provisions
- Provisions according to which cash flows from the financial asset may only be realized by predefined assets of the debtor (non-recourse asset arrangements)
- Components with an impact on the time value of money (e.g. regular redefinition of the interest rate where the definition period does not correspond to the definition frequency)

Equity instruments
Under IFRS 9 equity instruments are assigned to a business model as follows. The FVTPL classification is mandatory unless the FVTOCI option is elected.

The FVTOCI option is applied at PostFinance to classify infrastructure equipment. The fair value of infrastructure equipment is verified annually. The carrying amount is adjusted if sufficient information is available to establish a new fair value and if the change exceeds a certain threshold. If there are no indications of any changes in fair value, the carrying amount is maintained. Changes in the fair value of these investments are recognized in other comprehensive income; there is no reclassification to the income statement on derecognition. At the same time, the fair value reserves accrued are reclassified from other comprehensive income to retained earnings. Dividend income is recorded in the income statement.

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

Transfer as at 1 January 2018
After analysing its financial instruments, Swiss Post has established that all the debt instruments fulfil the cash flow conditions with the exception of investment funds. Financial instruments are classified either at amortized cost (held to collect) or FVTOCI (held to collect and sell) in accordance with the business model applied.

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

Reclassification and remeasurement

as of 1.1.2018 with previous year for comparison

CHF million	IAS 39 categories	Carrying amount, financial instruments as per IAS 39 31.12.2017	Remeasurements due to new classification	Remeasurements due to ECL remeasurement	Carrying amount, financial instruments as per IFRS 9 1.1.2018 [1]
Assets					
Cash	Loans and receivables	2,536			2,536
Amounts due from banks	Loans and receivables	38,379			38,379
Interest-bearing amounts due from customers	Loans and receivables	360		–1	359
Trade accounts receivable	Loans and receivables	997			997
Contract assets	Loans and receivables	60			60
Other receivables [2]	Loans and receivables	994			994
Total amortized cost: cash and receivables		**43,326**	**–**	**–1**	**43,325**
Financial assets					
Bonds	Held to maturity	39,655			
Bonds	Available for sale	13,905			
Loans	Loans and receivables	15,992			
Total amortized cost: financial assets		**69,552**	**–145 [3]**	**96 [4]**	**69,503**
Financial assets					
Bonds [5]	Available for sale	8,431			8,431
Shares	Available for sale	111			111
Total FVTOCI: financial assets		**8,542**	**–**	**–**	**8,542 [5]**
Financial assets					
Shares	Available for sale	7			7
Funds	Available for sale	1,221			1,221
Positive replacement values	FVTPL	44			44
Total FVTPL: financial assets		**1,272**	**–**	**–**	**1,272**
Total financial assets as at 1.1.2018					**79,317**

1 The names of the new IFRS 9 categories can be found in the relevant total lines.
2 Excludes accruals and deferrals for tax and other liabilities, contract liabilities, receivables and liabilities relating to taxes, social insurance and dividends, as these are not financial instruments.
3 The –145 million francs comprises the reclassification of –94 million francs from "available for sale" to the "amortized cost" category, the release of –76 million francs in 2016 from "available for sale" to the category reclassified "held to maturity" securities and the reclassification of +25 million francs of the fair value hedge due to the reclassification of the underlying transaction from "available for sale" to "amortized cost".
4 The ECL remeasurement was carried out on the newly determined total sum of financial assets, measured at amortized cost (62 million francs of bonds and 34 million francs of loans).
5 ECL on FVTOCI bonds are recorded in other comprehensive income and are not included in the carrying amount shown. Their value stood at around 4 million francs as at 1 January 2018. The positive effect of 91 million francs on retained earnings resulting from the application of the new impairment model shown on page 37 under "Transfer as at 1 January 2018" comprises ECL adjustments on the following positions: financial assets at amortized cost of +96 million francs, FVTOCI bonds of –4 million francs and interest-bearing amounts due from customers of –1 million francs.

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

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

Reclassifications

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

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

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

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

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

Impairment losses (ECL) on debt instruments and contract assets in accordance with IFRS 15
IFRS 9 replaces the retrospective model of incurred credit loss as per IAS 39 with a forward-looking model of expected credit loss (ECL). The new model requires an assessment of how the development of economic factors will influence the need for impairment losses. Historic and future input factors such as default probabilities, credit loss ratios and credit exposure at the time of default are taken into account in particular. The impairment model applies to debt instruments and contract assets measured at amortized cost and to debt instruments measured at FVTOCI.

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

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

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

Allocation of the positions in the three levels
At the time of acquisition, an instrument with intrinsic value is allocated to level 1. A transition to level 2 takes place if there has been a significant increase in credit risk since initial recognition. There is a significant increase in credit risk if the current rating of a position is below a defined threshold. The threshold applied depends on the original rating of the position. Due to the exponential nature of the probability of default, the relative change in the probability of default must be higher, the better the rating at the time an instrument is acquired. A payment delay of more than 30 days also serves as a criterion for a move to level 2. In addition, a dedicated committee assesses whether there is a significant rise in credit risk for positions under special consideration, leading to a reclassification to level 2. This affects the following positions: those that have a non investment-grade rating, those whose spread exceeds a defined value, those that are lower tier 2 positions or those that do not have an external rating. If an event of default is present on the balance sheet date, the position is allocated to level 3. An event of default is present if Swiss Post assumes that there is a strong probability that the debtor will be unable to meet their payment obligations in full and as agreed, if a D rating (default) applies or if the liability is more than 90 days overdue from the counterparty.

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

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

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

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

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

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

Presentation

Impairment losses for expected loan defaults on financial assets in the category "at amortized cost" are presented as a deduction from the gross carrying amount. In the case of debt instruments held in the FVTOCI category, the carrying amount corresponds to fair value. Impairment losses for these debt instruments are recorded directly in equity in other comprehensive income instead of reducing the carrying amount of the instruments.

Transfer as at 1 January 2018

The first-time adoption of the new impairment model on financial instruments had a positive effect of 91 million francs on retained earnings, including impairment on FVTOCI bonds. This had an equivalent opposing effect resulting in 4 million francs of profits and losses recorded directly in other comprehensive income. See the reclassification and remeasurement table on pages 34 to 35.

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

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

Cash	–
Amounts due from banks	48 [1]
Interest-bearing amounts due from customers	5
Trade accounts receivable	10
Other receivables [2]	2
Financial assets	
Held to maturity	69
Loans	35
Available for sale (bonds)	–
Financial guarantees and credit commitments [3]	–
Impairment losses as at 31 December 2017 as per IAS 39	**169**
Effects of the first-time adoption of IFRS 9 as at 1 January 2018:	
Cash	–
Amounts due from banks	–
Interest-bearing amounts due from customers	1
Trade accounts receivable	0
Contract assets	–
Other receivables [2]	–
Financial assets	
Amortized cost	
Bonds	–62
Loans	–34
FVTOCI	
Bonds	4
Financial guarantees and credit commitments [3]	0
Impairment losses as at 1 January 2018 as per IFRS 9	**78**

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

Transition
Swiss Post is taking advantage of the option to waive the adjustment of comparative figures for 2017 in relation to classification and measurement as permitted by the standard. Figures for the comparison period 2017 were drawn up in accordance with the accounting policies applied in the Financial Report 2017 (please refer to page 85 onwards of the Financial Report 2017, note 3, Consolidation methods and accounting policies).

IFRS 15 Revenue from Contracts with Customers

The new standard IFRS 15, Revenue from Contracts with Customers, took effect on 1 January 2018. The new standard defines when and how much revenue should be recognized. It comprises a principle-based, five-stage model which is applicable to all contracts with customers. Revenue from contracts with customers is measured on the basis of the contractually agreed transaction price and realized when control over an item or a service is transferred to the customer.

Swiss Post has changed its accounting method in accordance with the transitional provisions of IFRS 15 and has decided to adopt a full retrospective application. The comparative figures have been adjusted accordingly. Only the balance sheet is affected by the changes (trade accounts receivable and payable, other receivables and contract assets and liabilities). The adoption of the requirements of the new standard regarding the date and amount of revenue generated will have no major influence at Swiss Post in relation to the current accounting principles in accordance with IAS 18. More detailed information is now required in the notes. Details of the breakdown of revenue can be found in the note on revenue.

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

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

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

The effects of the retroactive changes on the consolidated income statement as at 30 June 2017, on the balance sheet as at 1 January 2017 and 31 December 2017 and on the cash flow statement as at 30 June 2017 are shown on the next page.

Changes in the disclosure of income from vehicle rental

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

The effect of the retroactive change on the consolidated income statement as at 30 June 2017 is shown on the next page.

Adjustment of interest in the cash flow statement

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

The effect of the retroactive change on the consolidated cash flow statement as at 30 June 2017 is shown on this page.

Reimbursement of compensatory payments made to PostBus under subsidy law

During an audit of accounting of services for the purposes of reporting under subsidy law, the Federal Office of Transport (FOT) found evidence of accounting practices that do not comply with the law, resulting in a reimbursement of state compensatory payments for the years 2007 to 2018.

Against this background, a sum of 78.3 million francs was deducted from net revenue from logistics services in the 2017 financial statements for the possible reimbursement of compensatory payments for the years 2007 to 2015 within the regional passenger transport segment. Also charged to this net revenue were provisions of 30 million francs recognized for estimated possible reimbursements for the years 2016 and 2017, in connection with the transfer pricing concept not yet approved by the FOT, which has been applicable since 1 January 2016. In the segment disclosure, the above-mentioned amounts were included in operating income for the PostBus segment. The reimbursements recorded were the subject of ongoing clarifications and could not be conclusively determined at the time the 2017 consolidated financial statements were drawn up.

Based on the results of the FOT audit, Swiss Post initiated enquiries by independent experts concerning financial reporting under subsidy law at the Swiss Post subsidiary PostBus Switzerland Ltd. The external enquiry report into the PostBus case published in mid-June 2018 and the independent expert evaluation for the period from 2007 to 2015 confirm the unlawful reclassifications during this time.

In view of the transfer pricing concept applicable since 1 January 2016 and given the ongoing clarifications, reimbursements of excessively high compensatory payments are also expected for the years 2016 to 2018.

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

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

On 21 September 2018 Swiss Post signed a framework agreement concerning the reimbursement of PostBus compensatory payments with the FOT and the Conference of Cantonal Directors of Public Transport (CPT). In this agreement the parties have agreed on the measurement basis and the calculation method and recorded the following reimbursement sums: 106 million francs for the period from 2007–2015 (passenger transport, ordered transport and local transport) and default interest of around 27 million francs as well as 16 million francs for the 2016 period. These sums totalling 149 million francs were recognized in retained earnings as at 1 January 2017. Reimbursements of 18 million francs were agreed for the full-year 2017. They were deducted from revenue as was the case for the first six months of 2017 (9 million francs). The adjustment of 44 million francs in retained earnings as at 31 December 2017 has follow-up effects arising from the restatement.

Any reimbursements for lapsed, unlawfully received compensatory payments prior to 2007 do not form part of the agreement. Having weighed up interests for this period – without prejudice but due to public and political pressure – Swiss Post recorded a sum of 17.2 million francs in other operating expenses for the first six months of 2018. This sum will be paid out once the reimbursement has been definitively regulated with all of the parties affected.

Based on the framework agreement concluded, the following agreements are to be signed by December: an agreement concerning the reimbursement of PostBus compensatory payments with the Swiss Confederation as well as an agreement concerning the reimbursement of PostBus compensatory payments with the 24 cantons affected. This will subsequently enable the reimbursement sums to be paid to the public bodies. The reimbursement sums will be paid to the public bodies when at least 18 cantons sign an agreement, resulting in a reimbursement sum of at least 50 million francs.

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

Group | Income statement
1.1. to 30.06.2017

CHF million	Reported		Adjustment	Adjusted
Revenue	3,964	./. digital goods	–5	
		./. vehicle rental	–6	
		./. compensatory payments under subsidy law	–9	3,944
Other operating income	130	+ vehicle rental	+6	136
Expenses for financial services	–81	+ digital goods	+5	–76

Group | Balance sheet
1.1.2017

CHF million	Reported		Adjustment	Adjusted
Interest-bearing amounts due from customers	405	+ credit card business	+12	417
Trade accounts receivable	1,027	./. downpayments (IFRS 15)	–98	929
Contract assets	–	+ contract assets (IFRS 15)	+96	96
Other receivables	1,250	+ downpayments (IFRS 15)	+98	
		./. contract assets (IFRS 15)	–96	
		./. credit card business	0	1,252
Customer deposits (PostFinance)	110,465	+ credit card business	+12	110,477
Trade accounts payable	803	./. contract liabilities (IFRS 15)	–287	516
Contract liabilities	–	+ contract liabilities (IFRS 15)	+287	287
Other liabilities	1,251	./. compensatory payments under subsidy law	+106	1,357
Provisions	460	./. compensatory payments under subsidy law	+43	503
Retained earnings	3,306	./. compensatory payments under subsidy law	–149	3,157

Group | Balance sheet
31.12.2017

CHF million	Reported		Adjustment	Adjusted
Interest-bearing amounts due from customers	348	+ credit card business	+12	360
Trade accounts receivable	1,099	./. downpayments (IFRS 15)	–102	997
Contract assets	–	+ contract assets (IFRS 15)	+60	60
Other receivables	1,413	+ downpayments (IFRS 15)	+102	
		./. contract assets (IFRS 15)	–60	
		./. credit card business	–1	1,454
Customer deposits (PostFinance)	113,184	+ credit card business	+11	113,195
Trade accounts payable	929	./. contract liabilities (IFRS 15)	–375	554
Contract liabilities	–	+ contract liabilities (IFRS 15)	+375	375
Other liabilities	1,149	./. compensatory payments under subsidy law	+31	1,180
Provisions	559	./. compensatory payments under subsidy law	+13	572
Retained earnings	3,483	./. compensatory payments under subsidy law	–44	3,439

Group | Cash flow statement
1.1. to 30.06.2017

CHF million	Reported		Adjustment	Adjusted
Interest expense/(income) and dividends	–524	+ adjustment of interest	+69	–455
Net increase in provisions	69	./. compensatory payments under subsidy law	+9	78
(Increase)/decrease in receivables, inventories and other assets	–138	+ credit card business	+2	–136
Interest and dividends received (financial services)	612	./. ajustment of interest	–69	543
Change in customer deposits (PostFinance) / interest-bearing amounts due from customers	1,158	./. credit card business	–2	1,156

Outlook

The new standard IFRS 16 Leases comes into force on 1 January 2019. The Swiss Post consolidated financial statements are affected by the introduction of this standard. The changes are currently being analysed.

Segment information

Segments | Results

CHF million Up to or as at 30.6.2017	PostMail	Swiss Post Solutions	PostalNetwork	PostLogistics	PostFinance [1]	PostBus [2]	Other [3]	Consolidation	Group
Operating income									
from customers	1,352	255	207	649	1,083	453	81		4,080
from other segments	77	16	331	142	23	2	368	–959	–
Total operating income [4, 5]	**1,429**	**271**	**538**	**791**	**1,106**	**455**	**449**	**–959**	**4,080**
Operating profit [4]	**186**	**15**	**–88**	**58**	**392**	**11**	**–34**	**–2**	**538**
Net financial income									–14
Net income from associates and joint ventures	3	0	–	3	–27	0	1		–20
Income taxes									–119
Group profit									**385**
Headcount [6]	15,873	6,583	5,603	5,205	3,508	3,236	2,516		42,524
Up to or as at 30.6.2018									
Operating income									
from customers	1,315	271	192	677	859	471	81		3,866
from other segments	66	15	323	143	22	2	371	–942	–
Total operating income [4]	**1,381**	**286**	**515**	**820**	**881**	**473**	**452**	**–942**	**3,866**
Operating profit [4]	**199**	**14**	**–60**	**73**	**145**	**–29**	**–59**	**–2**	**281**
Net financial income									–13
Net income from associates and joint ventures	2	–	–	4	1	0	0		7
Income taxes									–57
Group profit									**218**
Headcount [6]	15,048	6,720	4,879	5,266	3,383	3,306	2,953		41,555

1 PostFinance Ltd also applies the Swiss accounting standards for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.
2 Within regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
3 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).
4 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
5 Figures have been adjusted (see Notes, Accounting changes).
6 The average is expressed in terms of full-time equivalents (excluding trainees).

Significant changes in segment assets and liabilities

In comparison with 31 December 2017, the segment assets of PostFinance rose by 5,060 million francs to 125,540 million francs, particularly with regard to amounts due from banks and financial assets. The rise is due to higher customer deposits and other financial liabilities on the liabilities side. The segment liabilities of PostFinance increased by 5,155 million francs to 120,197 million francs in comparison with 31 December 2017.

Revenue

Breakdown of revenue from contracts with customers

Up to or as at 30.6.2017 CHF million	PostMail	Swiss Post Solutions	PostalNet-work	PostLogistics	PostFinance	PostBus	Other	Consolidation	Group
Revenue from contracts with customers									
of which logistics services	1,426	268	329	753	–	435	194	–724	2,681
of which resale merchandise	–	–	206	13	–	0	–	–3	216
of which financial services and commission business	–	–	–	–	337	–	–	–2	335
Total revenue from contracts with customers	**1,426**	**268**	**535**	**766**	**337**	**435**	**194**	**–729**	**3,232**
Other revenue from financial services									712
Total revenue [1]									**3,944**
Other operating income [1]									136
Total operating income									**4,080**

Up to or as at 30.6.2018 CHF million	PostMail	Swiss Post Solutions	PostalNet-work	PostLogistics	PostFinance	PostBus	Other	Consolidation	Group
Revenue from contracts with customers									
of which logistics services	1,379	283	322	779	–	456	232	–738	2,713
of which resale merchandise	–	–	192	12	–	0	–	–3	201
of which financial services and commission business	–	–	–	–	344	–	–	–2	342
Total revenue from contracts with customers	**1,379**	**283**	**514**	**791**	**344**	**456**	**232**	**–743**	**3,256**
Other revenue from financial services									496
Total revenue									**3,752**
Other operating income									114
Total operating income									**3,866**

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

Additions and disposals of subsidiaries, associates and joint ventures

PostFinance Ltd, based in Berne, acquired a further 5.78 percent in both moneymeets GmbH and moneymeets community GmbH, based in Cologne (Germany), on 10 January 2018, in addition to the 20.39 percent already held. This gives PostFinance Ltd a 26.17 percent share in both companies.

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

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

SwissSign Group Ltd., based in Opfikon, was founded on 28 February 2018. SwissSign Group Ltd. will integrate the activities of the present-day SwissSign Ltd., based in Opfikon, and further develop the existing SwissID solution. SwissSign Ltd. was originally a subsidiary of Swiss Post, and became a joint venture between Swiss Post and SBB (50 percent share each) in May 2017. Post CH Ltd, based in Berne, holds 17 percent of the newly founded SwissSign Group Ltd. For Swiss Post, this means that SwissSign Ltd. will no longer be reported in the consolidated financial statements using the equity method as of February 2018, but will be held as a financial asset. The shareholders of SwissSign Group Ltd. primarily consist of a mix of state-owned enterprises and companies from the financial and insurance sectors. Alongside Swiss Post are companies such as SBB, Swisscom, Credit Suisse, Raiffeisen, SIX, UBS, Zürcher Kantonalbank, Axa, Baloise, Helvetia, Mobiliar, Swiss Life, Vaudoise, Zürich, CSS and SWICA, which all form part of the wide-ranging group. With SwissID, the company will offer an open and simple system for digital identification, which meets all legal data protection requirements.

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

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

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

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 2017 and 30 June 2018:

Fair values and carrying amounts of financial instruments	31 December 2017		30 June 2018	
CHF million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets				
Available for sale				
Bonds	22,336	22,336		
Shares	60	60		
Funds	1,221	1,221		
FVTOCI				
Shares			137	137
Bonds			8,667	8,667
FVTPL				
Shares			14	14
Bonds			3	3
Funds			1,231	1,231
Positive replacement values	44	44	54	54
Financial assets not measured at fair value				
Financial assets				
Held to maturity	39,655	40,971		
Amortized cost				
Bonds			54,421	55,343
Loans	15,992	16,671	16,162	16,383
Financial liabilities measured at fair value				
Other financial liabilities				
Negative replacement values	729	729	691	691
Deferred purchase price payments (earn-out)	7	7	5	5
Financial liabilities not measured at fair value				
Other financial liabilities				
Private placements	1,270	1,344	1,270	1,328

The carrying amounts of cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and payable, contract assets, other receivables and liabilities, 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 not based on observable model inputs: fair value is determined using valuation techniques and significant inputs specific to the company that are not observable in the market.

Fair values are determined as follows:

Fair value of financial instruments	31 December 2017				30 June 2018			
CHF million	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Available for sale								
Bonds	22,336	18,467	3,866	3				
Shares	60	60	–	–				
Funds	1,221	0	1,221	–				
FVTOCI								
Shares					137	77	60	0
Bonds					8,667	8,056	611	–
FVTPL obligatory								
Shares					14	–	3	11
Bonds					3	–	–	3
Funds					1,231	0	1,231	–
Positive replacement values	44	0	44	–	54	0	54	–
Held to maturity [1]	40,971	32,998	7,973	–				
Amortized cost								
Bonds					55,343	44,469	10,874	–
Loans [2]	16,671	–	16,660	11	16,383	–	16,338	45
Negative replacement values	729	1	728	–	691	1	690	–
Deferred purchase price payments (earn-out)	7	–	–	7	5	–	–	5
Private placements	1,344	–	1,344	–	1,328	–	1,328	–

1 Financial assets held to maturity are recognized at amortized cost using the effective interest method.
2 In the case of the loans to PostBus companies (45 million francs, 31.12.2016: 63 million francs) and "Other" (11 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.

45 million francs of available-for-sale financial assets were reclassified from level 2 to level 1 as at 31 December 2017. As at 30 June 2018, no financial assets were reclassified within the fair value hierarchy. Reclassifications between the different levels are carried out at the end of each reporting period.

Amounts due from banks

In comparison with 31 December 2017, amounts due from banks increased by 4,404 million francs. Cash reserves remain high, and are mostly held at the Swiss National Bank.

Credit risk

Impairment losses on amounts due from banks, interest-bearing amounts due from customers and financial assets can be broken down as follows between levels 1 to 3 as at 30 June 2018:

Impairment losses on financial instruments				1.1.2018				30.6.2018
CHF million	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
ECL on receivables due from banks	–48	–	–	–48	–47	0	0	–47
ECL on interest-bearing amounts due from customers	–5	–	–4	–1	–9	–2	–3	–4
ECL on financial assets at amortized cost (AC)								
Bonds	–7	–7	–	–	–8	–8	–	–
Loans	–1	–1	–	–	–4	–1	–	–3
ECL on financial assets FVTOCI								
Bonds	–4	–4	–	–	–3	–3	–	–

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 2017 and 30 June 2018 is given below:

Summary of main country exposures [1]		
CHF million	31.12.2017	30.6.2018
Switzerland	46,630	47,262
USA	5,364	5,568
France	4,609	4,360

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

Net income from financial assets

A gain from the sale of two equity portfolios classified as available for sale was achieved in the previous year. 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).

Investment commitments

As at 30 June 2018, investment commitments totalled 148 million francs (31 December 2017: 104 million francs).

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 26 June 2018 decided to pay a dividend totalling 200 million francs. The dividend was paid on 27 June 2018.

Related companies and parties

The transactions between Swiss Post and related companies and parties carried out in the first six months of 2018 are comparable with the transactions mentioned in the 2017 consolidated annual financial statements (see Financial Report 2017, page 157).

Events after the reporting period

On 8 August 2018 PostFinance announced that there would be a reduction of up to 500 positions by the end of 2020 as part of the Victoria restructuring programme. By the end of 2020, PostFinance will be able to manage with fewer employees than today due to the automation and digitization of processes, the realignment of private and business customer sales operations, and the outsourcing of business activities. Around two-thirds of this total reduction in numbers are expected to be absorbed by natural staff turnover, the expiry of temporary employment contracts and (early) retirement. PostFinance will not be able to avoid redundancies as well. Against this backdrop PostFinance has held negotiations with the social partners besides the existing, applicable CEC social plans and additional measures for management for Victoria 2020. These additional measures include the option for early retirement from 58 years old and the provision of financial support for advanced training. PostFinance is currently calculating the expected financial effects.

KPMG

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

To the Board of Directors of Swiss Post Ltd, Bern

Introduction

We have been engaged to review the accompanying consolidated balance sheet of Swiss Post Ltd as at 30 June 2018 and the related consolidated statements of income, statement of comprehensive income, statement of changes in equity and cash flows statement for the 6-month period ended, and selected explanatory notes (the consolidated interim financial information) on pages 26 to 49. 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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG AG

Rolf Hauenstein Licensed Audit Expert	Regula Tobler Licensed Audit Expert

Gümligen-Berne, 25 September 2018

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	2017 1.1 to 30.6 reviewed	2018 1.1 to 30.6 reviewed
PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation	**392**	**145**
Management/licence fees/net cost compensation	–5	0
PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation	**387**	**145**
Net income from associates	–27	1
Net financial income	–17	–20
PostFinance segment earnings before tax (EBT)	**343**	**126**
Income tax	–60	–24
PostFinance segment profit	**283**	**102**
Consolidation effects from associates	29	0
Consolidation effects from subsidiaries	–	–1
PostFinance Ltd profit before reconciliation	**312**	**101**
Amortization of revalued held-to-maturity financial investments/amortized cost	–14	–3
Valuation differences for financial assets as per ARB	–23	3
Reversal of impairment/impairment on financial assets and receivables incl. taxes	–	73
Realized gains from (earlier than scheduled) sales	–33	0
Valuation differences between IAS 19 and Swiss GAAP ARR 16	–7	5
Depreciation of revalued real estate	–2	–2
Amortization of goodwill	–100	–100
Valuation differences for investments as per ARB	–33	–3
Realized gains from investments	2	0
Adjustment of deferred tax effects as per IFRS	27	20
PostFinance Ltd profit as per ARB	**129**	**94**

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

- The transition to IFRS 9 for the measurement of impairment as at 1 January 2018 was recognized directly in equity in the IFRS financial statements. This measurement of impairment was also applied in the ARB financial statements, leading to a positive impact on the result of around 92 million francs. In accordance with IFRS the tax effect of around 19 million francs was recognized directly in equity.
- 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	31.12.2017	30.6.2018 reviewed
Assets		
Liquid assets	38,476	42,254
Amounts due from banks	4,823	4,842
Amounts due from securities financing transactions	24	105
Amounts due from customers	12,173	12,316
Mortgage loans	0	0
Positive replacement values of derivative financial instruments	43	53
Financial investments	62,819	64,146
Accrued income and prepaid expenses	556	541
Participations	122	127
Tangible fixed assets	1,223	1,212
Intangible assets	1,000	900
Other assets	374	274
Total assets	**121,633**	**126,770**
Total subordinated claims	13	4
of which subject to mandatory conversion and / or debt waiver	–	–
Liabilities		
Amounts due to banks	543	597
Liabilities from securities financing transactions	–	3,450
Amounts due in respect of customer deposits	113,292	114,999
Negative replacement values of derivative financial instruments	728	690
Cash bonds	93	86
Accrued expenses and deferred income	108	126
Other liabilities	6	3
Provisions	45	43
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	136	94
Total liabilities	**121,633**	**126,770**
Total subordinated liabilities	–	–
of which subject to mandatory conversion and / or debt waiver	–	–
Off-balance-sheet transactions		
Contingent liabilities	33	85
Irrevocable commitments	722	717

Income statement

PostFinance Ltd | Income statement as per ARB CHF million	2017 1.1 to 30.6 reviewed	2018 1.1 to 30.6 reviewed
Interest and discount income	89	71
Interest and dividend income from financial investments	356	301
Interest expense	3	2
Gross result from interest operations	**448**	**374**
Changes in value adjustments for default risks and losses from interest operations	14	85
Net result from interest operations	**462**	**459**
Commission income from securities trading and investment activities	22	30
Commission income from lending activities	9	10
Commission income from other services	311	304
Commission expenses	–219	–206
Result from commission business and services	**123**	**138**
Result from trading activities and the fair value option	**105**	**111**
Result from the disposal of financial investments	67	–
Income from participations	2	6
Result from real estate	43	34
Other ordinary income	50	43
Other ordinary expenses	–8	–12
Other result from ordinary activities	**154**	**71**
Operating income	**844**	**779**
Personnel costs	–260	–241
General and administrative expenses	–257	–274
Operating expenses	**–517**	**–515**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	–160	–140
Changes to provisions and other value adjustments, and losses	–5	–4
Operating result	**162**	**120**
Extraordinary income	3	0
Extraordinary expenses	–	–
Taxes	–36	–26
Half-year profit	**129**	**94**

Swiss Post Ltd
Wankdorfallee 4
P.O. Box
3030 Berne
Switzerland

Tel. +41 58 338 11 11
www.swisspost.ch