# MY SWISS POST IS THERE FOR ME WHEREVER I AM
FINANCIAL REPORT 2017

## About this Financial Report

**Structure of annual reporting documents**

The Swiss Post annual reporting documents for 2017 consist of:

- Swiss Post Annual Report
- Swiss Post Financial Report (this document, consisting of the management report and corporate governance section as well as the annual financial statements for the Group, Swiss Post Ltd and PostFinance Ltd)
- PostFinance Ltd Annual Report
- GRI report (in accordance with the Global Reporting Initiative guidelines)
- Annual Report key figures

**True-to-scale representation of figures in charts**

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

**Key for charts and tables**

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

**Languages**

This Financial Report is available in English, German, French and Italian. The German version is authoritative.

**Ordering**

Electronic versions of the annual reporting documents are available at www.swisspost.ch/annualreport.
The Annual Report and Financial Report are also available in printed form.

**Forward-looking statements**

This report contains forward-looking statements. They are based on current management estimates and projections, and on the information currently available to management. Forward-looking statements are not intended as guarantees of future performance and results, which remain dependent on many different factors; they are subject to a variety of risks and uncertainties, and are based on assumptions that may not prove accurate.

# SIMPLE YET SYSTEMATIC – SWISS POST.

Reliable, value-enhancing and sustainable.

## 7,987 million

francs in normalized **operating income,** down slightly year-on-year.

## 420 million

francs in normalized **Group profit,** down year-on-year.

## 2,002 million

The volume of **addressed letters** posted in Switzerland also declined in 2017.

## 129 million

PostLogistics delivered more **parcels** again in Switzerland in 2017 thanks to booming online trade.

## 120 billion

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

## 155 million

PostBus transported more **passengers** once again in 2017 due to the continuing trend towards public transport use.

## 83 points

**Customer satisfaction** remains high.

## More than 19%

**is the $CO_2$ efficiency improvement** over 2010 achieved by Swiss Post by the end of 2017.

## 59,369

employees, slightly below the **headcount** for the prior year.

## 81 points

The index figure for **employee commitment,** which declined only slightly from a high level, is a testament to motivated and committed employees.

# Financial Report 2017

# MANAGEMENT REPORT

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

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

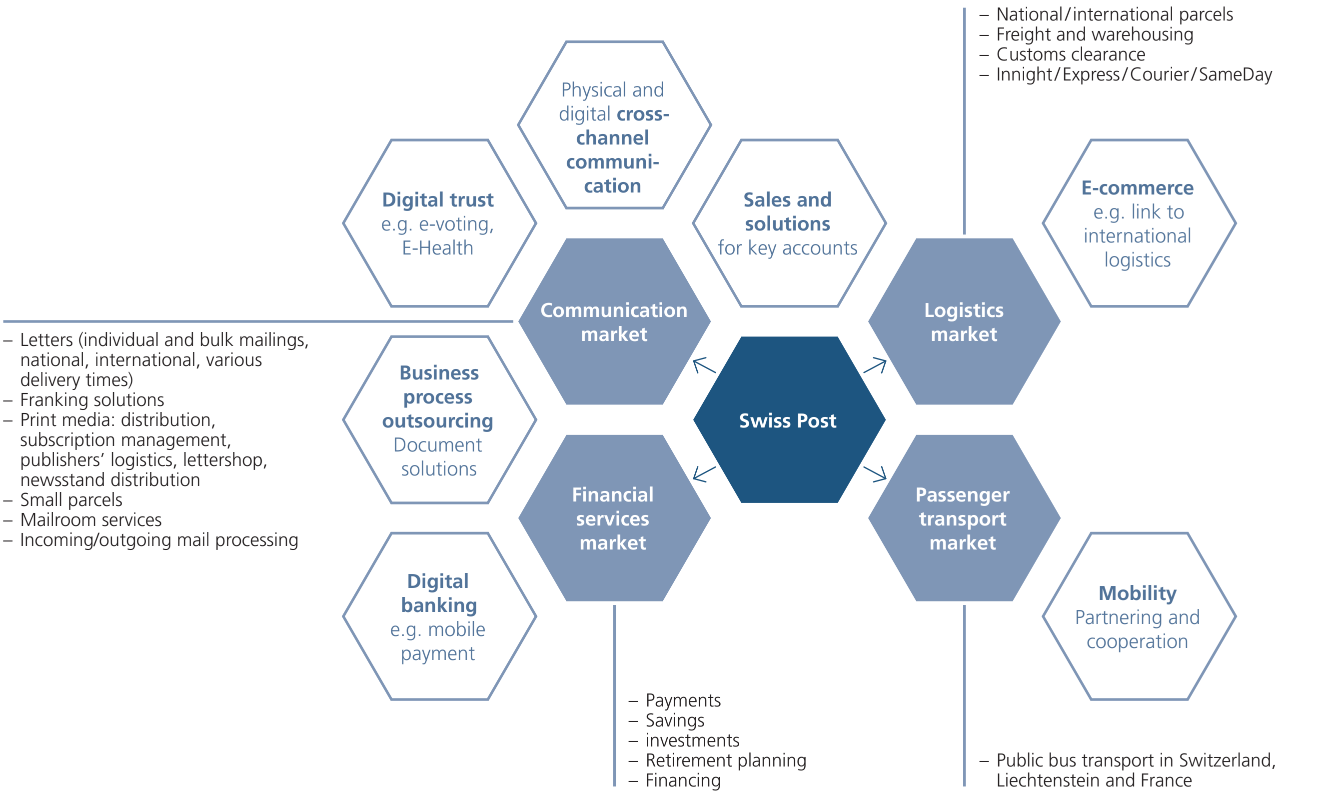
# Business activities

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

## Range of services

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

Range of services




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

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

## Customers

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

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

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

Key accounts generate more than half of logistics sales.

**Communication and logistics market | Business customer segments**[1]
2017

| **Business customer sales**<br>CHF per annum | **Business customer segment** | **Business customers**<br>Number | **Share of business customer sales**<br>Percent |
|---|---|---|---|
| Over 2,000,000 | Corporate accounts and key accounts | **200** | **57%** |
| 100,000 to 2,000,000 | Business accounts | **2,407** | |
| 25,000 to 100,000 | Retail accounts | **5,537** | **41%** |
| 3,000 to 25,000 | Small and medium-sized enterprises | **28,397** | |
| Up to 3,000 | Other | **96,036** | **2%** |

1 Due to a new recording method, the customer pyramid is only comparable to that of previous years to a limited extent.

Swiss Post offers services to every household in Switzerland and to around 132,000 business customers in the communication and logistics markets. PostBus transported 155 million passengers in the year under review. In addition, around 2.7 million private customers maintain a banking relationship with PostFinance.

## Geographical segmentation

Swiss Post operates first and foremost in Switzerland. In the international market, it focuses on growth opportunities with proven business models which support and develop its core business. Domestic business accounts for around 86 percent of Group sales, with 14 percent generated abroad.

### Domestic

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

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

Customer-oriented sales network for today and tomorrow.

On the move: branches and service points
Every day, thousands of Swiss Post employees and numerous partner staff serve and advise over one million customers in 1,189 branches and 968 branches with partners. A network of 40 PostFinance branches and 55 consulting offices is available for financial services. 157 PostFinance employees

advise small and medium-sized business customers directly at their premises. 999 Postomats, 14,617 letter boxes, 334,100 P.O. Boxes and 92 My Post 24 terminals are also available around the clock, as are 200 acceptance and collection points such as at railway stations or petrol stations. To meet the needs of business customers, Swiss Post operates 319 specific counters for business customers in branches and 92 business customer points in industrial or business districts as well as at letter and parcel processing centers.

### At home: basic and home delivery service

Swiss Post serves over 4 million households and can offer delivery of consignments on a specific day or at a specific time on request, e.g. on Saturdays or in the evening, or collect parcels from the customer's home with the pick@home service. In 1,326 – predominantly rural – locations, customers can take advantage of the home delivery service ("post office counter" at their front door) and pay bills to delivery staff directly at their front door. Swiss Post offers business customers consignment collections from their company address or the secure transport of daily takings or sums of money via SecurePost.

### Digital: a range of online services

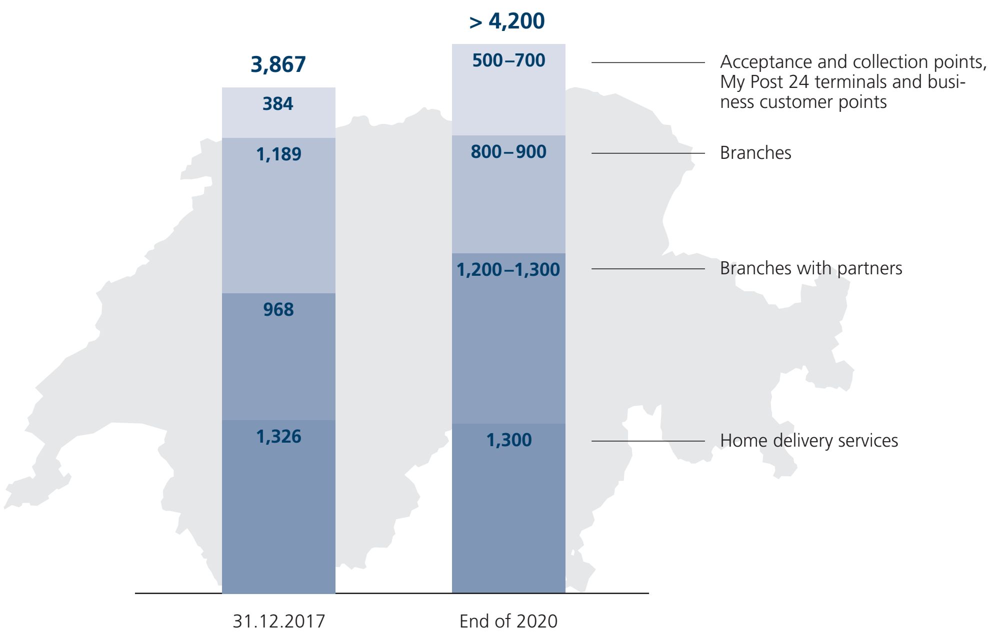
To complement the physical network, private and business customers can also use a range of digital services via the Swiss Post Customer Center (e.g. e-finance, TWINT, My consignments, WebStamp and PostCard Creator) or interact via mobile applications (e.g. Post-App, PostFinance App) or social media. In addition, around 320 call center agents respond to inquiries to the Contact Center via e-mail and telephone from locations in Fribourg, Schaffhausen, Kriens and Visp. Around 7,000 inquiries are dealt with here each day.

## Present throughout Switzerland.

By the year 2020, Swiss Post will increase the number and range of its access points to over 4,200, while ensuring the financing of the postal network in the long term. Its focus is increasingly on the tried-and-tested branches with partners model, developing the home delivery service and opening additional acceptance and collection points, My Post 24 terminals and business customer points.

### Access points

Number as at 31.12.2017 (rounded) and target for end of 2020




More information on developments in the network and universal service can be found on pages 10 to 11 and 36 to 39 of the Annual Report.

*PostBus routes*

In the passenger transport market, PostBus offers 897 PostBus routes in Switzerland, covering 12,664 kilometres and 11,804 stops in the public transport network, as well as tourist routes, school buses and dial-a-ride buses. PostBus runs two autonomous shuttles on public roads in the city of Sion. The PostBus App includes features such as the sale of tickets for the entire Swiss public transport network. To round off its services, PostBus also operates the PubliBike bike sharing service, providing 800 bikes at 106 stations.

PostBus route network

31.12.2017

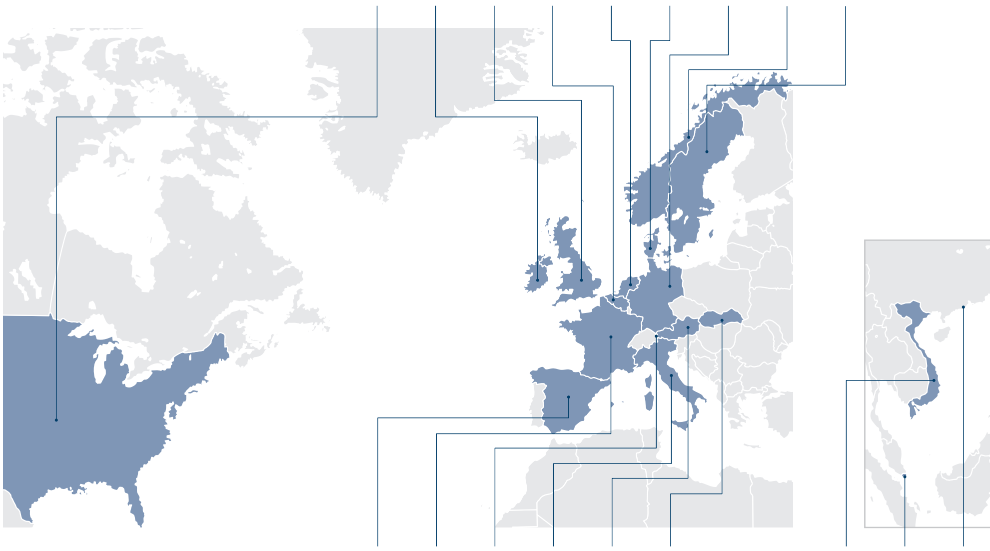
## Abroad

## Selective presence abroad.

Swiss Post has its own branches in 19 countries. Post CH Ltd is represented by subsidiaries, franchise or cooperation partners and sales agents in Europe, North America and Asia. Cooperation with partners abroad gives it access to their global logistics networks. PostBus operates several bus networks in France through subsidiaries, as well as the entire regional transport network in Liechtenstein.

### Swiss Post abroad

| 2017 | US | IE | UK | BE | NL | DK | DE | NO | SE |
|---|---|---|---|---|---|---|---|---|---|
| International letters | ■[1] | | ■[1] | ■[1] | ■[1] | ■[1] | ■[1] | ■[1] | ■[1] |
| Passenger transport | | | | | | | | | |
| Document solutions BPO[2] | ■ | ■ | ■ | | ■ | | ■ | | |



| | ES | FR | FL | IT | AT | SK | VN | SG | HK |
|---|---|---|---|---|---|---|---|---|---|
| International letters | ■[1] | ■ | | ■[1] | ■[1] | | | ■[1] | ■[1] |
| Passenger transport | | ■ | ■ | | | | | | |
| Document solutions BPO[2] | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

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

## Brands

Three brands under one roof.

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

The brand identity and strategy, which were optimized in 2017, will guarantee an even more consistent experience of the core brand and the two flagship brands PostFinance and PostBus. Synergy effects are achieved and the brands are compellingly brought to life across all the points of contact by means of closely coordinated interplay between the different communication tools in terms of content, form and timing.

### Brands and markets

**Core brand**

SWISS POST

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

## Compelling experience at all points of contact.

Based on the vision “simple yet systematic” and the results of previous reputation measurements, an improved brand identity was introduced in 2017: enhanced values, optimized target positioning and the ideal customer experience with Swiss Post. All the activities carried out under the Swiss Post core brand will focus on these three elements in future in order to create a compelling, customer-oriented experience at all points of contact. Visual and communication aspects of the brand have therefore also been redesigned since March 2017. They are based on a fresh new look. The new image will be implemented gradually in day-to-day operations and can already be seen in the new branch concept (pilot branch in Interlaken), in campaigns and in individual digital services, for example. The Swiss Post brand portfolio has also been enhanced and harmonized – on the basis of the vision and strategy – in order to emphasize the strength of Swiss Post. The impact of the optimization on the current individual markets of Swiss Post and its subsidiaries is mainly communicational. The biggest change will affect Swiss Post Solutions Ltd, which will be represented by a consistent and optimized image around the world in future.

A national information campaign was organized in three waves (spring, summer and autumn) in 2017: attention was drawn to Swiss Post’s different access points by means of billboard campaigns, adverts and online measures and by sending flyers to every household in Switzerland and municipalities throughout the country. The results of market research show that the campaign was very well received. In addition, the associated “Postman-App” generated above-average download and usage levels, making a substantial contribution to the overall success of the integrated communication project.

The sponsoring strategy was also enhanced as part of the new Swiss Post experience, with the redesign of the “Dynamic sponsorship: commitments for Swiss Post” pillar in particular. Its focus is now clearly on private customers. The new commitments “Hiking” and “TEDx” also relate to the new target positioning. The two other sponsorship pillars concern business sponsorship (focus on company positioning and the business customer target group) and social sponsorship (with the main commitment 2 × Christmas). Thanks to the newly structured pillars, Group sponsorship is becoming more established as a brand management tool.

As in the past, regular image measurements were carried out on the modified brand identity. The first data was collected in summer 2017. This showed that Swiss Post maintains a leading position in its core business with a supported familiarity score of 98 percent from businesses and 99 percent from the general population. Its values, “professional”, “reliable” and “near”, and its target positioning “confidence” rated highly and are at a high level. However, the newly defined values “agile”, “individual” “simple” and the associated target positioning “convenience” still have potential and room for improvement. Both the Swiss population and businesses continue to associate Swiss Post strongly with letter and parcel services, and only occasionally with new digital or physical and digital services.

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

# Organization

A streamlined, market-oriented structure.

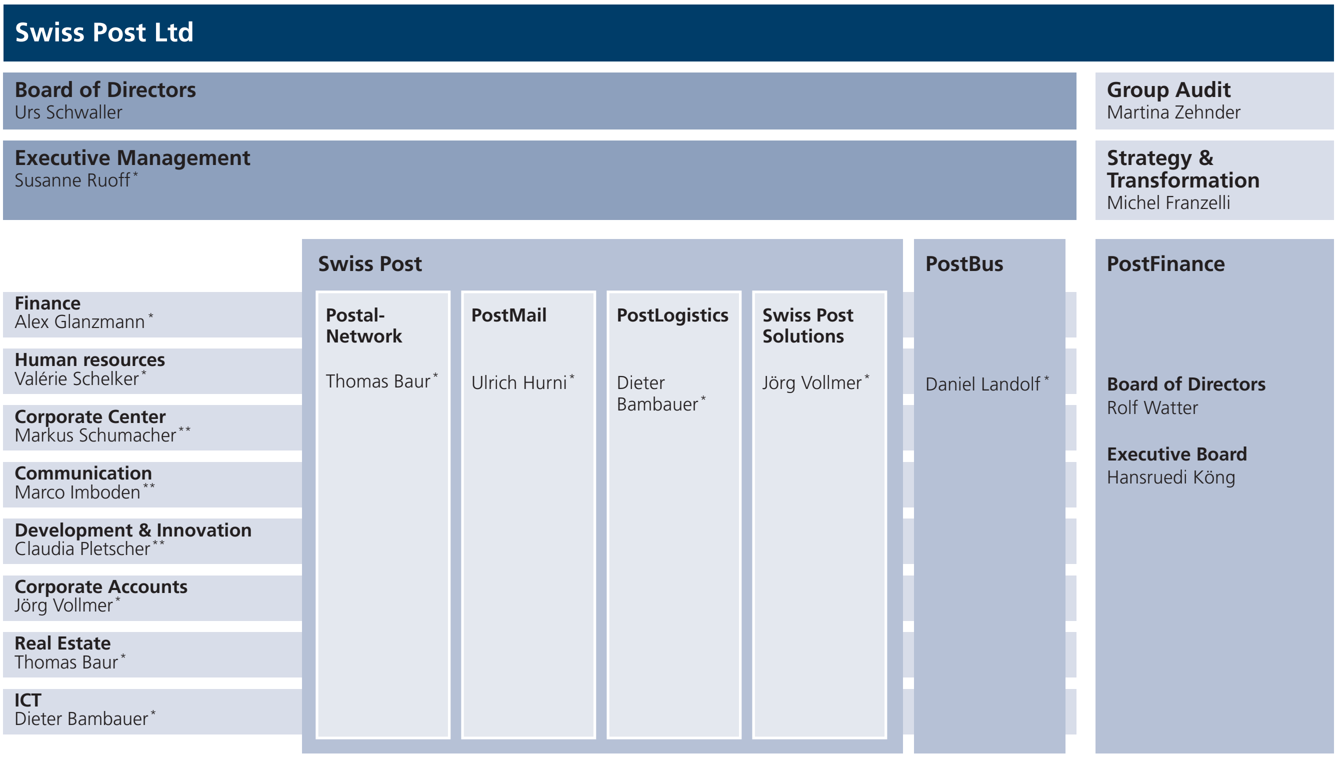
Swiss Post operates six executive Group units: PostalNetwork, PostMail, PostLogistics, Swiss Post Solutions, PostBus and PostFinance. They are presented in the annual financial statements as individual segments.

The Finance, Human Resources, Corporate Center, Communication, Development & Innovation, Corporate Accounts, Real Estate, ICT, Group Audit and Strategy & Transformation units support the management of the Group and the provision of services by the executive Group units. In the annual financial statements, the results for these units are included in Other.

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

Organization chart

31.12.2017




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

More information on the Board of Directors and Executive Management can be found on pages 64 to 66 and 68 to 70. For details of changes to the Board of Directors and Executive Management during the year under review, see pages 66 and 70.

# Background

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

Trends in the environment

2017


## Technological factors

The digital transformation is presenting Swiss Post with challenges.

There is a constant need to adapt to keep up with the digital transformation. Thanks to robotics, industry is opening up to fundamental new possibilities for high-precision, cost-efficient production. Artificial intelligence, chatbots and voice-controlled assistants are increasingly taking over administrative tasks for humans. In-store and digital concepts and channels in the retail trade are being completely transformed. Thanks to intelligent data analysis (smart data), profile data is evaluated, offers and services are customized to meet the needs of individual customers, and predictions regarding personal behaviour patterns are made. Intelligent automation can be used to analyse large quantities of information and automate entire business processes.

The challenge for Swiss Post is to identify the relevant opportunities from the variety of new business models and skills being created (e.g. document solutions, mobile production, chatbots) and rise to meet them rapidly.

## Sociocultural factors

Mobile access to the Internet via smartphone and the use of the Internet for communication, trading and banking transactions and, increasingly, for the Internet of things, are speeding up the pace of our living and working environments. Freely available time is gaining in importance at the expense of money and material goods. The consumer society is gradually becoming a sharing society, combined with a growing awareness of sustainability.

The challenge for Swiss Post is to give its customers flexibility by offering them a balance of physical and digital products and to recognize the opportunities for playing new roles in sectors such as mobility solutions or the circular economy.

## Economic factors

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

### Communication market

Digital substitution is progressing in the mail business, but its intensity is difficult to predict. It therefore represents a risk for Swiss Post. What is certain is that letter volumes and demand for traditional over-the-counter services will continue to decline. The market for promotional mailings offers growth opportunities. Driven by changing customer behaviour as well as by cost and efficiency concerns, major corporations are increasingly outsourcing standardized business processes. The potential for future growth in this area remains huge in virtually every industry. Swiss Post Solutions, as a provider of document solutions, can tap into this potential.

### Logistics market

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

### Financial services market

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

### Passenger transport market

As purchasers of services, the Confederation and cantons are less able to pay compensation to transport companies owing to scarcer financial resources. The situation in the passenger transport market is made more difficult by the fact that for many years, PostBus received excess compensatory payments due to accounting practices that do not comply with the law. But public transport mobility requirements are constantly increasing. As a reduction in services is highly unlikely, services will have to be provided at lower cost and with less public-sector compensation. Individual customers continue to demand more flexible, varied and combinable mobility services such as sharing models in urban areas.

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

## Legal and political factors

Legal requirements changing over time.

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

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

# Transformation strategy

Suitable solutions for customer requirements of the future.

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

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

## Statutory mandate and strategic goals set by the Federal Council

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

### Statutory mandate

The revised postal legislation was adopted by the Swiss Parliament in December 2010 and has been in force since October 2012. The revision aimed to harmonize effective competition and a high-quality universal service. The Postal Services Act aims to guarantee a sufficient, inexpensive universal service for the entire Swiss population in every part of the country. Swiss Post has a universal service obligation to provide postal services and payment transaction services respectively. In the Postal Ordinance, the Federal Council differentiates between the two mandates, paving the way for a customer-oriented, financially viable service in line with market needs. Swiss Post's monopoly on domestic letters up to 50 grams is a pillar for financing the universal service.

The universal postal service obligation sets out guidelines concerning the range of services, prices and quality to be provided. The first objective is to meet the needs of sender customers. The second objective is to take into account the needs of recipient customers. High demands are placed on Swiss Post for home delivery (delivery method and nationwide coverage). Priority and non-priority individual items (A and B Mail, as well as Priority and Economy parcels) are universal service products for which much stricter guidelines regarding delivery times must be met than in other countries. Postal legislation stipulates that 97 percent of addressed domestic letters and 95 percent of domestic parcels must be delivered by Swiss Post on time. Priority mailings must be delivered to their destination by the following day, while non-priority individual items must be delivered within three working days after the day of posting. Individual universal service items are available in branches and should be accessible to 90 percent of the population within 20 minutes on foot or by public transport. In areas where Swiss Post offers a home delivery service, they must be less than 30 minutes away. Besides what it offers under the universal service, Swiss Post can also provide additional services outside the universal service.

The universal service for payment transactions includes opening an account and making transfers, inpayments and outpayments. Payment transaction services should be accessible to 90 percent of the population within 30 minutes on foot or by public transport.

Classification of services

| 2017 | **Monopoly services** | **Services open to competition** |
|---|---|---|
| **Universal services** | Addressed letters up to 50 g | e.g. letters over 50 g, parcels up to 20 kg, payment transactions |
| **Services outside the universal service** | | e.g. unaddressed items, express and courier consignments, savings accounts |

## Federal Council's strategic goals

### Universal service and profitable growth.

The Confederation, as Swiss Post's owner, manages the company through the designation of strategic goals. In December 2016, the Federal Council passed the new goals for the period running from 2017 to 2020. The key points from the previous goals are maintained for this period. A number of new aspects were integrated into the goals in response to the new market conditions and customer requirements. One of the newly defined goals set down is that the Federal Council expects Swiss Post to offer products and solutions in its core business in both physical and electronic form. The universal service must be available in physical form at all times. A further new goal is for Swiss Post to develop services in the areas of information and data transmission.

The Federal Council expects Swiss Post to provide a high-quality universal service comprising postal services and payment transaction services throughout Switzerland in accordance with the Postal Services Act of 17 December 2010. Swiss Post should offer a high standard of marketable, innovative products, services and solutions in both physical and electronic form in its core business in the communication, logistics, financial services and passenger transport markets. In particular, Swiss Post should:

- secure a leading market position in the area of national and cross-border letter and parcel mail
- cover modern communication and logistics requirements by the development of contemporary services, particularly in the areas of information and data transmission
- consolidate its position as an established financial institution on the Swiss market
- maintain its position as market leader in national and cross-border payment transactions
- develop products and services to meet customers' financial requirements (in the sub-markets of payments, savings, investments, financing and retirement planning)
- remain an important and risk-conscious investor in the domestic and international money and capital markets
- secure its position as market leader in public passenger transport in Switzerland
- develop new system services and comprehensive mobility solutions in domestic and international public bus transport

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

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

## Vision and core values

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

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

Changing customer requirements are the basis for Swiss Post's actions. Based on its capacities in communication, logistics, financial services and passenger transport, Swiss Post increasingly represents integrated solutions and continues to offer individual products and services in modular form. Swiss Post understands the world as interlinked and builds bridges between physical and digital channels. It wants to win over customers by offering them products that are both easy to access and easy to use, while creating a consistent customer experience across all its points of contact. This will enable Swiss Post to develop and maintain a high-quality universal service.

In order to implement its vision, Swiss Post's actions are guided by its core values: "reliable", "value-enhancing" and "sustainable".

## Swiss Post's strategic goals

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

Customers
– Customer satisfaction: at least 80 points (scale of 0 – 100)
– Customer experience: increase customer experience or recommendation rate per unit
– Over 4,000 access points

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

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

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

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

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

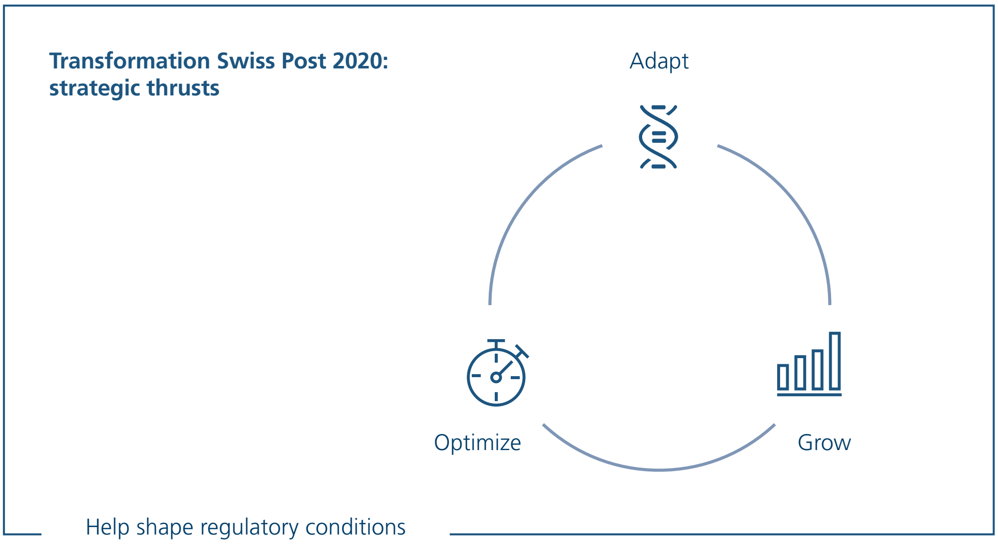
In the year under review, Swiss Post still managed to achieve the goals it had been set. However, the challenges in the environment have intensified further, which means achieving the goals that have been set until the end of the strategy period is likely to be challenging.

## Strategic thrusts

Adapt, grow, optimize and help shape regulatory conditions.

In order to meet its goals, Swiss Post is pursuing four strategic thrusts: adapt, grow, optimize and help shape regulatory conditions. See also pages 5 to 18 of the Annual Report.

Strategic thrusts



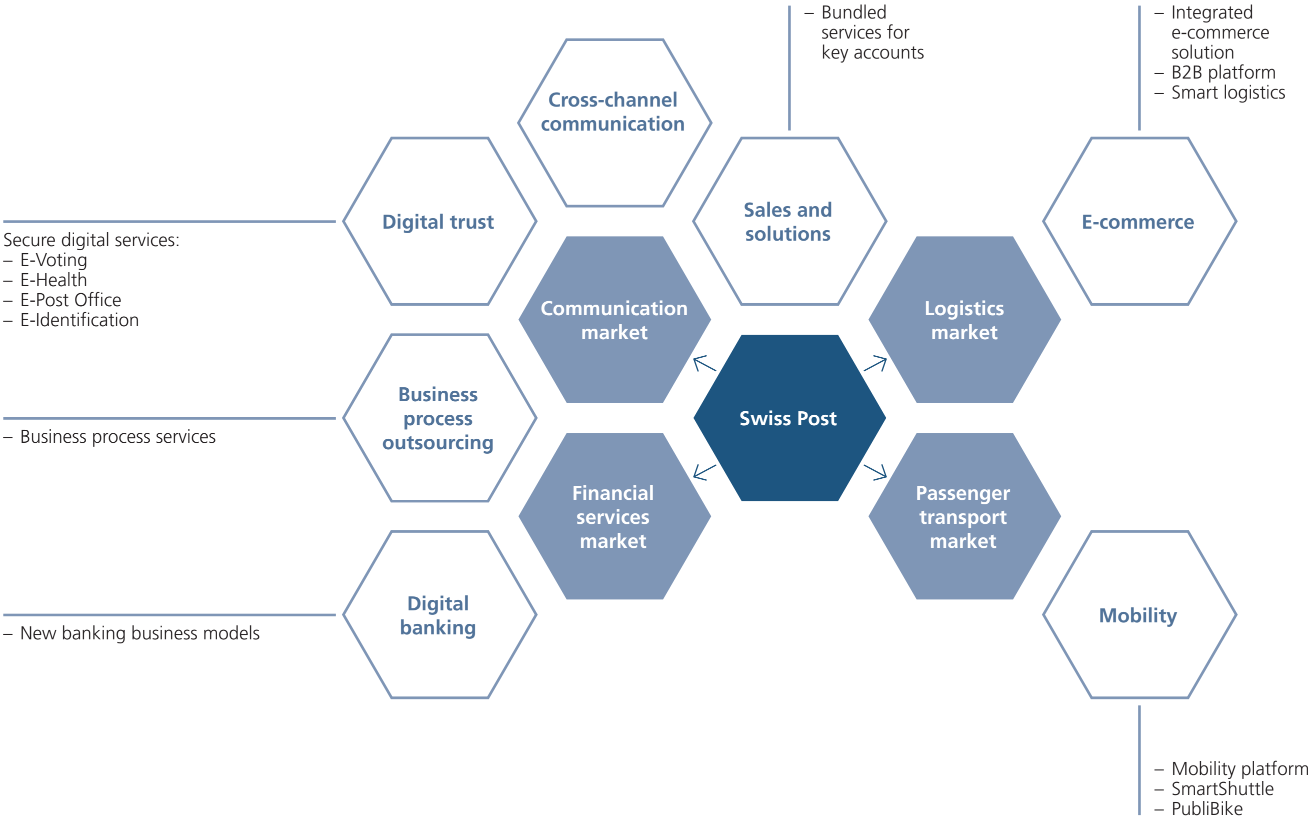

### Driving forward business adaptation

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

### Generating growth and new business

Swiss Post is seizing the opportunities offered in its environment and aiming to achieve 10 percent of new sales by 2020. To do so, it is seeking to grow in its core business and beyond. The seven focal points of its growth and development programme are particularly important here (see pages 12 to 17 of the Annual Report for details of the growth and business development areas). The following illustration shows which new business models will be developed in each development area.

Growth and business development areas




## Optimizing and increasing efficiency

In order to be able to invest in the future, Swiss Post needs to become even more efficient in its core business. It is aiming to increase efficiency by 5 percent by 2020. The "functional management" programme for the Finance, Human Resources and Communication service units, the optimization of ICT and reorganization of procurement are part of this strategic thrust. More information can be found on page 18 of the Annual Report.

## Helping shape regulatory conditions

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

## Market strategies

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

### Communication market

*PostMail*

Letters enjoy a stronger impact.

By deploying the latest technology, PostMail is consolidating maximum reliability and quality with excellent value for money. Letters are specifically positioned as a means of communication that stand out from other competing media due to their strong impact as an essential part of cross-media communication. Growth opportunities can be found in direct marketing, abroad in Asendia (the 50 percent joint venture with France's La Poste), in the international Business-to-Consumer business, and in the development of cross-channel communications products at the interface between the physical and the digital world. PostMail's core business is rounded off by new and innovative services, for instance over the "last mile".

*Swiss Post Solutions*

Leading international position in business process outsourcing.

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

*PostalNetwork*

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

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

### Logistics market

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

In the strategy for 2017 to 2020, PostLogistics is adopting the motto "We are still number one in the logistics, parcel and e-commerce markets in Switzerland". The strongest growth – driven by online trade and internationalization – is expected in the parcel division and goods logistics. As new competitors force their way onto the market and recipients want to have even more influence over where, when and how they receive their parcels, the important thing is to drive the market forward with innovations. This aim can be furthered by expanding international products and services, promoting new business models, using smart logistics, developing e-commerce and optimizing operations and organization.

In concrete terms, this means that PostLogistics will further expand its online retail services for business and recipient customers in a market-oriented manner. Thanks to international networking, PostLogistics plans to secure and even increase processing volumes in Switzerland whilst completing its range of products and services, and achieving stronger market presence abroad. Recipient-oriented services (e.g. consignment management via "My consignments") will be extended in order to make sending and receiving parcels even more convenient. PostLogistics also intends to expand its core business and promote new business in order to strengthen customer loyalty and increase income.

### Financial services market

From a traditional financial service provider to a digital powerhouse.

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

PostFinance has defined strategic thrusts for the future: digitization of its core business, enhancement of the investment options it offers its customers, implementation of the solutions business for major business customers and various innovation aspects.

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

### Passenger transport market

Leading position in road passenger transport.

PostBus wants to develop into a comprehensive mobility provider whilst expanding its leading position in road passenger transport. In its core business, PostBus aims to remain the number one in regional passenger transport in Switzerland, to strengthen its market position in cities, conurbations, in integrated and mobility solutions, and to seek further growth in local transport.

# Financial controlling

Maintain the company's value in the long term.

One of the aims of financial controlling at Swiss Post Group is to achieve the financial goals of the Federal Council. In accordance with these goals, Swiss Post must maintain and if possible increase the company's value in the long term. Value added is created when the adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also factors in the risks and the capital employed. The Federal Council also expects Swiss Post to be able to finance its investments from the generated cash flow.

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

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

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

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

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

– Annual goals
  The annual goals are to help achieve the quantitative and qualitative goals formulated in the strategies. They cover the following areas: market, service provision, resources, management and organization. The success in meeting the annual goals is measured semi-annually.

– Key figures
  The key figures are divided up into finance, customers, employees, strategic measures and processes. They reflect the business and financial performance of the units and the Group. They also form a basis for setting targets with the CEO. The development of the key figures is reported as part of monthly reporting.

– Statement of the strategic market areas and product groups
  The statement of the strategic market areas and product groups and of the strategic measures is used as a financial management tool for the Group units. Reporting takes place semi-annually.

– Commentary
  The comments are an integral component of the reporting at all levels. They are designed to provide insight into the main developments, plans as well as problems and measures in the relevant unit as well as the assessment from unit management. As well as showing change from the previous year, they describe the expectations for the current and following years. The periodicity of the commentary depends on the key figure on which it is based and the variance.

# Business performance

## Key figures

Operating profit and Group profit down on previous year.

Swiss Post generated normalized Group profit of 420 million francs in 2017. Normalized operating profit (EBIT) fell to 630 million francs. See the "One-off effect" section on the next page for information about the term "normalization". Swiss Post achieved a good overall result again in 2017 despite the difficult environment. The fall in profit year-on-year is due to declining volumes for structural reasons and the negative interest rate situation as well as the necessary reimbursement of the irregular compensatory payments made to the PostBus unit. As a result of the current transformation of Swiss Post's core business, access points and organizational aspects are continuously being tailored to future requirements.

**Group** | Key figures

| 2017 with previous year for comparison | | 2016 | 2017 |
|---|---|---|---|
| **Results** | | | |
| Operating income [1] | CHF million | 8,188 | 7,987 |
| Generated abroad and crossborder [2] | CHF million | 1,124 | 1,153 |
| | % of operating income | 13.7 | 14.4 |
| Reserved services [3] | CHF million | 1,161 | 1,153 |
| | % of operating income | 14.2 | 14.4 |
| Operating profit [1] | CHF million | 704 | 630 |
| As a share of operating income | % | 8.6 | 7.9 |
| Generated abroad and crossborder [2] | CHF million | 64 | 82 |
| | % of operating profit | 9.1 | 13.0 |
| Group profit [1] | CHF million | 558 | 420 |
| **Employees** | | | |
| Headcount at Swiss Post Group | Full-time equivalents | 43,485 | 42,316 |
| Abroad | Full-time equivalents | 7,195 | 6,971 |
| **Financing** | | | |
| Total assets [4] | CHF million | 126,609 | 127,410 |
| Customer deposits (PostFinance) [4] | CHF million | 110,465 | 113,184 |
| Equity | CHF million | 4,881 | 6,613 |
| **Investments** | | | |
| Investments | CHF million | 450 | 394 |
| Other property, plant and equipment, intangible assets | CHF million | 302 | 245 |
| Operating property | CHF million | 103 | 97 |
| Investment property | CHF million | 31 | 29 |
| Investments | CHF million | 14 | 23 |
| Degree of self-financed investment | % | 100 | 100 |
| **Value generation** | | | |
| Cash flow from operating activities [4] | CHF million | –385 | 1,941 |
| Value added [1, 5] | CHF million | 5,145 | 5,054 |
| Economic value added [1] | CHF million | 121 | 9 |

1 Normalized figures for 2017.
2 Definition of "abroad" in accordance with the segmentation in the Financial Report.
3 Letters up to 50 g.
4 Figure has been adjusted (see Note 2, Basis of accounting, Accounting changes).
5 Value added = operating profit + personnel expenses + depreciation – gain/loss on the sale of property, plant and equipment, intangible assets and interests.

Additional key figures and explanatory notes can be found in the Annual Report key figures (for reference source, see page 210).

## One-off item

Swiss Post's (Group) financial result includes a one-off item in 2017. However, this did not lead to any adjustment of the prior-year figures. The one-off item and its financial impact are explained in detail on page 35. The non-consideration, i.e. normalization of this one-off item allows a comparison with the previous year and provides an accurate representation of the current operating business performance.

## Drivers

### The economy

According to the Swiss National Bank, the past few months have seen further improvements in the international environment. The global economy exhibited strong, broad-based growth. International trade, in particular, remained dynamic. In view of companies' higher capacity utilization and growing confidence, investment continued to recover. The employment trend remained positive, which helped to buoy household confidence, too. Inflation in most advanced economies trended sideways in recent months. In the euro area, the economic uptrend continued. Growth in Germany, Italy and Spain was significantly above potential. Investment and exports continued to expand strongly. Employment grew further and unemployment declined once again. In Switzerland, economic recovery continued and gained further strength. Manufacturing, in particular, benefited from the favourable economic situation abroad and the depreciation of the Swiss franc.

### Customers and sectors

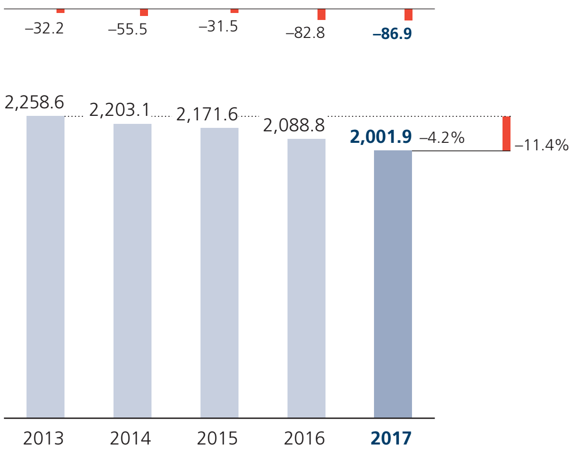
### Communication market

Volume trends reflect changing customer behaviour.

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. Their traditional equivalents are being replaced as a result. This is leading to declining volumes of the corresponding products in the communication market. At the end of 2017, the number of addressed letters handled was down 4.2 percent on the previous year. Newspaper delivery volumes also saw negative performance (–2.9 percent) due to changes in customer behaviour. The number of payments at the counter declined by 6.5 percent. Import and export volumes fell 5.5 percent year-on-year. The reliability and quality of these services continue to be guaranteed by the use of the latest technology and a mix of traditional and new access points. At Swiss Post Solutions, income from services provided fell year-on-year due to the sale of non-strategic activities and exchange rate trends. After adjustment for the above effects, Swiss Post Solutions generated growth of 5 percent. 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.

Ongoing substitution of addressed letters by electronic media

**Communication market | Addressed letters** in millions
2013 to 2017
2013 = 100%



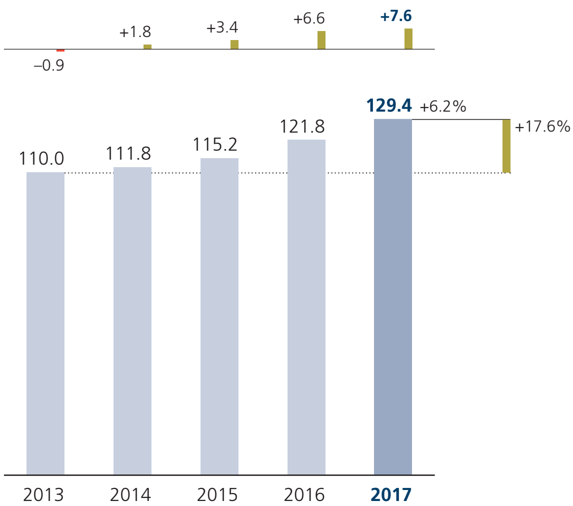

## Logistics market

High dynamics due to increasing demand and competition.

The fully deregulated logistics market is highly competitive. The ongoing internationalization in e-commerce is bringing international logistics competitors and price pressure to Switzerland. Parcel senders and recipients are price-sensitive and have high expectations as regards quality. There is a demand for rapid delivery, flexible recipient services and seamless international processing (incl. customs clearance). Orders from Swiss customers continue to rise. PostLogistics positions itself as the quality and cost leader in the following segments: national and international parcels, small consignments and warehousing, Inight, Express, the transport of valuables, Courier and e-commerce. Domestic parcel volumes carried by PostLogistics increased year-on-year (+6.5 percent). A rise of 2.4 percent was registered in terms of import and export volumes. The overall increase in parcels transported stood at 6.2 percent.

Booming online trade

**Logistics market | Parcels** in millions
2013 to 2017
2013 = 100%



## Financial services market

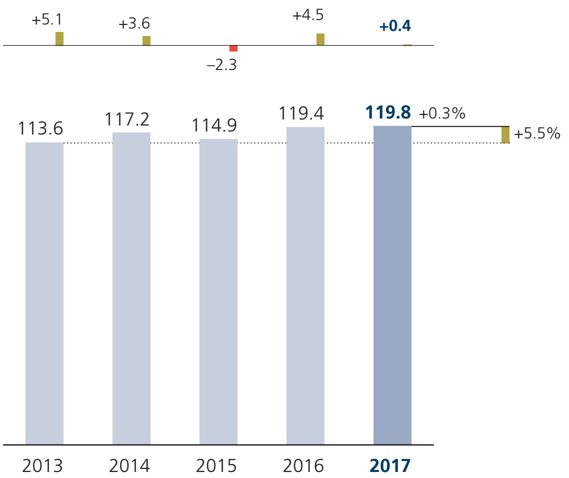
Regulatory framework represents an increasing burden.

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.

Customers continue to place a high level of trust in PostFinance

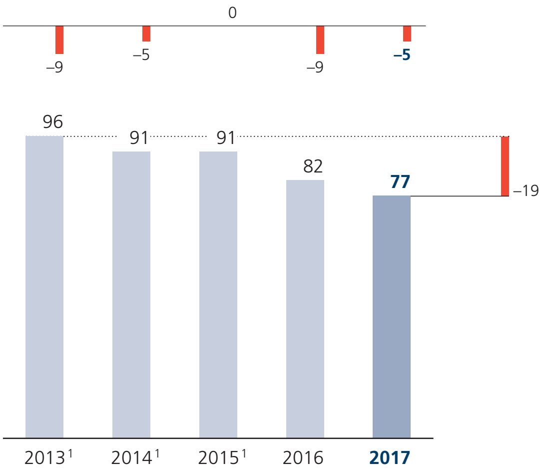
**Financial services market | Average customer assets** in CHF billion
2013 to 2017
2013 = 100%




The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rates and lack of profitable investment opportunities weighed on net interest income, further eroding interest margins. The increase in customer assets stood at around 0.4 billion francs. PostFinance invests a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A large amount of liquidity is still held at the Swiss National Bank. Since January 2015, PostFinance has been charged negative interest on the sight deposit balance exceeding the defined exemption limit. In turn, PostFinance has established the necessary framework to be able to pass these costs on to major customers. In addition, a fee on the credit balance has been charged to private customers with cash assets of over one million francs since February 2017.

Lending prohibition weighs on interest margins

**Financial services market | Interest margin** in basis points
2013 to 2017




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

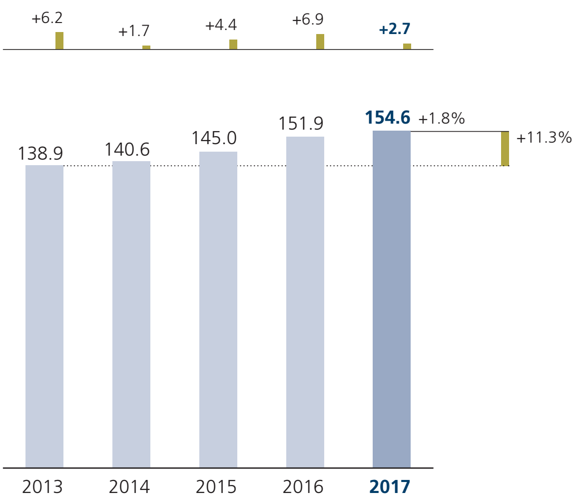
## Passenger transport market

### Demand remains high for mobility solutions.

The national passenger transport market continues to show strong demand for mobility solutions. The rise in demand from the population is in contrast to the limited budgets of public entities, which is reflected in an increase in tenders for bus services. In this context, PostBus was still able to increase the number of passengers in Switzerland by 1.8 percent to 154.6 million people during the last financial year. PostBus has also been operating urban bus networks and bus routes in France for a number of years. In 2017, PostBus maintained the number of kilometres covered, recording a total of around 153 million kilometres.

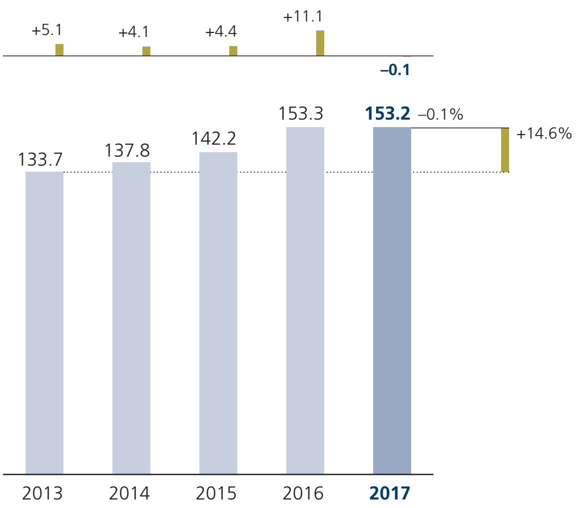
Ongoing trend towards the use of public transport

**Passenger transport market | Number of passengers (Switzerland)** in millions of passengers
2013 to 2017
2013 = 100%



Number of kilometres covered remains consistently high

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




## Profit situation

### Economic value added

**Economic value added remains positive.**

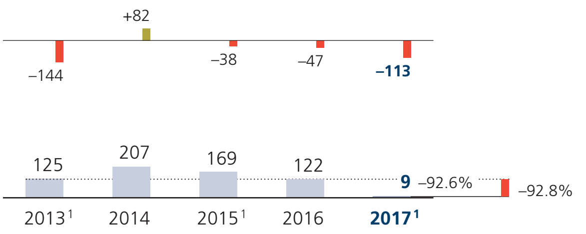
In line with the Federal Council's financial goals, Swiss Post is expected to maintain the positive economic value added in the long term. Economic value added is created when adjusted operating profit exceeds the cost of average invested capital. In addition to the income statement, this approach also factors in the risks and the capital employed. In order to meet the stated financial goal, economic value added is included as a key figure in the calculation of the variable performance component of management remuneration (please also see "Determination of remuneration" on page 71).

Economic value added in the communication, logistics and passenger transport markets is calculated from adjusted operating profit minus capital costs (cost of capital for logistics multiplied by average invested capital). In the financial services market, it is calculated from earnings before tax in accordance with IFRS minus capital costs (cost of capital in the financial services market multiplied by the relevant average capital amount).

Swiss Post generated normalized economic value added of 9 million francs. The decrease year-on-year is mainly due to the decline in normalized operating profit and the normalized increase in expenses for income taxes, which is essentially attributable to the reduction in employee benefit obligations.

## Lower result and higher deferred taxes represent a burden

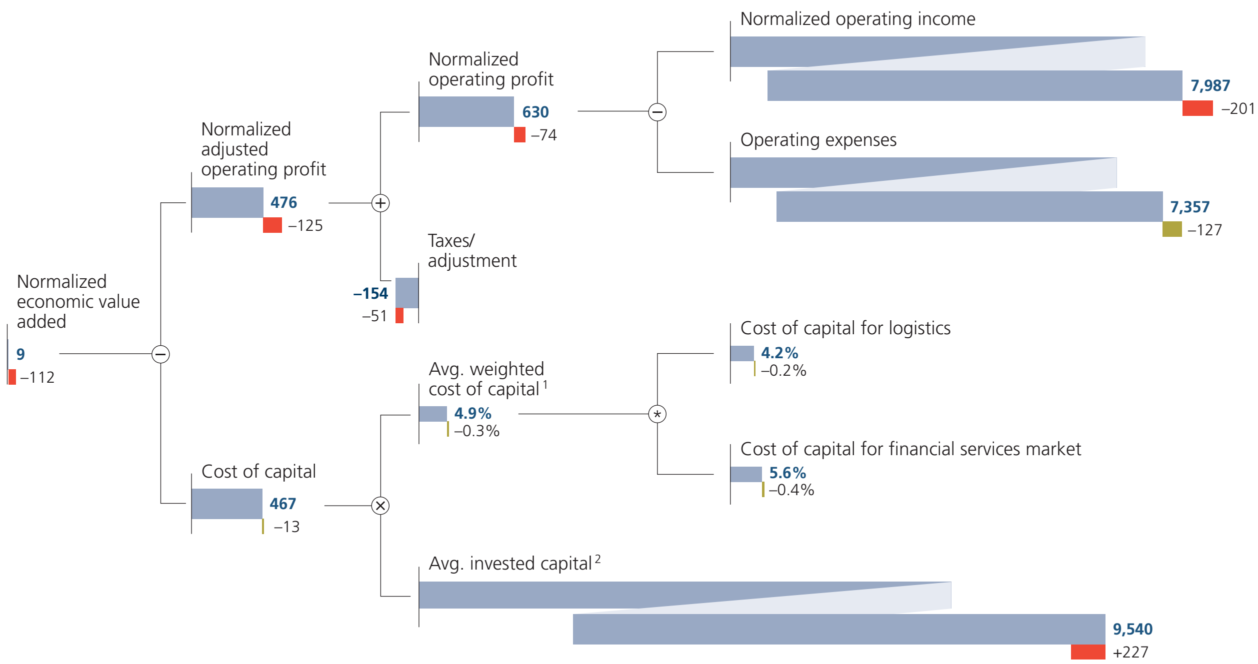
**Group | Normalized economic value added** in CHF million
2013 to 2017




1 Normalized figures.

## Normalized economic value added only just positive

**Group | Normalized economic value added** in CHF million
2017




⊛ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).
1 Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity for the financial services market.
2 At PostFinance corresponds to average equity in accordance with Basel III of 4,698 million francs and in logistics units to the average net operating assets (NOA) of 4,842 million francs.

## Income statement

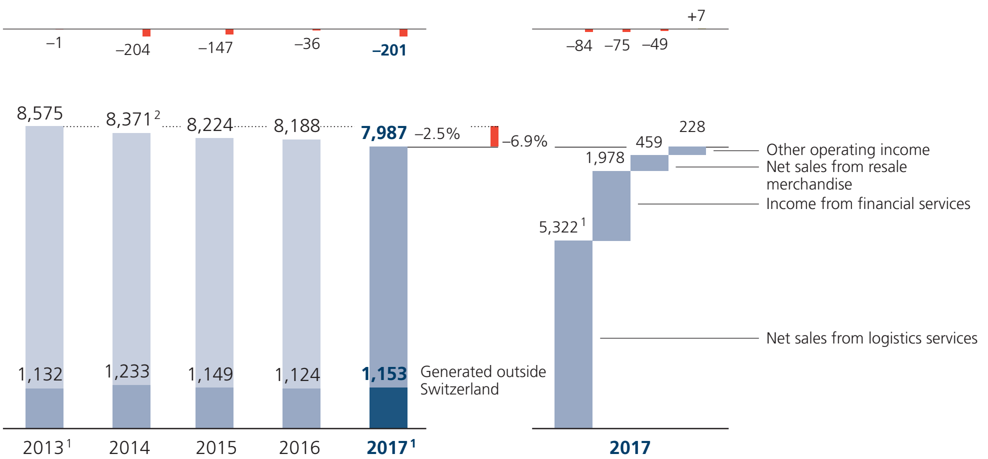
### *Normalized operating income*

**Declining normalized operating income.**

Operating income stood at 7,987 million francs in 2017 (prior year: 8,188 million francs), down 201 million francs year-on year. This was mainly due to declining volumes of addressed letters, interest rate-related decreases in revenue and the reimbursement of irregular compensatory payments received.

Declining operating income, particularly in the communication and financial services markets

**Group | Normalized operating income** in CHF million
2013 to 2017
2013 = 100%




1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2015 Group annual financial statements, Basis of accounting, Accounting changes, Change in the recognition method for commission expenses and income).

Normalized net sales from logistics services fell by 84 million francs year-on-year to 5,322 million francs. The agreed reimbursement and associated lower compensation from the public sector were largely responsible for this decline. The decrease can also be explained by lower volumes of addressed letters and a drop in revenue due to competition. Net sales from resale merchandise dropped by 49 million francs due to modifications to the product range. Lower income from interest business was recorded in income from financial services. The decline in income could only be partially offset by higher reversals of impairment on the investment portfolio and a rise in net trading income. The increase in other operating income was mainly attributable to higher rental income from investment property.

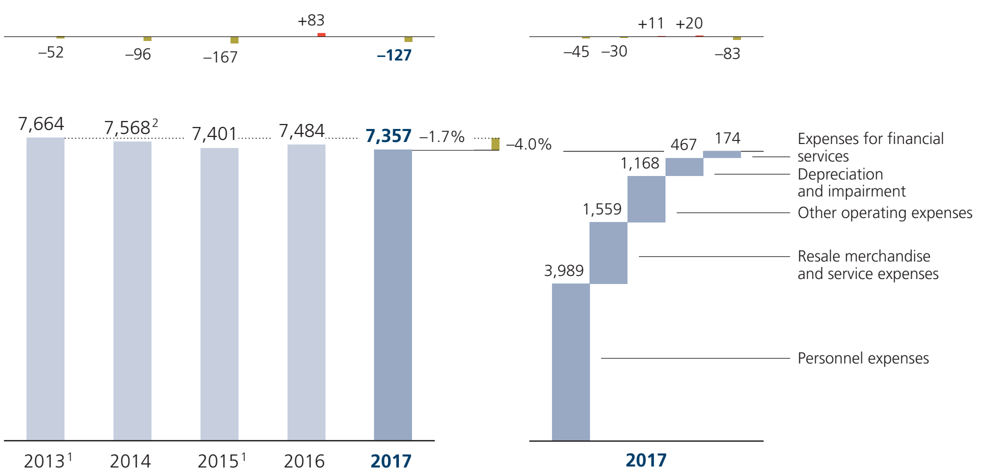
Reduction in operating expenses.

*Operating expenses*

Operating expenses declined by 127 million francs to 7,357 million francs year-on-year (prior year: 7,484 million francs). Personnel expenses in relation to total operating expenses remained stable and stood at around 54 percent in 2017.

Lower personnel expenses as well as a market-related decline in expenses for financial services

**Group | Operating expenses** in CHF million
2013 to 2017
2013 = 100%




1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2015 Group annual financial statements, Basis of accounting, Accounting changes, Change in the recognition method for commission expenses and income).

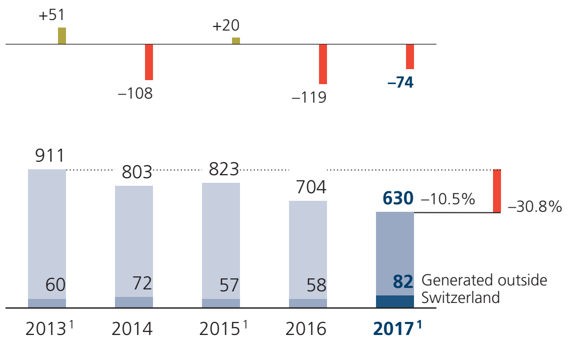
The fall in personnel expenses year-on-year associated with the reduction in headcount was mainly due to lower costs for wages and salaries and a decrease in employee benefit expenses. The decline in resale merchandise and service expenses is attributable primarily to modifications to the resale merchandise product range. Expenses for financial services fell by 83 million francs due to a reduction in interest expenses on customer deposits, lower negative interest and a reduced need for portfolio impairment losses. Other operating expenses increased by 11 million francs in 2017. Depreciation and impairment expenses rose by 20 million francs. The above-mentioned increase is mainly due to an impairment loss on capitalized intangible assets whose recoverable amount was no longer guaranteed as a result of technological progress.

*Normalized operating profit*

Swiss Post generated a normalized operating profit of 630 million francs in 2017. This represents a decrease of 74 million francs in comparison with the prior-year figure. The fall in profit year-on-year is due to the above-mentioned reimbursement, to declining volumes for structural reasons, and to the negative interest rate situation.

Decline in operating profit due to structural change and falling interest margins

**Group | Normalized operating profit** in CHF million
2013 to 2017




1 Normalized figures.

Decline in normalized Group profit.

*Normalized Group profit*

Financial income totalled 24 million francs, with financial expenses standing at 67 million francs. At –10 million francs, net income from associates and joint ventures was down 17 million francs on the previous year. The net change in the financial result had a positive impact on Group profit (+3 million francs). Normalized expenses for income taxes rose by 49 million francs in comparison with the normalized prior-year figure to 156 million francs. Group profit amounted to 420 million francs in 2017.

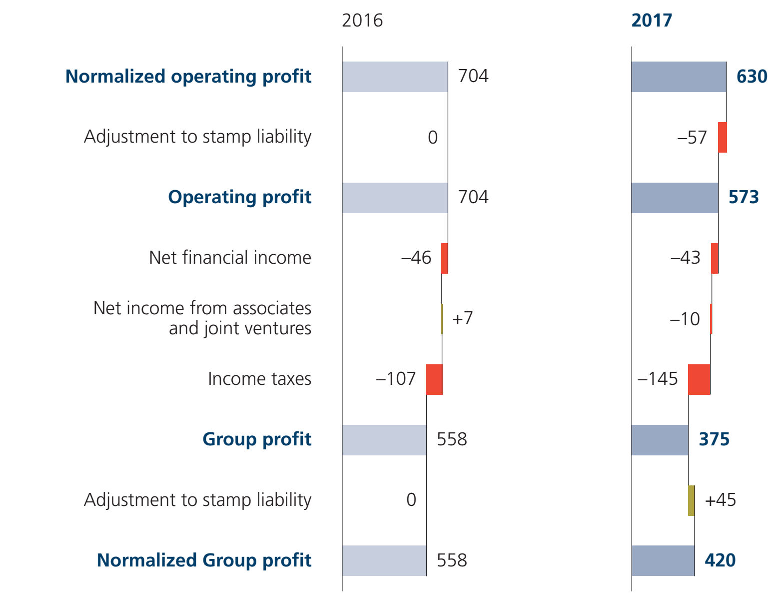
## One-off item in 2017

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

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

### Operating profit and Group profit affected by a one-off item

**Group | One-off item in operating profit and Group profit** n CHF million
1.1. to 31.12. in 2016 and 2017



## Segment results

### *Overview*

Three markets contributed to operating profit.

| **Group** \| Segment results<br>1.1. to 31.12.2017 with prior-year period<br>CHF million, percent, full-time equivalents | Operating income [1] CHF million | | Operating result [1, 2] CHF million | | Margin [3] Percent | | Headcount [4] Full-time equivalents | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 [5] | 2016 | 2017 [5] | 2016 | 2017 | 2016 | 2017 |
| PostMail | 2,906 | 2,835 | 317 | 370 | 10.9 | 13.1 | 16,241 | 15,736 |
| Swiss Post Solutions | 558 | 551 | 20 | 25 | 3.6 | 4.5 | 6,803 | 6,585 |
| PostalNetwork | 1,196 | 1,102 | – 193 | – 159 | | | 6,006 | 5,435 |
| **Communication market** | **4,359** | **4,207** | **144** | **236** | **3.3** | **5.6** | **29,050** | **27,756** |
| PostLogistics | 1,572 | 1,619 | 117 | 119 | 7.4 | 7.4 | 5,151 | 5,281 |
| **Logistics market** | **1,572** | **1,619** | **117** | **119** | **7.4** | **7.4** | **5,151** | **5,281** |
| PostFinance [6] | 2,155 | 2,088 | 542 | 549 | | | 3,614 | 3,475 |
| **Financial services market** | **2,155** | **2,088** | **542** | **549** | | | **3,614** | **3,475** |
| PostBus [7] | 923 | 836 | 36 | – 69 | 3.9 | – | 3,210 | 3,261 |
| **Passenger transport market** | **923** | **836** | **36** | **– 69** | **3.9** | **–** | **3,210** | **3,261** |
| Other [8] | 919 | 889 | – 135 | – 201 | | | 2,460 | 2,543 |
| Consolidation | – 2,041 | – 1,933 | – | – 4 | | | | |
| **Group** | **8,188** | **7,987** | **704** | **630** | **8.6** | **7.9** | **43,485** | **42,316** |

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

### *Communication market*

#### PostMail

PostMail: prior-year result surpassed.

PostMail recorded a normalized operating profit of 370 million francs in 2017, exceeding the prior-year figure by 53 million francs. Operating income and expenses are both affected by non-recurring effects which have a positive impact on normalized operating profit year-on-year.

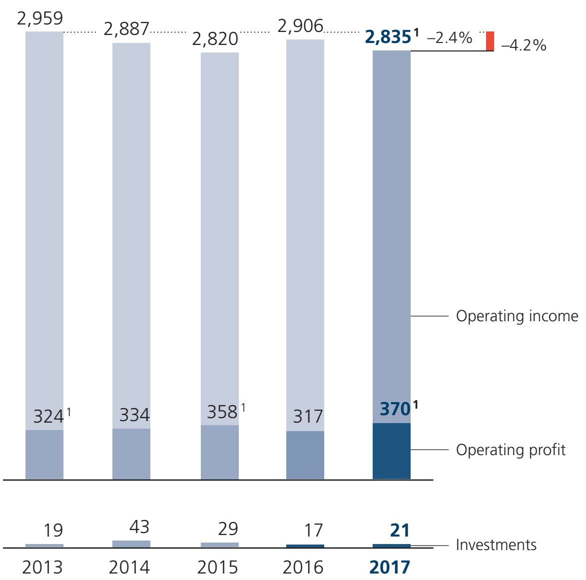
Normalized operating income declined by 71 million francs year-on-year. Income from the delivery of addressed mail registered a downturn of 35 million francs. The fall in revenue was caused by a more pronounced decline in volumes due to the ongoing digitization of communication, together with further customer cost optimization measures in transaction post. Newspaper sales fell by 14 million francs due to a drop in subscriber numbers. The decrease in revenue represented 10 million francs in cross-border business. Lower volumes for exports and exchanges with subsidiaries contributed to the decline.

Operating expenses were down 124 million francs, of which 45 million francs were due to lower personnel expenses. The lower volumes also had an impact on operating expenses. Significant reductions were principally seen in staff requirements as well as in payments for internal Swiss Post services and remuneration to foreign postal administrations. It is becoming increasingly difficult to fully offset declines in revenue through operational business.

Headcount fell by 505 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.

Successful implementation of structural change

**PostMail | Normalized operating income, normalized operating profit and investments** in CHF million
2013 to 2017




1 Normalized figures.

Since 2013, PostMail has achieved an operating profit of over 300 million francs each year, making a substantial contribution to the Group result. Declining average annual volumes of addressed letters of over 2 percent, as well as decreases in subscription newspapers and import consignments, contributed to lower operating income.

The fall in revenue seen in recent years was absorbed on the expense side each year. The increase in operating income between 2015 and 2016 was due to the transfer of product responsibility for private customer letters from PostalNetwork to PostMail.

Average annual investments of 25 million francs 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

Swiss Post Solutions: successful document solutions provider.

Swiss Post Solutions achieved an operating profit of 25 million francs. Operating profit was 5 million francs higher than the prior-year figure.

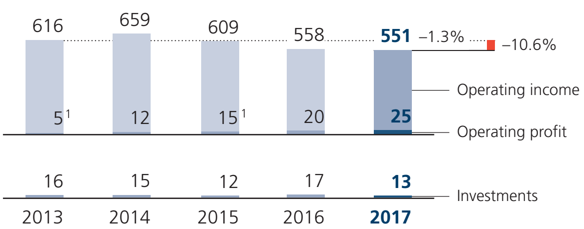
At 551 million francs, operating income was 7 million francs down on the previous year. This was essentially due to the sale of non-strategic activities (–26 million francs) and the negative exchange rate effect caused by the weak British pound in the United Kingdom (–7 million francs). In contrast, higher operating income was achieved due to the start of two major projects in Switzerland and new business in Germany. After adjustment for the above effects, Swiss Post Solutions generated growth of 5 percent.

Operating expenses totalled 526 million francs, down 12 million francs on the previous year. The decline was due to the items mentioned under operating income and recognized in expenses. Cost reductions were also achieved by the implementation of measures to increase efficiency and improvement projects.

Average headcount fell by 218 to 6,585 full-time equivalents year-on-year. The decrease is mainly due to the sale of Swiss Post Solutions Card Systems GmbH (–85 employees) and lower staff requirements, particularly in Vietnam (–82 employees) and the US (–43 employees).

Consistent focus on customer requirements

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




1 Normalized figures.

Swiss Post Solutions has increased its operating profit every year for the past five years. Operating profit stood at 25 million francs in 2017, up 25 percent year-on-year.

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) and the sale of Swiss Post Solutions Card Systems GmbH (in 2016). The ongoing implementation of projects to improve profitability and save costs in all countries also contributed to the positive operating result.

## PostalNetwork

PostalNetwork: encouraging improvement in result.

Thanks to network development and the adaptation of resources to meet volume trends, losses in the core business of letters, parcels and inpayments were offset and the operating result improved by 34 million francs. PostalNetwork generated an operating result of –159 million francs in 2017.

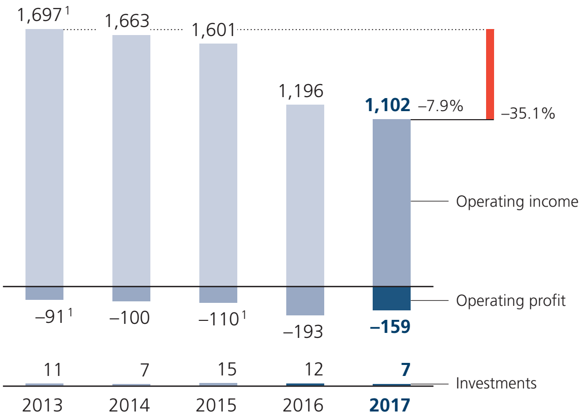
Operating income was down by 94 million francs year-on-year to 1,102 million francs. Income from logistics products dropped by 24 million francs. This was mainly due to letter volumes, which declined by more than 7 percent. The decrease in payment transactions which has been observed for quite some time continued due to substitution through e-banking (–6.5 percent). Declining volumes in payment transactions and lower prices for financial services resulted in a 21 million franc drop in revenue. Net sales from resale merchandise were also down 50 million francs on the previous year.

Operating expenses were cut by 128 million francs year-on-year to 1,261 million francs. The fall in sales of brand-name items led to a drop in resale merchandise expenses of around 40 million Swiss francs. Personnel expenses were 51 million francs below the previous year's level, due largely to a drop in headcount. Other expenses were reduced by a further 37 million francs.

Headcount of 5,435 full-time equivalents fell by 571 full-time equivalents year-on-year, due principally to developments in the postal network.

Focus on changing customer behaviour

**PostalNetwork | Operating income, operating profit and investments** in CHF million
2013 to 2017




1 Normalized figures.

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

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

*Logistics market*

PostLogistics

PostLogistics: operating profit up year-on-year.

PostLogistics posted a normalized operating profit of 119 million francs in 2017, which was 2 million francs higher than the prior-year figure.

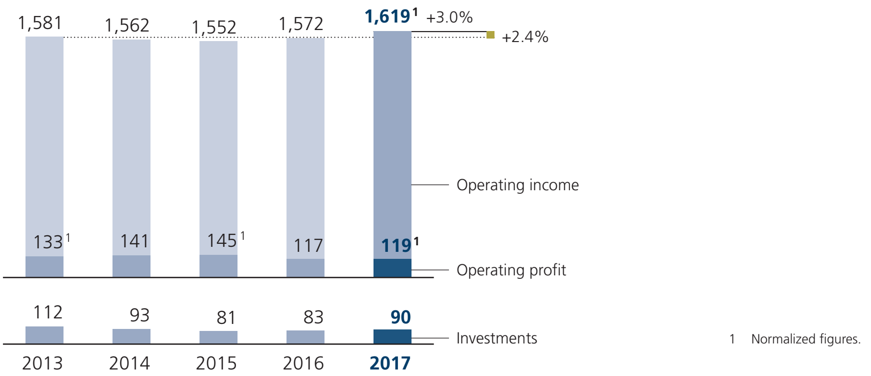
Normalized operating income totalled 1,619 million francs, exceeding the previous year's figure by 47 million francs. This rise is mainly due to higher parcel volumes and acquisitions of companies in the international transport and customs clearance sector. Demand for value logistics solutions also grew.

Operating expenses increased by 45 million francs year-on-year to 1,500 million francs. This rise was mainly attributable to the above-mentioned acquisitions of companies and to higher expenses as a result of greater parcel volumes. The larger volumes in value logistics led to higher personnel expenses. Costs for fuel, temporary employees, rent and depreciation also increased.

Average headcount rose by 130 to 5,281 full-time equivalents, principally as a result of higher volumes in value logistics and company acquisitions.

Assertion of market position

**PostLogistics | Normalized operating income, normalized operating profit and investments** in CHF million
2013 to 2017




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

In 2017, normalized operating income reached its highest level in five years. High competition and the associated loss of customers in small consignment transport and warehousing, falling prices in the parcel market and the disposal of subsidiaries were more than offset by the constant increase in parcel volumes and the acquisition of new subsidiaries. Growth in online trade was the main reason for the rise in parcel volumes.

Investments in 2017 were in line with the level seen in recent years. Further investments are planned in connection with the future parcel processing strategy in order to continue to offer a high-quality, punctual service for processing growing parcel volumes.

### *Financial services market*

PostFinance

PostFinance: stable operating profit.

As at 31 December 2017, PostFinance recorded an operating profit of 549 million francs, representing an increase of 7 million francs year-on-year.

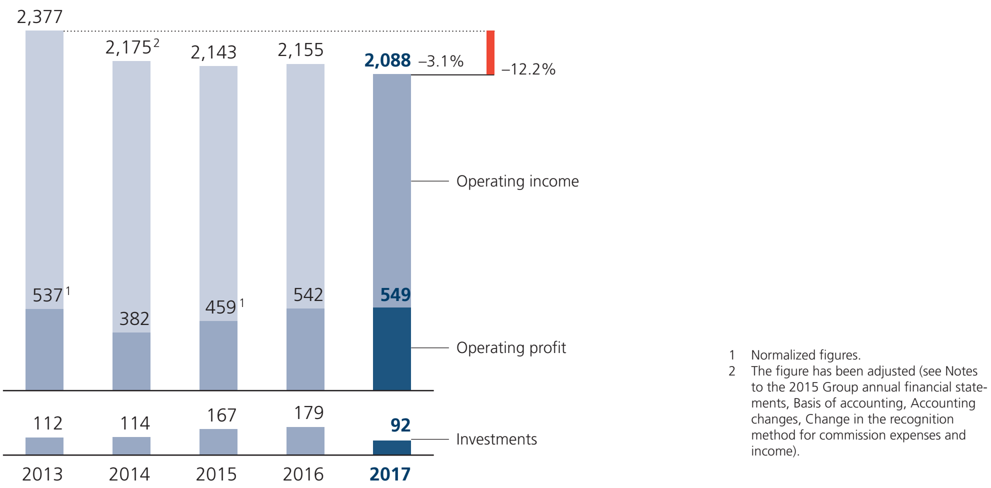
Operating income was down 67 million francs to 2,088 million francs, principally due to lower interest income, which was down 117 million francs year-on-year due to market conditions. The fall in income was offset by a 19 million franc rise in reversals of impairment and higher income from commission-based transactions, financial assets and trading activities. Operating income also benefited from one-off capital gains of 109 million francs from the sale of shares.

Operating expenses decreased by 74 million francs year-on-year to 1,539 million francs. This decline was attributable to lower impairment losses of 42 million francs, a drop in interest expense due to customer interest rate cuts on savings, and a decline in headcount.

Average headcount stood at 3,475 full-time equivalents, down 139 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.

Skilled handling of regulatory framework

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




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

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

Investments have 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 have also been made in modernizing the core banking system.

*Passenger transport market*

PostBus

PostBus: result affected by excess compensatory payments received in previous years.

The decline in operating income in 2017 of 87 million francs year-on-year is due to an agreement reached with the Federal Office of Transport (FOT) regarding the reimbursement of 78 million francs of excess compensatory payments received between 2007 and 2015, and the expected reimbursement of excess compensatory payments for 2016 and 2017.

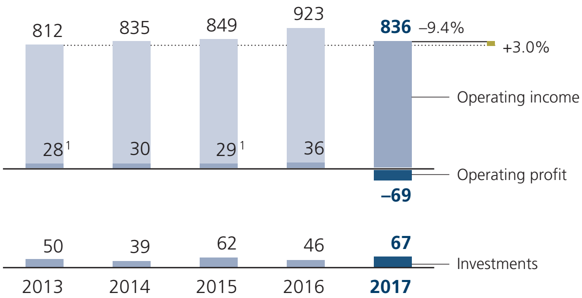
Due to the ongoing proceedings and to the revision of the settlement price model for companies entitled to receive compensatory payments (regional passenger transport), no comment will be made on the changes year-on-year.

There is currently no settlement model approved by the FOT. This can have an impact on segment accounting.

Average headcount rose by 51 to 3,261 full-time equivalents, This was due to the expansion of services in Switzerland and a rise in headcount in the area of mobility solutions.

Growth in core business, burdened by reimbursement to FOT

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




1 Normalized figures.

The previous year's operating profit of 36 million francs could not be maintained in the 2017 financial year. At –69 million francs, the operating result decreased by 104 million francs year-on-year. This represents a decline of 96 million francs in comparison with the operating profit from the financial year 2013.

The average investment volume totalled approximately 50 million francs. In comparison with previous years, the highest level of investment was seen in the financial year 2017 (67 million francs). This was mainly due to the greater proportion of replacements and new acquisitions in the vehicle fleet, and to higher investments in connection with the development of mobility solutions.

Due to the ongoing proceedings and to the revision of the settlement price model for companies entitled to receive compensatory payments (regional passenger transport), no comment will be made on the changes over the past five years. See comment regarding comparison of 2017 with the previous year.

Management and service units become function units.

*Function units*

The function units generated an operating result of –201 million francs in 2017, down 66 million francs on the previous year's figure.

At 889 million francs, operating income declined by 30 million francs year-on-year. The decrease was mainly due to a reduction in intra-Group income and to lower gains on the sale of property, plant and equipment.

Operating expenses increased by 36 million francs to 1,090 million francs. Additional provisions were needed in the period under review, particularly for restructuring measures decided on and announced in the function units. Personnel expenses were up 41 million francs due to the transfer of full-time equivalents from business units to function units.

Headcount rose by 83 to 2,543 full-time equivalents due to the above-mentioned transfer of personnel.

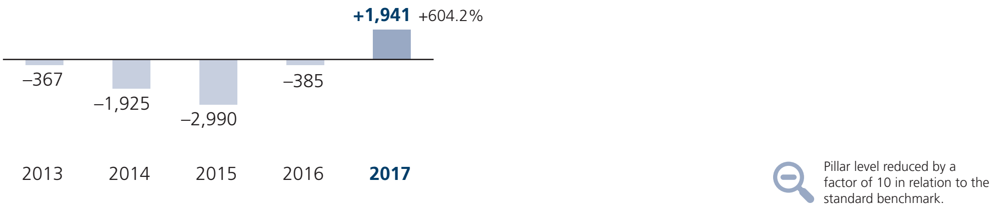
## Assets and financial situation

### Cash flow and investments

Cash flow from operating activities totalled 1,941 million francs in 2017. A negative cash flow from operating activities of –385 million francs was recorded in the 2016 comparison period. The inflow of funds in 2017 mainly concerned the financial services business. For more information on changes in the consolidated cash flow statement, see page 80.

Higher customer deposits are temporarily held as liquid assets

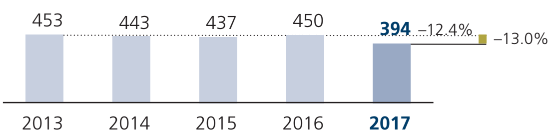
**Group | Cash flow** in CHF million
2013 to 2017




Overall, investments in property, plant and equipment (279 million francs, mainly in operating property and vehicles), as well as in investment property (29 million francs), intangible assets (63 million francs) and interests (23 million francs) were down 56 million francs on the previous year. Excluding the positions from financial services reported in the balance sheet, cash flow was sufficiently high for the company to finance its own investments. In the coming year, Swiss Post will continue to take steps to automate its processes to improve efficiency. Investments will mainly be made in property, plant and equipment, predominantly in Switzerland.

Lower capitalization ratio for investments in intangible assets

**Group | Investments** in CHF million
2013 to 2017




### Net debt

For the indicator net debt / EBITDA (operating profit before depreciation and amortization) Swiss Post has set a maximum figure of 1 as its target. Customer deposits and financial assets of PostFinance Ltd are not included in the calculation of this indicator. Values above the target are possible in the short term. Values below the target indicate financial leeway. The target was met as at 31 December 2017.

## Consolidated balance sheet

*Amounts due from banks*
In comparison with 31 December 2016, amounts due from banks rose by 808 million francs.

*Financial assets*
In comparison with the end of 2016, financial assets increased by 118 million francs.

*Property, plant and equipment*
The carrying amount for property, plant and equipment fell by 166 million francs compared with 31 December 2016.

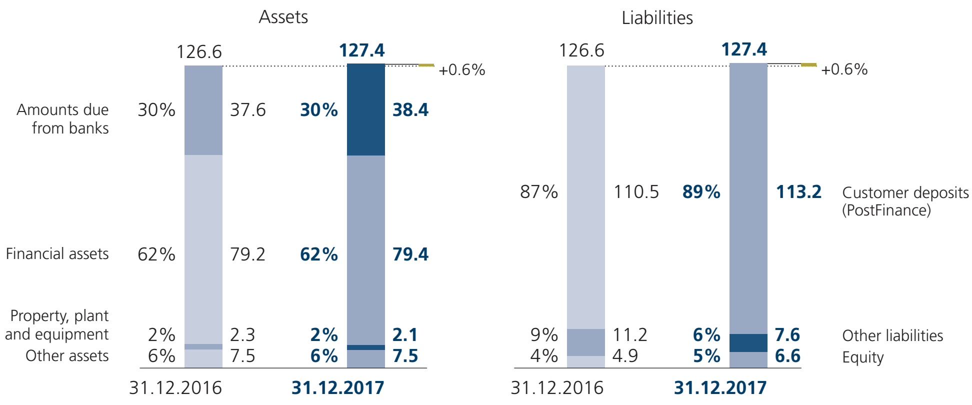
*Customer deposits*
Since the end of the previous year, customer deposits at PostFinance have risen by 2,719 million francs to 113,184 million francs. As at 31 December 2017, customer deposits accounted for around 89 percent of the Group's total assets.

*Other liabilities (provisions)*
Provisions increased by 99 million francs to 559 million francs. This was attributable to restructuring plans and business transactions which could weigh on earnings. Employee benefit obligations decreased by 2,454 million francs year-on-year to 2,626 million francs, primarily due to a change in an estimate. Explanatory notes on the change in estimate can be found in the notes to the 2017 Group annual financial statements, Note 2, Basis of accounting, Significant events and transactions, Change in estimates, Employee benefit obligations.

*Equity*
Consolidated equity as at 31 December 2017 (6,613 million francs) was calculated net of the appropriation of profit for 2016.

Stable total assets

**Group | Balance sheet structure** in CHF billion
As at 31.12.2016 and 31.12.2017




## Appropriation of profit

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

The proposed appropriation of profit of Swiss Post Ltd can be found on page 170.

## Non-financial results of a material nature

As well as financial and market-based goals, Swiss Post also sets itself the following strategic goals (see page 18):

– Customer satisfaction: at least 80 points on a scale of 0–100
– Employee commitment: at least 80 points on a scale of 0–100
– Corporate responsibility: Improvement in $CO_2$ efficiency of at least 25 percent by the end of 2020 in comparison with 2010

### Customer satisfaction

Customers have been very satisfied with Swiss Post for years.

Swiss Post adapts to changing customer requirements and develops its products and services accordingly. For 19 years Swiss Post has commissioned an independent institute to conduct and evaluate annual satisfaction surveys for quality assurance and improvement purposes. Around 23,000 private and business customers from Switzerland and in selected countries abroad take part in this survey. Data is collected regarding satisfaction with Swiss Post – both in general and specifically in relation to the range of products and services, customer contact, customer advisors, prices (or value for money) and problem solving.

**Group** | Customer satisfaction

2016 to 2017
Index 100 = maximum

| | 2016 | 2017 |
|---|---|---|
| Swiss Post Group [1] | 83 | 83 |
| Business customers (Switzerland) | | |
| PostMail (national consignments) | 80 | 79 |
| PostMail mail (international consignments) | 79 | 77 |
| PostLogistics | 78 | 77 |
| PostFinance | 78 | 76 |
| Swiss Post Solutions | 85 | 85 |
| PostalNetwork | 83 | 84 |
| Private customers | | |
| PostFinance | 80 | 80 |
| PostalNetwork | 86 | 88 |
| Branch with partner | – [2] | 75 [3] |
| Home delivery service | – [2] | 78 [3] |
| PostBus, commuters | 74 | 74 |
| PostBus, leisure travellers | 81 | 83 |

1 Overall satisfaction.
2 No prior-year figure as separate surveys of private and business customers on “branch with partner” and “home delivery service” were carried out for the first time in 2017.
3 Question: “How satisfied are you on the whole with the branch with partner or home delivery service?”

**Group** | Recipient customer index

2016 to 2017
Index 100 = maximum

| | 2016 | 2017 |
|---|---|---|
| Overall delivery quality (recipient customer index) | 91 | 91 |

The results have remained very high for several years. At 83 out of a possible 100 points, this year’s Group-wide customer satisfaction index confirms the previous year’s figure. Customers indicate that they particularly appreciate the quality of services and personal advice provided. Figures above 80 are considered to reflect very high levels of satisfaction, whereas figures below 65 are seen as critical.

Wide acceptance of the "branch with partner" format.

This year, 1,900 private customers and 1,360 business customers also answered a separate survey on the postal services "branch with partner" and "home delivery service". The "branch with partner" service received 75 points for overall satisfaction. The customer-friendly opening times were particularly appreciated. The vast majority of customers questioned also described themselves as "satisfied" to "very satisfied" with accessibility, the execution of services and the care taken handling postal items. The home delivery service also obtained a high score of 78 points in terms of overall satisfaction.

*Private customers*
The 15,000 private customers questioned in the customer satisfaction survey rated individual Group units at the same high level as they did last year. The highest number of points (88) was once again achieved by the PostalNetwork unit. Private customers generally award the individual Swiss Post units good marks, with ratings between 74 and 88 points.

The quality of letter deliveries was rated by 13,000 private recipient customers in a separate survey – the recipient customer index – once again achieving a very high 91 points on a scale of 0 to 100. For many years now, the highest values have been for the professional and friendly manner of delivery staff. This survey has been carried out and evaluated by an independent institute since 2004.

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

*Business customers*
The 8,000 or so business customers questioned once more assigned high scores of between 77 and 85 to individual units, with PostalNetwork and Swiss Post Solutions receiving very good grades of 84 and 85 out of a possible 100 points respectively. For the third year running, business customers rated national letter mail with a high 79 points, while the score assigned to international letter mail decreased by two points to 77 points in terms of overall satisfaction. With 77 points, the Logistics division of Swiss Post was rated slightly lower than the previous year.

On the basis of the survey results, Swiss Post implements various initiatives and measures in order to strengthen customer proximity and to meet the needs of different customer groups more effectively. Customers continue to regard problem-solving as the area with the most potential for improvement. By finding out what is important to its customers, Swiss Post can optimize and constantly adapt the entire customer experience chain.

## Human resources

*Employee commitment*

High level of motivation in difficult market environment.

Swiss Post is undergoing fundamental change, the effects of which are perceptible to employees. Despite a drop of one point, the commitment index remained high at 81 points, confirming that employees regard Swiss Post as an attractive employer. The results of the employee survey 2017 also show that employees are committed to their work and to the company's success. The resulting commitment index value represents a high positive rating and is a reflection of "personal commitment". This index, which is the central element of the survey, consists of three components: "identification", "staff turnover" and "motivation".

### Focusing on transformation
Swiss Post is systematically pressing ahead with developing its services and products. Employees are also feeling the effects of this more challenging market situation and its effects on the Group. The figures for "employee satisfaction" (73 points) and "management " (70 points) have fallen slightly (by one point each). The decline is even more noticeable for the "strategy" factor (63 points), with a four point drop. Remaining stable at a high level are the figures for "work content" (81 points), "goal orientation" (80 points), "team interaction" (80 points) and "direct line managers" (80 points). The overall work situation was also rated by employees just as highly as the previous year, at 76 points. Confirmation from employees for the solid rating of the work situation comes from the fact that motivation (86 points) has remained stable.

### Measurement categories unchanged over nine years

For the survey in May 2017, Swiss Post used the same measurement model for the ninth year running. Values from 60 to 74 points are considered an "average positive" rating, while values between 75 and 84 points are rated "high positive". The questionnaire was distributed to around 47,000 employees in 15 countries in seven different languages. The response rate was around 79.1 percent (previous year: 79.2 percent), therefore remaining stable at a high level.

**Group** | Employee survey

2016 to 2017
Index 100 = maximum

| | 2016 | 2017 |
|---|---|---|
| Commitment | 82 | 81 |
| Identification | 81 | 78 |
| Staff turnover | 80 | 78 |
| Motivation | 86 | 86 |
| Work situation [1] | 76 | 76 |
| Unit fitness [2] | 73 | 72 |
| Customer focus [3] | – | 75 |
| Employee satisfaction | 74 | 73 |

1 The work situation comprises the factors "goal orientation", "direct line managers", "involvement and personal responsibility", "work processes", "work content", "workload", "working conditions", "team interaction" and "employment conditions".
2 Unit fitness encompasses the factors "strategy", "management", "information and communication", "change and innovation", "cooperation" and "development".
3 Questions were amended; the score is no longer comparable with previous years.

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

### *Investment in staff*

Swiss Post is successful when its employees put the corporate strategy to practical use in their daily work with high motivation and professionalism. To achieve this, Swiss Post relies on exemplary employment conditions and provides employees at every level and of every age with opportunities for development. By doing so, Swiss Post aims to improve the performance of its employees and to promote market-oriented action.

### Support for apprentices and young talent

2,115 apprentices received training in 15 professions at Swiss Post in 2017. This represents 6 percent of its headcount. This makes Swiss Post one of the largest training companies in Switzerland. The success rate in final apprenticeship examinations stood at 98.6 percent in 2017. Three out of every five newly-qualified professionals continued to work for Swiss Post. Furthermore, Swiss Post enabled 25 university graduates to enter the working world as part of its in-house trainee programme. Swiss Post introduced the new profession of ICT specialist at the start of the 2018 training period.

### Digital skills

The skills required from staff are changing as a result of the digital transformation. Swiss Post has set up a working group to ensure that employees are prepared for this change and are supported in the transformation. This group coordinates and initiates measures to develop digital skills in three areas of action: (1) effective and efficient use of digital tools and Swiss Post products; (2) skills which will become strategically relevant as a result of the digital transformation and (3) working and managing successfully in a digitized working environment. Staff abilities are furthered in relation to their specific function and unit. For example at PostMail, use of digital products was promoted by means of a campaign, while employees of the PostalNetwork unit have been trained in new roles in the branches or shown how to use digital devices. In addition, management training is being redesigned and developed at all levels.

### Employer attractiveness / candidate experience

Since April 2017 Swiss Post has measured the customer experience during the recruitment process (candidate experience) in an online survey. All candidates – whether or not they were granted an interview – can give feedback on the application process. Swiss Post has received some good scores according to the first interim analysis: interviews are seen as an opportunity for dialogue (score of 5.1 on a scale of 1 to 6). Questions asked by applicants during their interview were also answered professionally (score of 5.3). Greater transparency is however required in terms of overall communication. Thanks to this evaluation, for the first time Swiss Post has obtained a clear picture of how applicants – i.e. customers on the labour market – perceive the company. This knowledge will help to build on strengths, systematically eliminate weaknesses in the application process, and give applicants a positive experience of the Swiss Post brand.

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

Helping employees, managers and HR advisors in difficult situations, pointing out prospects, and encouraging personal responsibility and motivation: These are the responsibilities of Swiss Post's Social Counselling Service and Careers Center (previously the Job Center). The core tasks carried out by the Social Counselling Service involve offering professional advice and support to employees experiencing difficult situations in their lives or conflict in the workplace. 2,581 people benefited from advisory services in 2017; 1,108 managers and employees attended prevention seminars (addiction, bullying, sexual harassment and preparation for retirement, etc.).

A total of 369 applications were processed by the Swiss Post Personnel Fund in 2017 (29 of which were rejected) and financial support of 856,537 francs was granted. In addition, 42 new loans totalling 326,966 francs were issued.

Swiss Post's Careers Center is a point of contact where staff can assess their professional situation and ask questions about their personal advancement. 594 career counselling sessions were held and 274 consultations given on professional re-orientation, making the Careers Center a vital part of Swiss Post's socially responsible human resources policy.

309 cases were registered with Case Management, and 291 cases closed. Employees received assistance in complex situations of illness in order to facilitate coordination and cooperation between all the stakeholders and allow integration into the workplace.

*Employment conditions*

Collective employment contract

Swiss Post takes responsibility as an employer.

An agreement was reached with the social partners in 2017 to extend the Post CH Ltd CEC by two years to the end of 2020. Discussions are continuing on specific topics and concerns of individual Swiss Post units. In addition, new collective employment contracts came into force in 2017 at Post Real Estate Management and Services Ltd, SecurePost Ltd, Swiss Post Solutions Ltd and PostLogistics Ltd. Talks began to establish a framework CEC for early-morning deliveries, and a new redundancy plan was negotiated for management. Swiss Post continues to rely on a good social partnership and takes responsibility as an employer.

Equal pay

Swiss Post employees are entitled to receive equal pay for work of equivalent value. This is guaranteed for CEC staff by means of function levels based on a non-discriminatory functional evaluation system. The danger of pay inequality is thereby minimized. Swiss Post sets great store by equal pay and was one of the pioneering companies to take part in equal pay dialogue. In 2017 Swiss Post once again commissioned a study to verify equal pay.

Diversity at Swiss Post

Swiss Post creates an operating framework which empowers staff members to combine the different aspects of their lives. This includes flexible working models. Around 21,600 employees work part-time and around 8,500 take advantage of teleworking each year. Opportunities for job sharing are also used. Swiss Post also contributes around 1.3 million francs towards external childcare, helping employees to achieve a good work-life balance.

Retirement planning, social security

Stability at the Swiss Post pension fund.

The Group's own employee benefits institution, the Swiss Post pension fund, with total assets of around 17 billion francs, insures around 41,500 Swiss Post employees in Switzerland and pays 660 million francs in pensions to around 30,500 people each year. The Foundation Board, formed jointly by employer and employee representatives, is responsible for the management of the foundation. Swiss Post employer contributions represent 290 million francs per year.

In the spring of 2017, the Foundation Board decided to decrease the technical interest rate to 1.75 percent as at 1 January 2018 as recommended by insurance experts. The conversion rate for both mandatory and supra-mandatory pensions at the age of 65 has stood at 5.1 percent since 1 January 2018.

Active insured people received compensation on their savings capital that offset 75 percent of the reduction in the conversion rate. Older insured people (born in 1959 or earlier) receive supplementary compensation of up to 100 percent in the form of an annuity on the withdrawal of retirement benefits. Swiss Post provides 100 percent funding for the necessary increase in pension insurance cover. Swiss Post is also paying a fixed amount of 100 million francs towards the compensation measures for active insured people. The employer's share of savings was increased by 0.9 percentage points, enabling the employer's risk premium to be reduced by 0.5 percentage points due to the positive risk evolution. The increased employer contribution burden of 0.4 percentage points was agreed upon during salary negotiations with the social partners.

The level of cover in accordance with the revised Swiss Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) stood at around 105 percent (including employer contribution reserve with a waiver of use) as at 31 December 2017.

More information on employees can be found in the Annual Report on pages 53 to 56.

## Corporate responsibility

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

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

### *2017–2020 corporate responsibility strategy*

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

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

In the new strategy period from 2017 to 2020, Swiss Post is aiming to achieve a $CO_2$ efficiency increase of at least 25 percent by the end of 2020 (base year 2010) in its established climate and energy area of action. This means that for every consignment or passenger transported, for every transaction and for every heated square metre of the Swiss Post buildings, we will consume less energy and release less greenhouse gases. Swiss Post's climate goal is geared to the long term and is in line with the objective of stabilizing global warming to well below 2°C by 2100 compared to pre-industrial levels, as decided by the international community as part of the Paris Climate Agreement.

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

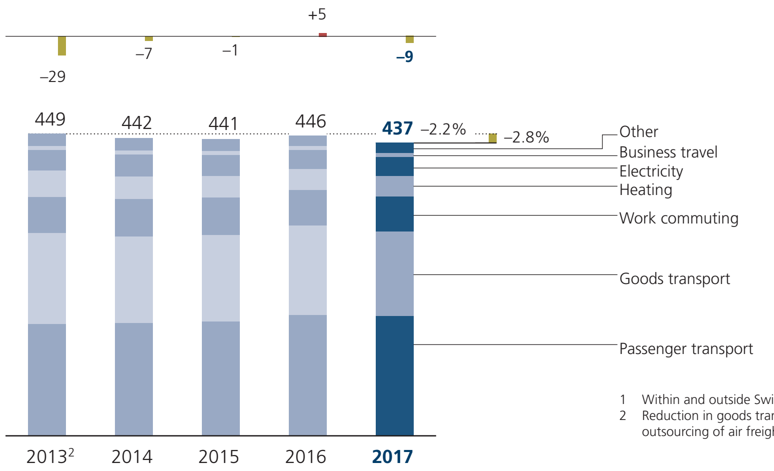
### *Area of action: climate and energy*

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

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

Swiss Post's greenhouse gas performance declines slightly.

**Group | Greenhouse gas emissions by process**[1] in 1000 t of $CO_2$ equivalents
2013 to 2017
2013 = 100%




1 Within and outside Swiss Post.
2 Reduction in goods transport by air following outsourcing of air freight to Asendia.

At the end of 2017, Swiss Post had increased $CO_2$ efficiency by 19.2 percent and is therefore on track towards its target of increasing $CO_2$ efficiency by 25 percent by 2020 (base year 2010).

In order to reduce its $CO_2$ emissions, Swiss Post has implemented a comprehensive package of measures.

- As a transport-intensive company, it is constantly testing alternative drive systems and fuels, and utilizing them wherever possible. Biodiesel, eco-electricity and biogas have already become standard fuels for Swiss Post's vehicle fleet. Approximately 45 percent of the energy-efficient vehicle fleet already uses alternative drive systems such as electric or biogas engines. PostBus operates 46 diesel hybrid buses on Swiss roads and has been gathering experience with electric buses on scheduled services since 2017. 35 Post Company Cars Ltd petrol stations offer diesel containing 7 percent biodiesel made from residues from edible oil production. Since 2016, Swiss Post's fleet of around 6,000 two and three-wheeled vehicles has run exclusively on electricity and 100 percent eco-electricity. The same applies to the eight new electric vehicles being tested by PostLogistics. There are just under 30 gas vans fuelled with 100 percent Swiss biogas. In addition, the use of vehicle capacities and routes are continually being optimized.
- Potential energy savings in building services and in Swiss Post buildings have been systematically identified and measures introduced. Swiss Post is also replacing heating oil completely with low-sulphur eco-oil. Fossil fuels are generally no longer used in any new buildings or replacement heating systems. The MINERGIE®-compliant Swiss Post headquarters in Berne's Wankdorf City district is the first office building in Switzerland to receive the international DGNB certificate in platinum.
- Swiss Post covers 100 percent of its electricity requirements with "naturemade basic" certified renewable energy from Switzerland, which contains 10 percent of "naturemade star" certified green electricity. Swiss Post operates eleven photovoltaic systems on its roofs, feeding approximately six gigawatt hours of solar electricity into the grid each year. By the beginning of 2020, it will bring 12 more systems on stream and use the electricity produced for its own requirements.
- The photovoltaic system in Neuchâtel stores surplus electricity in an innovative energy storage unit fitted with used batteries from Swiss Post's two and three-wheeled vehicle fleet in line with the circular economy concept. After an average of seven years of operation, the scooter batteries still have a storage capacity of almost 80 percent. This is too little to be able to deliver letters, but more than enough for a stationary storage unit that can recharge Swiss Post scooters overnight.
- With "pro clima" – Shipment, all domestic letters have been carbon neutral since 2012 at no extra charge for customers. Since 2017 this has also been true of PromoPost consignments. Swiss Post

is funding the construction of the first gold standard Swiss Post climate protection project in Switzerland: it consists of 30 biogas plants and farms that reuse manure and other organic waste to generate electricity.
- Sustainable employee mobility is promoted by providing staff with a free Half-Fare travelcard or discounted GA travelcard for rail travel. Employees at major sites can also recharge their electric vehicles and bikes free of charge using the comprehensive charging infrastructure. Swiss Post supports the bike to work initiative, and employees can take advantage of the services provided by PubliBike or carvelo2go for the rental of electric cargo bikes. Staff employed by Post CH Ltd or PostBus can also benefit from a campaign offering a special discount on an attractive bike/e-bike.
- Raising employees' awareness of sustainability is a recurring theme of internal communication and is explored in depth at workshops and other events. In addition, a sustainability ambassador network was founded in 2016 to present, discuss and promote issues related to corporate responsibility.

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

*Area of action: circular economy*

Swiss Post offers intelligent logistics solutions in the circular economy.

Swiss Post's products and skills support a resource-friendly, circular economy. Business models in this area aim to close product cycles and, in turn, conserve resources. Swiss Post wants to tap into new logistics potential and create social benefits. It is particularly committed to the recycling of selected reusable materials, the repair and reuse of devices and work resources, and the encouragement of opportunities for sharing. For example, Swiss Post installs its used scooter batters in a stationary storage unit as part of a pilot project. It takes back Nespresso coffee capsules and PET bottles, carrier bags and cardboard packaging from Coop@home orders which it then disposes of appropriately. It also collects everyday items in partnership with Brocki and recovers used Swiss Post clothing for reuse and recycling. Swiss Post also increasingly champions the topics of intelligent collection points and circular economy solutions for business customers, and is further strengthening its consultancy skills in relation to the circular economy.

*Area of action: responsible procurement*

Sustainability is a vital part of the overall procurement process.

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

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

## Swiss Post's social commitment is taking effect.

*Area of action: corporate citizenship*

Swiss Post is committed to charitable and social concerns. Social commitments such as the "Santa Claus campaign" are anchored in Swiss Post's corporate responsibility strategy. They are part of the corporate citizenship area of action. In activities of this kind, Swiss Post donates a proportion of its resources specifically to support charitable and social concerns. Swiss Post has been making an active contribution in this area for years, for example by providing logistics services free of charge for the "2 × Christmas" distribution campaign organized by the Swiss Red Cross, and delivering Christmas gifts to people in need. Swiss Post also has a cultural commitment, supporting Swiss artists with its own art collection. Foundations and projects with a social, cultural or historical background or a focus on youth work are promoted by Swiss Post – via the postage stamp fund or the issue of stamps with a surcharge such as Pro Patria or Pro Juventute. The latter make an important contribution to raising funds and conveying messages. The special stamp with surcharge for the victims of coercion and involuntary relocation prior to 1981 is just one example.

More information on responsibility can be found in the Annual Report on pages 57 to 62 and in the GRI report, available at www.swisspost.ch/gri-report-2017. The topic of human resources is described on pages 46 to 48 of the Financial Report.

# Risk report

## Risk management principles

Today's business environment is constantly changing. The success of a company greatly depends on the early recognition and control of opportunities and threats (risk awareness), and taking account of capital and yield considerations (risk capacity and risk appetite). Risk management can thereby make an important contribution to the quality of decisions and help increase the company's value.

## Risk management system

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

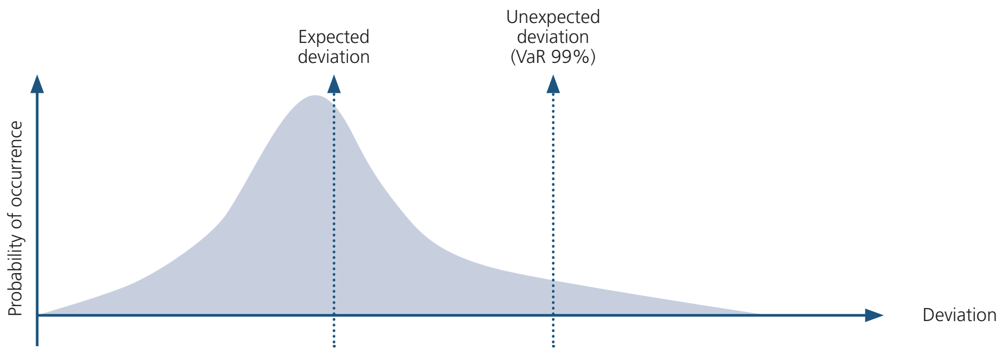
### Risk simulation

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

### Risk indicators

A picture of the risk situation of a company or of individual units is obtained by simulating individual risks and groups of risks to obtain risk indicators. Expected value and value at risk (VaR) are also calculated. Expected value shows the expected EBIT deviation for the next twelve months, while value at risk (99 percent) is used for unexpected EBIT deviations. The expected EBIT deviation for 2020 is also simulated and aggregated to identify the strategic risk situation.

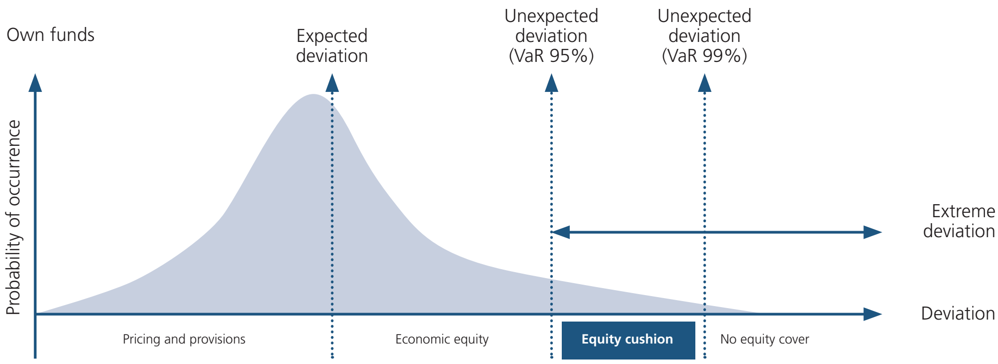
Risk indicators



## Risk appetite and risk capacity

Risk appetite and risk capacity are calculated and checked using indicators determined across all aggregation levels. Risk appetite corresponds to the cumulated expected value from the risk simulation and should not exceed the planned business results. Risk capacity is achieved if unexpected deviations (VaR 99 percent) are covered by economic equity. An extreme deviation has an extremely low probability of occurrence, but could entail very high potential losses. Covering extreme events with equity is uneconomical and therefore only partially guaranteed.

Risk appetite and risk capacity




## Risk management process

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

Risk management process


- Risk identification
  Risks and opportunities are defined as potential deviations from planned earnings before tax. Group strategy and a company-wide basic catalogue of risks form the basis for risk identification.

- Risk assessment
  Every six months, managers and specialists measure the risks that have been identified. Risks are assessed on the basis of scenario analyses (best case, mid case and worst case scenarios) and/or by means of event data. Risk indicators for individual risks are measured via Monte Carlo simulation techniques.

- Definition of measures
  As part of the risk management process, the Group units define appropriate measures in order to take advantage of opportunities whilst avoiding, reducing, or passing on risks to third parties. At Group level, Group risks are controlled mainly via strategic measures that are often combined with further precautions individually tailored to specific risks.

– Control of measures
  Comprehensive checks are carried out to ensure that risks are being controlled efficiently by the measures in place. Additional measures are defined if necessary.

– Reporting
  Reports are submitted to the Executive Boards, Group Executive Management, Board of Directors' Audit, Risk & Compliance Committee and Board of Directors.

### Networking of risk management

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

## Risk situation

Successful entrepreneurial action is based on adequately controlling or avoiding material risks and taking advantage of opportunities that arise in a value-enhancing way. At Swiss Post, risks and opportunities are assessed as part of operational planning for a one-year planning period (risks and opportunities with a short-term impact), while the strategic risk situation is established over the planning horizon until 2020.

### Risks and opportunities with a short-term impact

Swiss Post understands risks with a short-term impact to be any event which can have a negative influence on the achievement of its goals within the next twelve months. Short-term opportunities refer to potential results which go beyond the schedule defined for the financial year. The individual risks and opportunities for all the units identified using the Monte Carlo simulation procedure are combined to establish the overall risk position of the Group. As well as calculating the average expected loss/gain potential, the maximum annual loss potential is determined with a confidence interval of 99 percent.

Based on the latest calculations, the Group has an expected loss potential of –41.9 million francs in relation to the financial year 2018. Average expected losses compared to the prior-year period have therefore increased by 24.5 million francs (expected loss in 2017: –17.4 million francs). This change is principally due to fluctuations in employee benefit expenses. The unexpected annual loss potential (VaR 99 percent) for the Group totals –433.0 million francs for 2018. Risks have therefore increased year-on-year (unexpected loss potential in 2017 [VaR 95 percent]: –98.3 million francs). Overall, the results show that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group's risk capacity is thereby guaranteed.

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

### Risks and opportunities with a long-term impact

As well as assessing the short-term risk situation, Swiss Post also identifies and evaluates strategic risks and opportunities. Any developments or events that could result in deviations in relation to the planned pre-tax profit (EBIT) in 2020 are regarded as strategic risks and opportunities.

The most significant strategic risks include declining volume trends. Changes in the regulatory framework could also have an effect on the company. The growth programmes and cost-cutting measures which have been initiated offer promising long-term opportunities. PostFinance's result is greatly dependent on market interest rate changes.

## Overall assessment of risks and opportunities

A general picture of the risk situation is obtained by combining the individual risks and opportunities of all the units. The key challenges and opportunities have been described above. According to current estimates and taking into account the present circumstances, no risks have been identified that could jeopardize the future of the Group either on their own or in combination with other risks. The possibility cannot be ruled out that additional risks that are not yet known or that have currently been classed as immaterial could have a negative influence on the achievement of the desired results. In addition, new opportunities could arise that have not yet been identified, or current opportunities could become irrelevant.

For more information on risk management at Swiss Post, see pages 133 to 146.

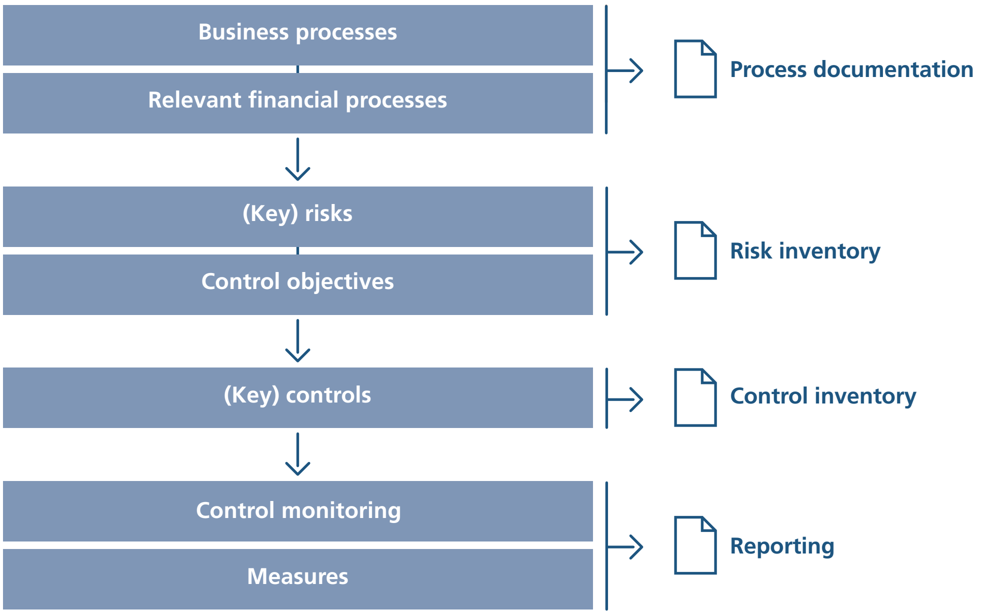
## Internal control system

The Board of Directors and Executive Management are responsible for establishing and maintaining appropriate internal controls. The internal control system (ICS) at Swiss Post Ltd should provide reasonable assurance that the financial reporting is in accordance with the relevant accounting regulations and corresponding internal guidelines. It therefore encompasses principles, procedures and measures to ensure proper bookkeeping and rendering of accounts. In accordance with Article 728 a, paragraph 1, section 3 of the Swiss Code of Obligations, the external auditors check that an ICS is in place in conducting their regular audit each year.

### Design of the internal control system

ICS-relevant financial processes across the Group are identified each year by means of materiality-based scoping before being documented in a comprehensible and straightforward manner for third party experts. For each activity, the potential risks are determined from the processes, assessed, and assigned financial control objectives. Key risks must be given priority treatment by the ICS and appropriate controls carried out. Controls are concepts, procedures, practices and organizational structures that create a degree of certainty that the control targets can be met and that unwanted events can be prevented or detected and corrected.

ICS




### Monitoring and effectiveness of the internal control system

By taking a systematic approach to ICS monitoring, Swiss Post guarantees the relevance, appropriateness and efficiency of the system. Checks are made during the year to ensure that controls are implemented in accordance with the documentation and that risks are minimized as a result. At the end of the reporting period, an additional assessment of the maturity level of processes and controls is carried out on the basis of a self-assessment. A standard method is applied throughout the Group. If potential for improvement or control deficits are identified in the course of ICS monitoring, appropriate measures are taken accordingly. The results of the self-assessment are validated and summarized in an overall report on the accounting-related internal control system at Swiss Post Ltd. This report is submitted to the Board of Directors' Audit, Risk & Compliance Committee and to the Board of Directors.

### Assessment of the internal control system as at 31 December 2017

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

KPMG AG, the independent auditors for Swiss Post, verified and unreservedly confirmed that an internal control system is in place for financial reporting as at 31 December 2017.

The results of the ongoing investigation at PostBus in connection with the irregular compensatory payments that were not in compliance with subsidy law will show whether modifications need to be made to the internal control system.

# Outlook

The Swiss National Bank (SNB) is anticipating strong growth in the short term due to the significant upturn in household and business confidence. In the medium term, however, risks for the international economy are still to the downside. These risks include political developments in certain countries, as well as potential international tensions. Moreover, the normalization of monetary policy in the advanced economies presents challenges. An abrupt rise in the currently very low capital market interest rates and risk premia, in particular, could negatively impact the global economy.

In the euro area, the economic outlook is positive across the board. Confidence in manufacturing and private households is particularly high. Surveys suggest that companies plan to expand their investment and, given the rise in utilization, perhaps also increase their capacity. Bolstered by propitious financing conditions and improvements in the labour market situation, domestic demand is therefore likely to remain dynamic. Nevertheless, the outlook for the economy is still subject to risks. These include political uncertainties like the future shape of relations between the EU and the UK, and Italy’s elections to be held by May 2018.

In the context of strong economic growth worldwide, the outlook for Switzerland – Swiss Post’s most important market – remains positive. Export-oriented domestic industries, in particular, will benefit from the stimulus from abroad. Surveys among manufacturing companies thus suggest a further improvement in the economic outlook. As a result, services industries, too, are likely to pick up momentum. Most other indicators also suggest that the recovery will continue. For example, there is evidence of a consolidation of demand on the labour market.

In the year under review, Swiss Post still managed to achieve the goals it had been set. The challenges in the environment have intensified further, despite positive prospects for the economy as a whole. Structural change continues. Swiss Post is convinced that in continuing along its chosen path, it can continue to achieve the goals set for the future. However, it is likely to become more difficult to attain its targets in the coming years.

# CORPORATE GOVERNANCE

Swiss Post attaches great importance to corporate governance. For years, it has based its actions on the Swiss Code of Best Practice for Corporate Governance drawn up by economiesuisse. Swiss Post structures its reporting in line with the SIX guidelines for listed companies.

# Group structure and shareholders

## Legal form and ownership

Swiss Post has been structured as a holding company since 26 June 2013. Swiss Post Ltd as the overall holding company is a company limited by shares subject to a special statutory regime solely owned by the Confederation. The organization chart on page 12 shows the Group's organizational units. The "Consolidated Group" section on page 152 of the Financial Report outlines the investments.

## Control by the Confederation

The Confederation controls Swiss Post by setting strategic goals and checking that these are being met, using for this purpose Swiss Post's annual reporting to its owner and a report on staff (Public Officials Act/Ordinance on Executive Pay). See also the information policy section on page 74.

# Regulatory accounting and companies under individual supervision

## Net costs arising from the universal service obligation

In accordance with article 19, section 2 of the Postal Services Act of 17 December 2010, Swiss Post must present its accounts in such a way that costs and revenue can be identified for individual services. The Postal Ordinance of 29 August 2012 substantiates these requirements and regulates the calculation of net costs for the universal service obligation.

The net costs result from a comparison of a hypothetical result recorded by Swiss Post excluding the universal service obligation with the actual result achieved. They represent the difference between the avoided costs and lost revenue. Swiss Post specifically calculated the net costs arising from the universal service obligation for the first time in 2013. They stood at around 346 million francs for 2016. The calculation was approved by the regulatory authority PostCom in May 2017. Following the approval of the net costs for 2017 by PostCom in the second quarter of 2018, the figures will be published at www.swisspost.ch/annualreport in a supplement to the Financial Report.

Swiss Post can offset the net costs from the previous year between different segments and Swiss Post subsidiaries. This net cost compensation enables Swiss Post to spread the universal service burden over the services and segments that are best able to support it. Net cost compensation does not influence the Group's financial result in any way, but does influence the segment results for PostFinance, PostLogistics, PostMail and PostalNetwork.

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

## Reduction in the delivery prices of newspapers and magazines eligible for subsidies

Contributions from the Confederation of 50 million francs towards the reduction in the delivery prices of newspapers and magazines eligible for subsidies in accordance with article 16 of the Postal Services Act ceased to be credited to Swiss Post's newspaper account on 1 January 2013, and are passed on to the eligible titles through a price reduction per copy. In the PostMail segment, a transitory account is kept on the balance sheet from which press subsidies are continually debited, and are credited to the publishers concerned as a price reduction on their Swiss Post invoice.

## PostFinance Ltd

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

## PostBus Switzerland Ltd

Since 2005, PostBus Switzerland Ltd has been a private limited company under private law wholly owned by Swiss Post Ltd. The passenger transport company is subject to supervision by the Federal Office of Transport (FOT). The strategic goals of the Federal Council remain relevant to PostBus's business activities. PostBus Switzerland Ltd issues annual financial statements in accordance with accounting regulations under commercial law (article 957ff. of the Swiss Code of Obligations). The statutory auditor (KPMG AG) audits the financial statements of PostBus Switzerland Ltd, which comprise the balance sheet, income statement and notes. The DETEC ordinance on the accounting of licensed businesses (RKV) is also applicable. PostBus Switzerland Ltd additionally prepares RKV annual financial statements. In accordance with article 37 of the Passenger Transport Act, the FOT performs an audit in accordance with subsidy law, which supplements the audit conducted by the company's statutory auditor.

# Capital structure

Swiss Post has Group equity comprising 1.3 billion francs of fully paid-in share capital plus capital reserves and retained earnings of around 5.3 billion francs. External debt amounted to almost 1.3 billion francs on the reference date.

The General Meeting decided to pay 200 million francs of profit from the 2017 financial year to the Confederation as a dividend in 2018 (resolution in 2016: 200 million francs as a dividend in 2017). The remaining amount is retained for the purpose of accumulating equity; on the reference date this equity stood at 6.6 billion francs (previous year: 4.9 billion).

# Board of Directors

## Composition as at 31 December

The Federal Council elects Swiss Post Ltd's Board of Directors every two years. On the reference date (31 December 2017), it had nine members. The Board of Directors is responsible for implementing the strategic goals, for submitting reports to the Federal Council on their attainment and for providing the latter with the information it needs for verification purposes. The Board of Directors is also governed by the rights and duties set out in the provisions of the Swiss Code of Obligations on the subject of corporate law.

Members do not have any business relationships with Swiss Post or its subsidiaries, nor have they been involved in an executive capacity in Swiss Post Group in the past four years. In accordance with the Postal Organization Act, employees have the right to appropriate representation on the Board of Directors. In 2017, this representation was once again provided by Susanne Blank and Michel Gobet.

After the Chairman and two Vice-Chairmen of the Board of Directors, members are listed in the order in which they took office.

## Urs Schwaller

Chairman of the Board of Directors, member since 2016, Switzerland, 1952, Dr. jur.

**Committees:** Organization, Nomination & Remuneration; Audit, Risk & Compliance; Investment, Mergers & Acquisitions
**Professional background:** self-employed lawyer; Council of Europe (permanent member); Council of States for the Canton of Fribourg (President of CVP-EVP); Cantonal Government of Fribourg (State Councillor – Director of Internal Affairs and of Finance); Senior Civil Servant of the Sense District; Director of the Cantonal Police Department; member of various federal commissions and foundations
**Key posts:** Groupe Mutuel Assurances GMA SA (Member of the Board of Directors); JPF Holding S.A. (Member of the Board of Directors); Liebherr Machines Bulle S.A. (Member of the Board of Directors); ST-PAUL HOLDING SA (Member of the Board of Directors); UCB Farchim SA (Member of the Board of Directors)

## Andreas Schläpfer

Vice-Chairman of the Board of Directors, member since 2009, Switzerland, 1947, lic. oec. Univ. of St. Gallen

**Committees:** Investment, Mergers & Acquisitions (Chair)
**Professional background:** Nestlé (General Manager in France, Russia, Thailand/Indochina, Zimbabwe, and Global Business Head/Senior Vice-President for Children's Food); International Trade Centre UNCTAD/GATT (Marketing Consultant)
**Key posts:** AC BioScience SA (Chairman of the Board of Directors and General Manager)

## Adriano P. Vassalli

Vice-Chairman of the Board of Directors, member since 2010, Switzerland, 1954, federal diploma in auditing

**Committees:** Audit, Risk & Compliance (Chair)
**Professional background:** Studio di consulenza e di revisione (founder and owner); Arthur Andersen (founder and head of the Lugano and Berne branches, worldwide partner); Revisuisse AG (auditor and management consultant in Berne and founder of the Lugano branch)
**Key posts:** PostFinance Ltd (Member of the Board of Directors, Audit & Compliance Committee [Chair]); Swiss Red Cross, Berne (member of the Red Cross Council and member of the Executive Committee of the Conference of Red Cross Cantonal Associations); Swiss Red Cross, Lugano (Chairman of the Ticino Cantonal Association and Chairman of the Sottoceneri Section)

## Susanne Blank

Member of the Board of Directors, Human Resources representative, member since 2008, Switzerland, 1972, lic. rer. pol.

**Committees:** Organization, Nomination & Remuneration
**Professional background:** State Secretariat for Economic Affairs SECO (Chief Editor for "Die Volkswirtschaft"); Travail.Suisse umbrella organization for employees (Head of Economic Policy and Member of the Executive Board); Federal Statistical Office (Sub-Project Manager, Audits of Swiss Consumer Price Index)
**Key posts:** Energie Wasser Bern (Member of the Board of Directors)

## Marco Durrer

Member of the Board of Directors, member since 2009, Switzerland, 1952, Dr. ès. sc. pol., MALD

**Committees:** Organization, Nomination & Remuneration (Chair)
**Professional background:** Valiant Privatbank AG (CEO and Member of Executive Management, Valiant Holding AG); Lombard, Odier, Darier, Hentsch & Cie (Group Management, Branch Manager Zurich); Deutsche Bank (Suisse) SA (Head of Sales and Trading); Credit Suisse (Investment Banking)
**Key posts:** PostFinance Ltd (Vice-Chairman of the Board of Directors, Organization, Nomination & Remuneration Committee [Chair]); Picard Angst Ltd (Member of the Board of Directors); Piguet Galland & Cie SA (Member of the Board of Directors until April 2017); DGM Immobilien AG (Chairman of the Board of Directors); Comunus SICAV (Vice-Chairman of the Board of Directors)

**Philippe Milliet**

Member of the Board of Directors, member since 2010, Switzerland, 1963, degree in pharmacy, MBA

**Committees:** Audit, Risk & Compliance
**Professional background:** Bobst Group (Member of Group Executive Committee, Head of Business Unit Sheet-Fed); Galenica Ltd (Head of Health Division, Member of the Corporate Executive Committee); Unicible (CEO); Galenica Ltd (responsible for distribution centers, responsible for operations and CEO of Galexis Ltd); Pharmatic Ltd (analyst/programmer and project manager); McKinsey (associate, engagement manager); Galenica Holding AG (analyst/programmer and Assistant to the Chairman of the Corporate Executive Committee)
**Key posts:** none

**Michel Gobet**

Member of the Board of Directors, Human Resources representative, member since 2010, Switzerland, 1954, lic. phil. hist.

**Committees:** Investment, Mergers & Acquisitions
**Professional background:** syndicom, media and communications trade union (Central Secretary); PTT-Union (Central Secretary and Vice-Secretary General); Archaeological Service of the Canton of Fribourg (Head of Archaeological Sites)
**Key posts:** UNI Global Union (Treasurer, Member of World Executive Committee, Member of European ICTS Steering Committee); gdz AG (Member of the Board of Directors)

**Nadja Lang**

Member of the Board of Directors, member since 2014, Switzerland, 1973, degree in business economics UAS

**Committees:** Organization, Nomination & Remuneration
**Professional background:** Max Havelaar Foundation Switzerland (Managing Director); Fairtrade International (Chair of the Global Account Management Steering Committee, Member of the Finance Committee), Max Havelaar Foundation Switzerland (Commercial Director and Deputy Managing Director); General Mills Europe Sarl (European Marketing Manager); The Coca Cola Company (various (management) positions in brand management and the Innovation department)
**Key posts:** Metron AG (Vice-Chair of the Board of Directors); Energie Grad 360° AG (Member of the Board of Directors); ZFV companies, (Member of the Board of Directors, Member of the Human Resources Committee), Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee)

**Myriam Meyer**

Member of the Board of Directors, member since 2014, Switzerland, 1962, Dr. sc. techn.

**Committees:** Audit, Risk & Compliance
**Professional background:** mmtec (Owner and Managing Director); WIFAG-Polytype Holding AG (Group CEO); RUAG Aerospace (CEO); Roche (member of the Roche Consumer Health Executive Committee); Swissair (member of the Flight Operations Management Board); SR Technics (Vice President, Engineering)
**Key posts:** Lufthansa Technik AG (Member of the Board of Directors); Wienerberger AG (Member of the Board of Directors); Bedag Informatik AG (Member of the Board of Directors); Commission for Technology and Innovation – CTI (Vice President); Swisscontact (Member of the Foundation Board); Industrial Advisory Board of the Department of Mechanical and Process Engineering, ETH Zurich (Member)

**Kerstin Büchel**

General Secretary, member since 2009, Switzerland/Germany/Sweden, 1970, lic. rer. pol.

**Professional background:** Valiant Privatbank AG (Head of Market Development and Sales Services); UBS AG Switzerland and UBS AG Italy (Junior Key People, product management, client advisory services, events, business development and strategic marketing, asset and liability management, international client reporting)
**Key posts:** none

## Events after the reporting period

In accordance with the regulations, Andreas Schläpfer is to stand down from his position as Member of the Board of Directors at the next General Meeting after reaching the age of 70. The General Meeting to be held in April 2018 will therefore elect his successor. Kerstin Büchel left Swiss Post at the end of January 2018.

## Uniform management

The Board of Directors has a responsibility to the Federal Council to guarantee the uniform management of Swiss Post and its subsidiaries. The holding company represents the entire Group to the owner and is responsible for ensuring that Swiss Post fulfils the universal service obligation. It is entitled to enlist the help of subsidiaries to do so.

## Role and working method

As part of the Federal Council's strategic goals, the Board of Directors is responsible for the overall management and supervision of the persons entrusted with management. It defines company and business policy, medium and long-term Group objectives, and the means required to achieve those objectives. It approves the basic structure of the Group and mandates the members of the Board of Directors for PostFinance Ltd. It also authorizes the pricing system with respect to the Federal Council or other relevant federal authority, accounting standards, the budget, reports to the owner and to OFCOM and PostCom, as well as large and strategic projects. In addition, the Board of Directors appoints the members of Executive Management and approves the collective employment contracts and remuneration for the members of Executive Management. In the year under review, the Board of Directors met a total of eleven times. The CEO and Head of Finance attend Board meetings in an advisory capacity.

All members of the Board are subject to an age limit of 70 years. There is also a twelve-year limit for terms of office. There are three standing committees, which have an advisory and, to a limited extent, decision-making roles. The Board of Directors appoints the members of these committees independently. In addition, the Board of Directors may appoint non-standing committees for an individual transaction at any time. There is no contractually agreed reciprocal occupation of seats on boards between Swiss Post and any other commercial company.

The Chairman maintains good relations with the owner and coordinates matters of major importance, particularly with regard to exchanges with the Chairman of the Board of PostFinance Ltd. The Chairman chairs the meetings of the Board of Directors and represents the body externally.

### Audit, Risk & Compliance Committee

The committee assists the Board in, among other things, the supervision of the accounts, financial reporting operations and risk management. It is responsible for the creation and development of appropriate internal supervisory structures and ensures compliance with legal provisions. As well as assessing Swiss Post's risk control at regular intervals, it also approves the Interim Report. The committee checks the findings and recommendations of Group Audit and the external audit teams and submits corresponding proposals to the Board as appropriate. Seven meetings were held during the last financial year. The CEO, the Head of Finance and the Head of Group Audit attend the meetings.

### Organization, Nomination & Remuneration Committee

The committee met nine times during the last financial year. It has an advisory role vis-à-vis the Board of Directors as a whole with regard to the appointment and removal of the members of Executive Management and deciding their remuneration. It also submits a recommendation for setting the negotiating mandate for the annual round of pay negotiations with the employee associations. It ultimately prepares all the strategic organizational decisions for the Board of Directors. The CEO and the Head of Human Resources attend the meetings.

### Investment, Mergers & Acquisitions Committee

This committee deals with M&A strategy and individual strategic alliances. It identifies and assesses opportunities for participations, mergers and acquisitions, as well as for investments and alliances. In addition, it oversees the formation, liquidation and sale of subsidiaries, associates and participations. The committee met eight times during the year under review. In 2017, the committee addressed various innovative, long-term projects at Swiss Post on forward-looking topics within the above framework. The CEO and the Head of Finance attend the meetings.

## Information and supervisory tools

### Reporting

The Board of Directors receives monthly reports from Controlling setting out the financial situation of the Group and its individual operating units as compared with the previous year. Budgeted and expected figures are provided, as are key data relating to markets, human resources and innovation.

The Board of Directors also receives quarterly financial and project controlling reports, and is informed by the Audit, Risk & Compliance Committee about planning compliance, strategic financial planning and the Federal Council's strategic goals. In addition, it receives Executive Management meeting minutes and interim reports from Risk Management (see page 133), Treasury, Communication and Group Audit. At each meeting of the Board of Directors, the CEO and the Head of Finance provide information on the company's current business situation.

### Internal control system for financial processes

Swiss Post has an internal control system (ICS) which uses appropriate key controls to promptly identify and evaluate the financial processes and bookkeeping and accounting risks. The Board of Directors receives a report on the progress of the ICS once a year.

### Group Audit

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

# Executive Management

## Composition as at 31 December

The seven members of Executive Management and the CEO are elected by the Board of Directors. Each is responsible for the operational management of the unit assigned to them. The CEO represents Executive Management to the Board of Directors.

The Chief Executive Officer of PostFinance Ltd participates in Executive Management meetings as an observer.

There are no management contracts with companies or natural persons outside the Group.

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

## Susanne Ruoff

CEO, member since 2012, Switzerland, 1958, Master's Degree in Economics from the University of Fribourg, Executive MBA

**Professional background:** Swiss Post Ltd (CEO); British Telecom Switzerland (CEO BT Switzerland Ltd); IBM Switzerland (Management Board member, Global Technology Services); IBM Switzerland (Head of Public Sector Division); various management positions in services, marketing and sales; previous directorships and positions on Foundation Boards: Geberit, Bedag, IBM pension fund, Industrial Advisory Board of the Computer Science Department of ETH Zurich
**Key posts:** PostFinance Ltd (Member of the Board of Directors, Organization, Nomination & Remuneration Committee [Member], Core Banking Transformation Committee [Chair]); Post CH Ltd (Chair of the Board of Directors), Post Real Estate Ltd (Chair of the Board of Directors); PostBus Ltd (Chair of the Board of Directors)

## Ulrich Hurni

Head of PostMail, Deputy CEO, member since 2009, Switzerland, 1958, commercial employee and business secretary at Swiss Post, EMBA University of Zurich

**Professional background:** Swiss Post Ltd (PostMail: Deputy Head and Head; Swiss Post International: Managing Director; Telecom PTT: Unit/project controller; PostFinance: IT systems development)
**Key posts:** Asendia Holding Ltd (Chairman of the Board of Directors); TNT Swiss Post AG (Member of the Board of Directors); Swiss Excellence Forum (Member of the Board)

## Daniel Landolf

Head of PostBus, member since 2001, Switzerland, 1959, Bachelor of Science (B.Sc.), business administration

**Professional background:** Swiss Post Ltd (PostBus: Head and Deputy Head, Head of Business Development); PTT General Management (Swiss Post Marketing: Deputy Head of Strategies & Analyses; Business Administration Department: marketing specialist); Credit Suisse AG (foreign exchange trader)
**Key posts:** Reka Swiss Travel Fund (Administrative member of the Cooperative Society); Association of Public Transport (Board and committee member); LITRA – public transport information service (Board and committee member); Sensetalbahn AG (Vice-Chairman of the Board of Directors)

## Dieter Bambauer

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

**Professional background:** Swiss Post Ltd (Head of PostLogistics and Head of ICT); Hangartner AG (CEO); Schenker Switzerland Ltd (CEO); Deutsche Bahn AG (EVP freight logistics); Kühne + Nagel Management Ltd (Member of the Executive Board); MD Papier (Member of the Executive Board, logistics, IT); RCG (Head of Logistics Unit); Dr. Waldmann & Partner (management consulting)
**Key posts:** Asendia Holding Ltd (Member of the Board of Directors); TNT Swiss Post AG (Chairman of the Board of Directors); Cargo sous terrain AG (Member of the Board of Directors); Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee)

## Jörg Vollmer

Head of Swiss Post Solutions, member since 2015, Germany, 1967, banker, qualified business economist, Executive MBA

**Professional background:** Swiss Post Ltd (Head of Swiss Post Solutions); Hewlett-Packard (Vice President BPO EMEA, various management positions in Finance, Management and Operations); Triaton GmbH (Managing Director); Commerzbank (Advisor)
**Key posts:** none

**Alex Glanzmann**

Head of Finance, member since 2016, Switzerland, 1970, lic. rer. pol. University of Bern, Executive MBA HSG in Business Engineering

**Professional background:** Swiss Post Ltd (Head of Finance at PostLogistics, Head of Central Distribution zone, Head of Strategic Projects & Business Controlling for the Goods Logistics unit, Project Portfolio Manager for the Goods Logistics unit); BDO Visura (Head of Management & HRM advisory unit and vice-director, chief management consultant); Office for Information Technology and Organization at the Canton of Solothurn (research assistant)

**Key posts:** PostFinance Ltd (Member of the Board of Directors, Member of the Audit & Compliance Committee, and Member of the Risk Committee); Post CH Ltd (Member of the Board of Directors); Post Real Estate Ltd (Member of the Board of Directors); PostBus Ltd (Member of the Board of Directors); Swiss Post pension fund (Vice-Chairman of the Foundation Board); Swiss Post Insurance AG (Chairman of the Board of Directors)

**Thomas Baur**

Head of PostalNetwork member since 2016, Switzerland, 1964, MBA ETH in Supply Chain Management

**Professional background:** Swiss Post Ltd (PostMail: Head of Delivery, Head of Logistics, Head of Business Development for ExpressPost, IT: Construction & Real Estate Project Manager, Head of Quality Assurance, Programmer/Analyst)

**Key posts:** none

**Valérie Schelker**

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

**Professional background:** Swiss Post Ltd (Head of Human Resources); PostFinance Ltd (Head of Working Environment, HR & Facility Management, Deputy Head of Working Environment, Head of HR Strategy & Development, Head of Market Research)

**Key posts:** Swiss Post pension fund (Member of the Foundation Board); SAV (Board member)

**Hansruedi Köng [1]**

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

**Professional background:** PostFinance Ltd (Head of Treasury, Head of Finance; CEO; Member of the Executive Board since 1 March 2003); BVgroup Berne (Deputy Managing Director); PricewaterhouseCoopers Ltd (Senior Manager); Basler Kantonalbank (Member of Executive Management); Schweizerische Volksbank (Head of Asset & Liability Management)

**Key posts:** none

1 The Chief Executive Officer of PostFinance Ltd, Hansruedi Köng, is not a member of Executive Management, but attends Executive Management meetings as an observer.

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

Yves-André Jeandupeux, Head of Human Resources, left Swiss Post at the end of February 2017. He was succeeded by Valérie Schelker in April 2017. Daniel Landolf, Head of PostBus Ltd and a Member of Swiss Post Executive Management, took early retirement on 5 February 2018. Thomas Baur has assumed the role of Head of PostBus Ltd on an interim basis.

# Remuneration

## Policy

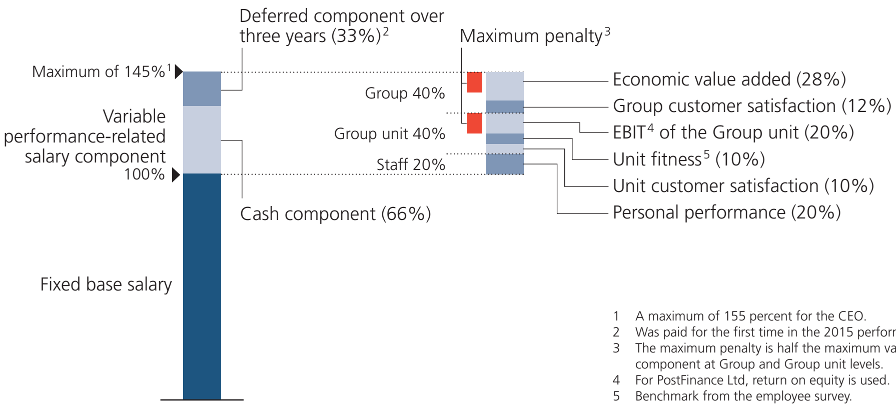
Corporate risk, scope of responsibility and the Ordinance on Executive Pay are taken into account by the Board of Directors when determining the remuneration due to members of Executive Management. The Board of Directors has regulated the remuneration and fringe benefits for its members in the BoD remuneration regulations.

## Determination

Remuneration for members of Executive Management is comprised of a fixed base salary and a variable performance-related component. This may be a maximum of 45 percent of the gross annual base salary (a maximum of 55 percent in the case of the CEO; from 1 January 2018 a maximum of 50 percent). At Group level, the variable component is calculated from economic value added (28 percent) and Group customer satisfaction (12 percent). At Group unit level, a distinction is made between qualitative benchmarks (20 percent) and financial key figures (20 percent) such as EBIT. For PostFinance Ltd, return on equity is used instead of EBIT. If all the goals are achieved, the maximum variable component will be paid. Exceeding the goals will not lead to a higher payout.

**Executive Management | Breakdown of remuneration**

2017




1 A maximum of 155 percent for the CEO.
2 Was paid for the first time in the 2015 performance period.
3 The maximum penalty is half the maximum variable component at Group and Group unit levels.
4 For PostFinance Ltd, return on equity is used.
5 Benchmark from the employee survey.

A penalty system may also be applied for calculating the variable salary component at Group and unit levels depending on the degree of target achievement. The maximum penalty represents half the maximum variable component.

All three performance levels are taken into account (Group, Group unit and individual performance) to determine whether the threshold for the variable component has been reached. The variable component is only paid on reaching this value. There is a penalty area below the threshold for the variable salary. If a penalty applies, the variable salary component is reduced accordingly. One-third of the variable salary component that is actually awarded is booked to a special account for variable remuneration. One-third of the balance of this account is paid out from the third year. The remaining two-thirds of the variable salary component are paid out directly. If, as a result of the penalty system, a negative variable salary component is awarded, this negative amount is booked to the account for variable remuneration and the account balance is reduced accordingly.

Members of Executive Management also receive a first-class GA travelcard, a company car, a mobile phone, a tablet computer and a monthly expense account. Swiss Post also pays the insurance premiums for a risk insurance policy. Individual bonuses may be paid to reward special personal contributions.

Neither the members of Executive Management nor persons closely linked to them received any additional fees, remuneration, guarantees, advances, credits, loans or benefits in kind during the financial year.

Both the base salary and the performance component are insured for members of Executive Management up to a maximum of 338,400 francs in the Swiss Post pension fund (defined contribution plan); higher income is covered by a management insurance scheme (defined contribution plan). The employer contributes disproportionally to the contributions for employee benefits. Employment contracts are based on the Swiss Code of Obligations. Since 1 July 2010, the notice period for members of Executive Management has been six months. For members appointed before that date, the previous notice period of twelve months applies. No agreements exist regarding possible severance payments.

## Level of remuneration

### Members of the Board of Directors

In 2017, the nine members of the Board of Directors received remuneration (fees and fringe benefits) totalling 1,035,270 francs. The fringe benefits totalling 250,270 francs are shown in the total remuneration. In 2017, the Chairman of the Board’s fee totalled 225,000 francs. The fringe benefits amounted to 28,470 francs.

### Executive Management

The paid members of Executive Management and the CEO received remuneration totalling 5,303,013 francs in 2017. The fringe benefits totalling 321,702 francs are shown in the total remuneration. The performance-related component effectively payable to members of Executive Management in 2018, which is based on attainment of targets in 2016 and 2017, together with the deferred payments, amounts to 1,557,561 francs. Definitive calculation and payment of the performance-related component for the Head of PostBus will not be approved until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.

The base salary of the CEO totalled 610,000 francs. The additional calculated performance-related component amounts to 310,161 francs, of which 103,940 francs are from the account for variable remuneration. Definitive calculation and payment of the performance-related component for the CEO will not be approved until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.

## Remuneration

| CHF | 2017 |
|---|---|
| **Chairman of the Board of Directors (1)** | |
| Fees | 225,000 |
| Fringe benefits | |
| Expenses and representation allowances | 22,500 |
| First-class GA travelcard | 5,970 |
| **Total remuneration** | **253,470** |
| **Other members of the Board of Directors (8)** | |
| Fees | 560,000 |
| Fringe benefits | |
| Expenses and representation allowances | 75,400 |
| Additional fringe benefits | 146,400 |
| **Total remuneration** | **781,800** |
| **Entire Board of Directors (9)** | |
| Fees | 785,000 |
| Fringe benefits | 250,270 |
| **Total remuneration** | **1,035,270** |
| **CEO** | |
| Fixed base salary | 610,000 |
| Performance-related component (payable 2018) [1] | |
| Variable salary component | 206,221 |
| Outpayment from account for variable remuneration | 103,940 |
| Fringe benefits | |
| Expenses and representation allowances | 30,000 |
| Additional fringe benefits [2] | 20,264 |
| Additional payments [3] | – |
| **Total remuneration** | **970,425** |
| **Other members of Executive Management (8)** [4] | |
| Fixed base salary | 2,813,750 |
| Performance-related component (payable 2018) [5] | |
| Variable salary component | 830,002 |
| Outpayment from account for variable remuneration | 417,398 |
| Fringe benefits | |
| Expenses and representation allowances | 132,800 |
| Additional fringe benefits [2] | 138,638 |
| Additional payments [3] | – |
| **Total remuneration** | **4,332,588** |
| **All members of Executive Management (9)** [6] | |
| Fixed base salary and performance-related component | 4,981,311 |
| Fringe benefits | 321,702 |
| **Total remuneration** | **5,303,013** |

1 Definitive calculation and payment of the entire performance-related component for the CEO (payable in 2018), consisting of the variable salary component and payment from the account for variable remuneration, will not be approved until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.
2 Additional fringe benefits include: first-class GA travelcard, company car, mobile phone, tablet computer and premiums for risk insurance policies.
3 No agreements exist regarding possible severance payments.
4 Seven active members and one member who stepped down in 2017.
5 Definitive calculation and payment of the entire performance-related component for the Head of PostBus (payable in 2018), consisting of the variable salary component and payment from the account for variable remuneration, will not be approved until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.
6 Including the one member who stepped down in 2017. Due to this change in personnel, the total remuneration is not directly comparable with the prior year.

# Auditor

The statutory auditors are appointed annually by the General Meeting. KPMG AG, based in Muri bei Bern, has been responsible for auditing at Swiss Post Ltd and the majority of its subsidiaries since 1 January 1998. The appointment of KPMG AG was confirmed in a WTO service tender in 2016. Rolf Hauenstein has been the Head Auditor from KPMG AG in charge of the work since 2016.

The fee agreed upon for the 2017 audit and the fees for services provided in the 2017 financial year total 4 million francs.

# Information policy

A report on strategic goals and a report on staff are submitted to the owner annually (see page 62). PostCom also receives a regulatory report on the universal service for postal services and OFCOM is issued with a report on the universal service for payment transactions. Finally, Swiss Post submits its Annual Report to the owner for approval. Ongoing discussions on key areas of business are held during regular Postrapport meetings between Confederation representatives and Swiss Post bodies.

# GROUP ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements include all of Swiss Post's subsidiaries. They have been produced in accordance with International Financial Reporting Standards (IFRS) and meet the requirements of the Postal Organization Act.

# Consolidated income statement

**Group** | Income statement

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| Net sales from logistics services | | 5,406 | 5,265 |
| Net sales from resale merchandise | | 508 | 459 |
| Income from financial services | 6 | 2,053 | 1,978 |
| Other operating income | 7 | 221 | 228 |
| **Total operating income** | 5 | **8,188** | **7,930** |
| Personnel expenses | 8, 9 | –4,034 | –3,989 |
| Resale merchandise and service expenses | 10 | –1,589 | –1,559 |
| Expenses for financial services | 6 | –257 | –174 |
| Depreciation and impairment | 24–26 | –447 | –467 |
| Other operating expenses | 11 | –1,157 | –1,168 |
| **Total operating expenses** | | **–7,484** | **–7,357** |
| **Operating profit** | 5 | **704** | **573** |
| Financial income | 12 | 18 | 24 |
| Financial expenses | 13 | –64 | –67 |
| Net income from associates and joint ventures | 23 | 7 | –10 |
| **Group profit before tax** | | **665** | **520** |
| Income taxes | 14 | –107 | –145 |
| **Group profit** | | **558** | **375** |
| Group profit attributable to | | | |
| Swiss Confederation (owner) | | 558 | 375 |
| Non-controlling interests | | 0 | 0 |

# Consolidated statement of comprehensive income

**Group** | Statement of comprehensive income

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| **Group profit** | | **558** | **375** |
| **Other comprehensive income** | | | |
| Revaluation of employee benefit obligations | 9 | –89 | 2,084 |
| Change in deferred income taxes | 14 | 45 | –414 |
| **Items not reclassifiable in the consolidated income statement, after tax** | 29 | **–44** | **1,670** |
| Change in currency translation reserves | | –9 | 19 |
| Change in share of other comprehensive income from associates and joint ventures | | –1 | –4 |
| Change in fair value reserves from available-for-sale financial assets, net | | 270 | –42 |
| Change in hedging reserves from cash flow hedges, net | | –51 | –109 |
| Change in deferred income taxes | 14 | –26 | 23 |
| **Reclassifiable items in consolidated income statement, after tax** | 29 | **183** | **–113** |
| **Total other comprehensive income** | | **139** | **1,557** |
| **Total comprehensive income** | | **697** | **1,932** |
| Total comprehensive income attributable to | | | |
| Swiss Confederation (owner) | | 697 | 1,932 |
| Non-controlling interests | | 0 | 0 |

# Consolidated balance sheet

**Group** | Balance sheet

| CHF million | Notes | 31.12.2016[1] | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | 2,262 | 2,536 |
| Amounts due from banks | 15 | 37,571 | 38,379 |
| Interest-bearing amounts due from customers | 15 | 405 | 348 |
| Trade accounts receivable | 15 | 1,027 | 1,099 |
| Other receivables | 15 | 1,250 | 1,413 |
| Inventories | 16 | 78 | 67 |
| Non-current assets held for sale | 17 | 1 | 1 |
| Financial assets | 18–22 | 79,248 | 79,366 |
| Investments in associates and joint ventures | 23 | 144 | 138 |
| Property, plant and equipment | 24 | 2,272 | 2,106 |
| Investment property | 25 | 246 | 290 |
| Intangible assets | 26 | 476 | 500 |
| Current income tax assets | | 5 | 10 |
| Deferred income tax assets | 14 | 1,624 | 1,157 |
| **Total assets** | | **126,609** | **127,410** |
| **Liabilities** | | | |
| Customer deposits (PostFinance) | 27 | 110,465 | 113,184 |
| Other financial liabilities | 27 | 3,475 | 2,144 |
| Trade accounts payable | | 803 | 929 |
| Other liabilities | | 1,251 | 1,149 |
| Provisions | 28 | 460 | 559 |
| Employee benefit obligations | 9 | 5,080 | 2,626 |
| Current income tax liabilities | | 8 | 14 |
| Deferred income tax liabilities | 14 | 186 | 192 |
| **Total liabilities** | | **121,728** | **120,797** |
| Share capital | | 1,300 | 1,300 |
| Capital reserves | | 2,279 | 2,279 |
| Retained earnings | | 3,306 | 3,483 |
| Profits and losses recorded directly in other comprehensive income | | –2,004 | –449 |
| **Equity attributable to the owner** | | **4,881** | **6,613** |
| Non-controlling interests | | 0 | 0 |
| **Total equity** | 29 | **4,881** | **6,613** |
| **Total equity and liabilities** | | **126,609** | **127,410** |

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

# Consolidated statement of changes in equity

**Group** | Statement of changes in equity

| CHF million | Notes | Share capital | Capital reserves | Retained earnings | Profits and losses recorded directly in other comprehensive income | Equity attributable to the owner | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1.1.2016** | | **1,300** | **2,279** | **2,950** | **–2,145** | **4,384** | **1** | **4,385** |
| Group profit | | | | 558 | | 558 | 0 | 558 |
| Other comprehensive income | 29 | | | | 139 | 139 | 0 | 139 |
| **Total comprehensive income** | | | | **558** | **139** | **697** | **0** | **697** |
| Dividends | 29 | | | –200 | | –200 | – | –200 |
| Payments to acquire non-controlling interests | 37 | | | 0 | | 0 | 0 | – |
| Adjustments in connection with disposals | 37 | | | –2 | 2 | – | –1 | –1 |
| **Total transactions with the owner** | | | | **–202** | **2** | **–200** | **–1** | **–201** |
| **Balance as at 31.12.2016** | | **1,300** | **2,279** | **3,306** | **–2,004** | **4,881** | **0** | **4,881** |
| **Balance as at 1.1.2017** | | **1,300** | **2,279** | **3,306** | **–2,004** | **4,881** | **0** | **4,881** |
| Group profit | | | | 375 | | 375 | 0 | 375 |
| Other comprehensive income | 29 | | | | 1,557 | 1,557 | 0 | 1,557 |
| **Total comprehensive income** | | | | **375** | **1,557** | **1,932** | **0** | **1,932** |
| Dividends | 29 | | | –200 | | –200 | – | –200 |
| Adjustments in connection with disposals | 37 | | | 2 | –2 | – | – | – |
| **Total transactions with the owner** | | | | **–198** | **–2** | **–200** | **–** | **–200** |
| **Balance as at 31.12.2017** | | **1,300** | **2,279** | **3,483** | **–449** | **6,613** | **0** | **6,613** |

# Consolidated cash flow statement

**Group** | Cash flow statement

| CHF million | Notes | 2016[1] | 2017 |
|---|---|---|---|
| Profit before tax | | 665 | 520 |
| Interest expense/(income) and dividends | | –1,067 | –1,022 |
| Depreciation and impairment | 24–26 | 486 | 472 |
| Net income from associates and joint ventures | | –7 | 10 |
| Net gain on disposal of property, plant and equipment | 7, 11 | –35 | –28 |
| Net increase/(decrease) in provisions | | 185 | –271 |
| Other non-cash expenses/(income) | | –24 | –115 |
| Change in net current assets: | | | |
| (Increase) in receivables, inventories and other assets | | –318 | –220 |
| Increase in accounts payable and other liabilities | | 609 | 61 |
| Change in items from financial services: | | | |
| (Increase)/Decrease in financial assets | | –6,744 | –253 |
| Change in customer deposits/interest-bearing amounts due from customers | | 3,226 | 2,773 |
| Change in other receivables/liabilities | | 1,463 | –997 |
| Interest and dividends received (financial services) | | 1,374 | 1,195 |
| Interest paid (financial services) | | –91 | –56 |
| Income taxes paid | | –107 | –128 |
| **Cash flow from operating activities** | | **–385** | **1,941** |
| Purchases of property, plant and equipment | 24 | –285 | –279 |
| Acquisition of investment property | 25 | –31 | –29 |
| Purchases of intangible assets (excl. goodwill) | 26 | –120 | –63 |
| Purchases of subsidiaries, net of cash and cash equivalents acquired | 37 | –3 | –15 |
| Purchases of associates and joint ventures | 23 | –11 | –8 |
| Purchases of other financial assets | | –206 | –252 |
| Proceeds from disposal of property, plant and equipment | 24 | 67 | 55 |
| Proceeds from disposal of investment property | 25 | 3 | 1 |
| Disposal of subsidiaries, net of cash proceeds | 37 | 34 | 4 |
| Proceeds from disposal of associates and joint ventures | 23 | 0 | 0 |
| Proceeds from disposal of other financial assets | | 27 | 29 |
| Interest and dividends received (excl. financial services) | | 16 | 10 |
| **Cash flow from investing activities** | | **–509** | **–547** |
| Increase/(Decrease) in other financial liabilities | | 353 | –353 |
| Interest paid (excl. financial services) | | –13 | –15 |
| Payments to acquire non-controlling interests | 37 | 0 | – |
| Dividends paid to the owner | 29 | –200 | –200 |
| **Cash flow from financing activities** | | **140** | **–568** |
| Foreign exchange gains/(losses) on cash and cash equivalents | | –1 | 6 |
| **Change in cash and cash equivalents** | | **–755** | **832** |
| Cash and cash equivalents at 1 January | | 40,388 | 39,633 |
| **Cash and cash equivalents at 31 December** | | **39,633** | **40,465** |
| Cash and cash equivalents include: | | | |
| Cash | | 2,262 | 2,536 |
| Receivables due from banks with an original term of less than 3 months | 15 | 37,371 | 37,929 |

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

# Notes

## 1 | Business activities

Swiss Post Ltd is a company limited by shares subject to a special statutory regime with its head office in Berne and is wholly owned by the Swiss Confederation. Swiss Post Ltd and its subsidiaries (hereinafter referred to as Swiss Post) provide logistics and financial services both in Switzerland and abroad (see Note 5, Segment information).

## 2 | Basis of accounting

The consolidated annual financial statements comprise the annual financial statements of Swiss Post Ltd and its subsidiaries. They have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as IFRSs) and also comply with the Postal Organization Act.

The consolidated annual financial statements have been prepared under the historical cost convention. Exceptions to this rule are described in the accounting policies set out below. For instance, derivative financial instruments and financial assets held for trading, designated at fair value and classified as "available for sale" are recognized at fair value.

To take account of the characteristics of the financial services and their importance for Swiss Post, the result from financial services is shown separately in Note 6, Net income from financial services. Furthermore, the balance sheet is not broken down into current and non-current items, but structured according to descending liquidity. Financial income and expenses from financial services and the underlying cash flows are shown as operating income, expenses or cash flows. Financial income and expenses from other Group units are disclosed in the non-operating financial result (excluding financial services) and the relevant cash flows as investment or financing transactions.

### Revised and new International Financial Reporting Standards (IFRSs)

Since 1 January 2017, Swiss Post has applied various changes to the existing IFRSs and interpretations, which have no material impact on the result or financial situation of the Group.

| Standard | Title | Valid from |
|---|---|---|
| Amendments to IAS 7 | Disclosure initiative | 1.1.2017 |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | 1.1.2017 |

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

| Standard | Title | Valid from |
|---|---|---|
| IFRS 9 | Financial Instruments | 1.1.2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1.1.2018 |
| Amendments to IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers | 1.1.2018 |
| Amendments to IAS 40 | Amendments to the requirements relating to transfers of investment property | 1.1.2018 |
| Miscellaneous | Annual improvements to IFRSs, 2014-2016 Cycle | 1.1.2018 |
| IFRS 16 | Leases | 1.1.2019 |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 1.1.2019 |
| IFRS 17 | Insurance Contracts | 1.1.2021 |

Swiss Post will not be applying the specified standards ahead of schedule. Hence, this consolidated financial reporting does not contain any further effects resulting from these changes. The new standards due to come into force on 1 January 2018 and 1 January 2019 respectively regarding Financial Instruments, Revenue from Contracts with Customers and Leases will have an impact on Swiss Post's financial reporting. The changes resulting from IFRS 16 are currently being analysed. The impacts of

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the consolidated financial reporting are explained below.

### IFRS 9 Financial Instruments

*Classification of financial assets*

IFRS 9 introduces a new classification and measurement approach for financial assets. 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. IFRS 9 consists of three main classification categories for debt instruments:

- measured at amortized cost (AC, held to collect),
- fair value through other comprehensive income (FVTOCI, held to collect and sell), and
- fair value through profit or loss (FVTPL, other).

With the introduction of IFRS 9, the previous IAS 39 categories of “Financial instruments held to maturity”, “Loans and receivables”, and “Available for sale”, will cease to exist.

After analysing its financial instruments, Swiss Post anticipates as at 31 December 2017 that with the exception of investment funds, the majority of its debt instruments will fulfil the cash flow conditions on 1 January 2018, and that in accordance with the business model applied, financial assets will be classified either at amortized cost or at fair value through other comprehensive income.

As at 1 January 2018, bonds with a carrying amount of around 13.8 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 cumulative changes in fair value of around 94 million francs are released from other comprehensive income 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. Under IFRS 9 these securities were assigned to the “amortized cost” category from 1 January 2018. The amount remaining from the reclassification in accordance with IAS 39 in other comprehensive income as at 31 December 2017 will be released to financial assets at the changeover date. As a result, equity as at 1 January 2018 decreases 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 1.3 billion francs fail to fulfil the cash flow conditions in accordance with IFRS 9 and do not qualify as equity instruments. From 1 January 2018 they can no longer be classified as “available for sale”, but are to be allocated to the “fair value through profit or loss” category. The gains/losses accrued will be transferred from other comprehensive income to retained earnings on the changeover date (19 million francs as at 31 December 2017).

In accordance with IFRS 9, equity instruments are to be classified either at fair value through profit or loss or at fair value through other comprehensive income. Gains or losses reported in other comprehensive income are not recycled to the income statement on the sale of the equity instrument.

From 1 January 2018, the 58 million francs of equity instruments classified as available for sale at amortized cost in accordance with IAS 39 will be measured at fair value through other comprehensive income (around 52 million francs of strategic interests in relation to the infrastructure in the PostFinance segment) or at fair value through profit or loss (corporate venturing of around 5 million francs in the PostFinance segment and various minor interests of around one million francs in other segments). The fair value of strategic interests is verified each year. If there is sufficient information available for determining a new fair value, the fair value is adjusted. If there are no indications of any changes in fair value, the carrying amount is maintained.

*Impairment losses on debt instruments and contractual 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 together with additional parameters. The impairment model applies to debt instruments and contractual assets measured at amortized cost and to debt instruments measured at fair value through other comprehensive income. According to IFRS 9, the need for impairment losses is estimated for each financial instrument on the basis of one of the following principles:

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

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

In addition to financial assets, other assets which qualify as financial instruments subject to the impairment model in accordance with IFRS 9 include cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and certain other receivables.

As at 31 December 2017, Swiss Post has largely completed its preparation of the impairment model in accordance with IFRS 9. Large quantities of data, particularly regarding default probabilities and credit loss ratios, are needed to measure the need for impairment. Swiss Post will monitor and refine the input data, particularly default probabilities and credit exposure, for which no observable market data is available, until the date of publication of the 2018 Interim Report and will then incorporate it into the measurement.

*Hedge accounting*
Swiss Post will apply the hedge accounting requirements in accordance with IFRS 9 for the first time as at 1 January 2018. The changeover from IAS 39 to IFRS 9 will have no impact other than the effects mentioned regarding the classification of funds.

*Disclosure*
IFRS 9 requires comprehensive new disclosures, particularly regarding credit risk, expected credit losses and hedge accounting. The relevant processes will continue to be adapted and improved and the required systems will be introduced and subjected to final testing to ensure that the necessary data can be disclosed in the 2018 interim financial statements at the latest.

*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.

### IFRS 15 Revenue from Contracts with Customers

The new standard IFRS 15, Revenue from Contracts with Customers, will take effect on 1 January 2018. Detailed analyses of the effects of the new standard have shown that the adoption of the requirements of the new standard regarding the date and amount of revenue generated will require the implementation of minimal changes only at Swiss Post in relation to the current accounting principles in accordance with IAS 18. The only consequences will be reclassifications in the balance sheet and expanded disclosures in the notes due to the new presentation and disclosure requirements. Swiss Post has changed its accounting method in accordance with the transitional provisions of IFRS 15 and has decided to adopt a full retrospective application. Comparative figures will be modified accordingly, although only the balance sheet will be affected. Application of the standard from 31 December 2017 would have had the following impact on items in the balance sheet: trade accounts receivable (–102 million francs), other receivables (+42 million francs), trade accounts payable (–375 million francs) as well as contractual assets (+60 million francs) and contractual liabilities (+375 million francs) now subject to disclosure.

## Accounting changes

*Change in the recognition method for interest expense on assets and interest income from liability transactions*

PostFinance changed the recognition method for interest expense on financial assets and interest income from the borrowing business in the first quarter of 2017. Interest expense on assets (negative interest) is reported in interest expense, and interest income from the borrowing business (fees on the credit balance) is disclosed in interest income. The aim of this change is to take negative interest rates and fees on the credit balance into account more closely in future. Reclassification is recognized directly in equity in the comparison period; as at 31 December 2016, 12 million francs of commission income on securities and investment business were reclassified as interest income from liability transactions, and 24 million francs of commission expenses were reclassified as interest expense on financial assets (see also Note 6, Net income from financial services). In the 2016 cash flow statement, the change resulted in a net increase of 12 million francs in interest expense/(income) (incl. dividends), an increase of 12 million francs in interest and dividends received (financial services), and a decline of 24 million francs in interest paid (financial services).

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

As part of ongoing improvements to the chart of accounts, Swiss Post has established that the clarity of the balance sheet can be enhanced for readers by reclassifying receivables from hire-purchase agreements with PostBus operators. These receivables, which stood at 138 million francs as at 31 December 2017 (31 December 2016: 124 million francs), will therefore now be recognized and disclosed in other receivables, as a more accurate reflection of their underlying nature. These receivables were previously reported under trade accounts receivable.

*Changes in the disclosure of open item accounts*

PostFinance modified the disclosure of open item accounts in the second quarter of 2017. A customer settlement account is now disclosed in amounts due from banks on the assets side of the balance sheet, and settlement accounts from ATMs are recognized in customer deposits on the liabilities side. These items were previously reported under cash holdings. The balance stood at 88 million francs as at 31 December 2017 (31 December 2016: 68 million francs). In the 2016 cash flow statement, the modification resulted in a net decrease of 31 million francs in the line “Change in customer deposits/interest-bearing amounts due from customers”. The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

*Adjustment of interest accrued in the cash flow statement*

On account of the ongoing low interest rate situation, it has emerged that interest paid and received can be presented more accurately in the cash flow statement in connection with interest accrued. The prior-year figures were also adjusted as a result of this reclassification. This will affect cash flows in the lines “Interest and dividends received (financial services)” (2016: +49 million francs) and “Interest paid (financial services)” (2016: –49 million francs).

## Significant events and transactions

*Change in estimate*

*Employee benefit obligations (see also section 9 of the notes)*

On 19 April 2017, the Foundation Board of the Swiss Post pension fund decided on measures to stabilize the employee benefits institution. Swiss Post Group believes there to be a strong likelihood that the Swiss Post pension fund will need to implement further measures in the future. The latest measures taken in the Swiss Post pension fund have prompted Swiss Post Group to adjust the 2017 assumptions for the measurement of employee benefit obligations in accordance with IAS 19 as at 30 April 2017. These assumption adjustments were taken into account in the measurement as at 31 December 2017.

*Change in estimate: useful lives of tenant fit-outs*

Following the annual verification of useful lives, the depreciation period of tenant fit-outs as part of operating properties within logistics had to be reduced to ten years. This measure must be viewed in the context of the dynamic market environment which obliges Swiss Post to continuously improve its products and services and tailor them even more closely to customer requirements. This change had an impact of around 12 million francs (effective depreciation expense with no adjustment: 8 million francs, actual expense booked: 20 million francs). Over the next few years, depreciation on tenant fit-outs will, as a result, be increased by around 6 million francs per year.

*Change in estimate: stamp liability*

The sale of stamps results in a performance obligation for Swiss Post vis-à-vis customers for all the stamps they hold, but have not used. Until now, the performance obligation and measurement of use was based on annual customer surveys and internal calculations.

From 2018, thanks to new technical possibilities resulting from digitization, changes will be made to the method implemented until now for measuring the use of these stamps in an aim to improve quality and reliability. The results of the 6-month trial held in 2017 indicate a lower number of consignments franked with stamps than that calculated using the previous method. In addition, the new method measures the use of stamps from collections, the value of which was not included in the liability recognized previously.

To ensure that the liability from stamp sales as at 1 January 2018 is measured in accordance with the new findings, it was necessary to recognize a one-off increase of 61 million francs in the liability as at 31 December 2017.

## 3 | Consolidation methods and accounting policies

The consolidated annual financial statements of Swiss Post comprise Swiss Post Ltd and all the companies over which Swiss Post has direct or indirect control. Control means that Swiss Post is exposed to variable economic results as a result of its commitment to a company, or has rights in a company and is able to influence the latter's economic results through its decision-making power over it. Swiss Post has decision-making power if, on account of its rights in a company, it currently has the ability to determine the significant activities of the company, i.e. the activities that have a considerable impact on the latter's economic results. This is generally the case if Swiss Post holds over 50 percent of the voting rights or potentially exercisable voting rights, whether directly or indirectly. These companies are fully consolidated. The consolidated financial statements are based on the separate financial statements of Swiss Post Ltd and the subsidiaries, which are prepared in accordance with uniform principles as at a uniform reporting date.

All intra-Group receivables, liabilities, income and expenses from intra-Group transactions and unrealized inter-company profits are eliminated on consolidation. Non-controlling (minority) interests in the equity of consolidated companies are presented as a separate item within equity. Non-controlling interests in Group profit or loss are presented within the consolidated income statement / statement of comprehensive income.

Interests in associates where Swiss Post has 20 to 50 percent of the voting rights and/or significant influence but which it does not control are not consolidated, but accounted for using the equity method and reported under "Interests in associates". Joint ventures with 50 percent of the voting rights which Swiss Post holds together with a third party are recognized and disclosed by the same method. Under the equity method, the interest's value is calculated based on the acquisition cost, subsequently adjusted to take into account any changes in Swiss Post's share of the company's net assets. Material holdings and transactions with these companies are posted separately as items with associates and joint ventures. Interests under 20 percent are presented as available-for-sale financial assets.

Companies acquired during the reporting period are included in the consolidated annual financial statements from the date on which Swiss Post assumed control. Companies that are sold are included until the date on which control is lost, which is usually the date of sale. Proceeds from the disposal of subsidiaries, associates and joint ventures are recorded in the financial result.

Please see Note 36, Relationships with subsidiaries, associates and joint ventures, for an overview of Swiss Post subsidiaries, associates and joint ventures.

### Currency translation

The consolidated annual financial statements of Swiss Post are presented in Swiss francs (CHF).

Transactions in foreign currencies are translated at the daily rate ruling at the transaction date. At the end of the reporting period, monetary assets and liabilities in foreign currencies are translated at the closing rate. Non-monetary assets classified as available-for-sale financial assets are measured at fair value, and the unrealized foreign exchange gain or loss is recognized directly in other comprehensive income.

Assets and liabilities in balance sheets of fully consolidated companies that have been prepared in a foreign currency are translated into Swiss francs at the rate applicable on the balance sheet date. The income statement, cash flow statement and other transactions are translated at the average rate for the reporting period. Translation differences arising from the translation of balance sheets and statements of comprehensive income of foreign subsidiaries are recognized directly in other comprehensive income.

### Recognition of income

Income is recognized if it is clear that the economic benefits associated with the transaction will flow to Swiss Post and those benefits can be measured reliably.

Income from logistics services is recognized after sales deductions at the time the service is provided. A non-material proportion of this income consists of leasing revenue from the leasing of vehicles. Income from the sale of products is recognized in the income statement if the risks and rewards incidental to ownership of the products have been transferred to the purchaser. Swiss Post receives compensatory payments from the Swiss Confederation and from cantons and municipalities for public passenger transport services. They are assigned to income from logistics services.

Commission and service income from financial services is recognized on an accrual basis. Interest income on financial assets and interest expenses for customer deposits are accounted for using the accrual-based accounting principle. The effective interest method is used for interest earned on held-to-maturity and available-for-sale fixed-interest financial assets.

### Cash

Cash includes cash holdings in Swiss francs and foreign currencies as well as asset-side cash in transit (cash payments made at Swiss Post branches which have not yet been credited to the PostFinance account held at the Swiss National Bank). Cash holdings are measured at face value.

### Financial receivables

Amounts due from banks and interest-bearing amounts due from customers (technically overdrawn postal accounts) are measured at amortized cost using the effective interest method, which usually corresponds to the face value. If there are specific doubts as to a debtor's creditworthiness, an appropriate impairment loss is recognized. Individual impairment losses are charged to a separate allowance account. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to individual impairment losses for specifically identified default risks, portfolio impairment losses based on statistical analyses of previous default risk are also recognized following the indication of impairment.

### Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recognized at amortized cost, which usually corresponds to the face value, minus an impairment loss (provision for default risk) for expected defaults on receivables. Individual impairment losses are charged to a separate allowance account. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to individual impairment losses for specifically identified default risks, portfolio impairment losses based on statistical analyses of previous default risk are also recognized following the indication of impairment.

### Inventories

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

### Financial assets

Financial assets acquired primarily with the aim of achieving short-term gains by making targeted use of fluctuations in market prices are recognized as financial assets at fair value. They are classified as "at fair value through profit or loss, held for trading" or "at fair value through profit or loss, designated". Fair value changes in this category are recognized in the income statement. Interest or dividend income from assets "at fair value through profit or loss, held for trading" or "at fair value through profit or loss, designated" is presented as a separate item in the notes.

Financial assets with a fixed term to maturity, where Swiss Post has the positive intent and ability to hold them to maturity, are classified as "held to maturity" and recognized at amortized cost using the effective interest method. The effective interest method spreads the difference between acquisition cost and the repayment amount (premium/discount) over the term of the asset in question using the present value method. This results in a constant rate of interest until maturity.

Other financial assets which are held for an indefinite period and can be sold at any time for liquidity reasons or in response to new market conditions are classified as "available for sale" and recognized at their fair value. Unrealized gains and losses are recognized directly in other comprehensive income under "Fair value reserves" and are transferred to the income statement only when the financial asset is sold or if an impairment is recognized. Currency translation differences on financial assets classified as available for sale are recognized in the income statement in the case of monetary financial instruments, and are recognized in other comprehensive income in the case of non-monetary financial assets.

Loans granted by Swiss Post are recognized at amortized cost. Financial assets are entered in the balance sheet on the trade date.

Swiss Post checks its current financial assets on a regular basis for any indications of impairment. Here it looks in particular to general market developments and the estimates of rating agencies and banks recognized by FINMA. If there are indications that an asset is impaired, the recoverable amount is calculated. The recoverable amount of interest-bearing assets and loans is the present value of expected future cash flows from interest payments and repayments. The present value of held-to-maturity assets and loans is calculated on the basis of the original effective rate of interest of the financial assets in question. If the recoverable amount is less than the carrying amount of a financial asset, the difference is recognized in profit or loss as an impairment. If an impairment is to be recognized on an available-for-sale financial asset, the cumulative net loss on this asset recognized directly in other comprehensive income is reclassified from other comprehensive income to profit or loss. If the fair value of an interest-bearing asset such as a bond is less than the carrying amount solely due to a change in market interest rates, no impairment charge is recognized provided the issuer's credit standing is considered to be good. In this case, the change in the fair value of financial assets classified as available for sale is recognized directly in other comprehensive income.

Impairment losses are recognized for equity instruments in the available-for-sale category if a significant (i.e. loss of 20 percent on the original purchase price) or prolonged (i.e. lasting nine months) reduction in fair value is identified. No reversals of impairment losses are recognized in the income statement until the assets' disposal; in this case, positive changes in value are recognized directly in equity in other comprehensive income.

Individual impairment losses on held-to-maturity financial assets and loans are charged to a separate allowance account. The financial asset is definitively derecognized once there are firm indications that it is no longer recoverable. In addition to the individual impairment losses mentioned above, a portfolio impairment loss based on the statistical analysis of historical loss is measured and recognized for the remaining portfolio.

### Derivative financial instruments

Derivative financial instruments are used mainly to hedge currency and interest rate risks and to a small extent for trading.

Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months.

Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged item are recognized in the income statement in the result from trading activities.

Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are recognized in other comprehensive income, while changes in value to the extent a hedge is ineffective are recognized in the income statement in the result from trading activities. As soon as the hedged item has been recognized in the income statement, the cumulated changes in fair value recorded in other comprehensive income are stated in the result from trading activities.

Derivatives which are not accounted for under the hedge accounting rules or which do not meet the conditions to qualify for hedge accounting are treated as instruments held for trading.

Derivative financial instruments acquired for trading purposes are recognized at fair value when the transaction is concluded and are subsequently measured at fair value. Changes in the fair value of instruments held for trading are recognized in the income statement.

### Fair value

Fair value is the price that would normally be received for the sale of an asset or that would have to be paid to transfer a debt in a standard transaction between market stakeholders on the measurement date. It is assumed that the transaction takes place on the main market or, if the latter is not available, on the most advantageous market. The fair value of a liability reflects non-performance risk.

The fair values of financial instruments are determined on the basis of stock market prices and valuation techniques (present value method, etc.). In the case of listed financial instruments, the fair values correspond to the market prices. In the case of unlisted monetary financial instruments, the fair values are determined by discounting the cash flows using the current interest rate applicable to comparable instruments with the same maturity.

## Repurchase, reverse repurchase and securities lending transactions

Cash outflows arising from reverse repurchase transactions are presented as amounts due from banks. Financial assets obtained from transactions as collateral are not recognized in the balance sheet. Transactions are recognized in the balance sheet at the settlement date. Interest income from reverse repurchase transactions is accounted for using the accrual-based accounting principle.

Financial assets transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under "Financial assets". The cash inflow is reported under "Other financial liabilities". Interest expenses from repurchase transactions are accounted for using the accrual-based accounting principle.

In respect of securities lending and borrowing, Swiss Post engages in securities lending only. The loaned financial instruments continue to be recognized in the balance sheet as financial assets.

Securities cover for repurchase, reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values.

## Investment property

Investment property comprises land and buildings, or parts of buildings, or both, held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both. This also includes facilities under construction, which are built as investment property for future use.

Investment property is valued at its acquisition or production cost on entry. The transaction costs are included in the initial valuation.

According to the initial approach, investment property in Swiss Post Group is measured and recognized at its acquisition or production cost less the accumulated amortization and accumulated impairment losses.

The investment property is depreciated on a straight-line basis in accordance with the estimated useful life (unlimited for plots of land and 20 – 60 years for operating properties in line with their useful life). Facilities under construction are not depreciated.

Expenses for the replacement, renovation or refurbishment of an investment property or a component thereof are capitalized as replacement investments. Maintenance costs are not capitalized. Such costs are recognized directly in the income statement.

Transfers to or from the stock of investment property are made if there is a corresponding change of use.

### Property, plant and equipment

Property, plant and equipment is recognized in the balance sheet at historical cost less cumulative depreciation. Depreciation is accounted for on a straight-line basis in line with the estimated useful life, as follows:

| **Estimated useful life of items of property, plant and equipment** | |
|---|---|
| Plots of land | indefinite |
| Operating property | 20–60 years |
| Equipment | 3–20 years |
| Machinery | 3–15 years |
| IT equipment | 3–10 years |
| Furniture | 3–20 years |
| Railroad rolling stock | 10–30 years |
| Other vehicles | 3–15 years |

Capitalized tenant fit-outs and installations in rented premises are depreciated over the estimated useful life or the duration of the rental agreement, if shorter. The components of property, plant and equipment that have different useful lives are recognized and depreciated separately. The useful lives of property, plant and equipment are reviewed on an annual basis.

Major renovations and other costs that add value are capitalized and depreciated over their estimated useful lives. Costs for repairs and maintenance are recognized as expenses. Borrowing costs for assets under construction are capitalized.

### Leases

Lease agreements for properties, installations, other property, plant and equipment and vehicles where Swiss Post substantially assumes all risks and rewards incidental to ownership are treated as finance leases. At inception of the lease, the asset and liability under a finance lease are recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is broken down into amortization and interest expense components. The amortization component is deducted from the capitalized lease obligation.

The other lease agreements where Swiss Post is either the lessee or the lessor are recognized as operating leases. The lease payments are recognized in the income statement over the term of the lease.

In classifying long-term property leases, land and building elements are assessed separately. Subject to certain conditions, land and buildings must be accounted for as finance leases.

### Intangible assets

In the event of a business combination, the identifiable assets, liabilities and any non-controlling interest in the acquiree are recognized and measured at fair value in applying the acquisition method. Any excess over the purchase price is recognized as goodwill at acquisition cost less impairment.

Additions of intangible assets not acquired through business combinations are recognized at acquisition cost and written down on a straight-line basis over the period of their useful life. The estimated useful lives of intangible assets are reviewed on a regular basis and are usually less than ten years.

### Impairment losses (property, plant and equipment and intangible assets)

Property, plant and equipment and intangible assets (excluding goodwill) are checked regularly to determine if there are signs of impairment. If this is the case, the carrying amount is compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If the carrying amount of an asset exceeds its recoverable amount, an impairment equal to the difference between the carrying amount and the recoverable amount is recognized in the income statement. The recoverable amount of goodwill is reviewed at least annually.

### Customer deposits (PostFinance)

Customer deposits held with PostFinance in postal, savings and investment accounts, medium-term notes and money market investments are measured at amortized cost, which usually corresponds to the face value. No differentiation per depositor (non-banks and banks) is implemented in the existing item.

### Other financial liabilities

Other financial liabilities comprise amounts due to banks (excluding amounts due to banks in postal, savings and investment accounts, medium-term notes and money market investments), which are measured at amortized cost, derivative financial instruments measured at fair value and other financial liabilities. Other financial liabilities consist of finance lease obligations, repurchase transactions and other liabilities (private placements). Other liabilities are measured at amortized cost.

### Provisions

Provisions are recognized provided that, at the date of their recognition, a past event has resulted in a present obligation and a cash outflow is probable and can be measured reliably.

Restructuring provisions are recognized only upon presentation of a detailed plan and following the necessary communication.

Swiss Post bears a number of risks itself in accordance with the principle of self-insurance. Provisions are recognized for expected expenses arising from claims incurred that are not insured externally.

### Employee benefits

Most of the employees are insured with the Swiss Post pension fund, a defined benefit plan in accordance with IAS 19. In line with statutory provisions, the plan covers risks resulting from the economic consequences of old age, disability and death. Service cost and obligations arising from the pension plan are calculated annually using the projected unit credit method. The service years worked by employees as at the end of the reporting period are taken into account, and assumptions, amongst other things, are made as to future salary trends. The amount to be recognized in the balance sheet as an obligation or asset corresponds to the present value of the defined employee benefit obligation (insurance cover as stipulated by IAS 19 for active contributors and pensioners calculated in accordance with the projected unit credit method), less benefit plan assets at fair value (Swiss Post pension fund assets apportioned on the basis of insurance cover for active contributors and pensioners).

Employee benefit entitlements acquired (current service cost), past service cost, gains and losses from plan settlements and net interest income are recognized directly in the income statement. Actuarial gains and losses from employee benefit obligations, income from plan assets (excluding interest income) and changes in the effects of asset ceiling regulations (excluding net interest income) are recognized in other comprehensive income.

From the financial year 2017, risk sharing characteristics are also taken into account in two stages when determining financial assumptions. These characteristics limit the employer's share in the costs of future benefits and integrate the employee into the obligations to pay any additional contributions needed to correct underfunding. Both stages are incorporated directly into the calculation of defined employee benefit obligations (DBO) and therefore have an impact on future service cost in accordance with IAS 19. The assumptions are based on the formal regulations of the plan which, for a Swiss employee benefits plan, include the regulations of the employee benefits institution as well as the relevant laws, ordinances and directives on employee benefits, and above all the provisions contained in them regarding funding and measures to correct underfunding of employee benefits institutions.

For the other pension plans, transferred employer contributions are charged to the income statement in accordance with the rules for defined contribution plans.

Provisions for other long-term employee benefits (loyalty bonuses for long years of service) and staff vouchers for retired employees are determined in the same way as the provisions for sabbaticals taken by senior management and top management using the projected unit credit method. Past service cost, net interest income and remeasurements are recognized directly in the income statement.

### Income taxes

In accordance with Article 10 of the Postal Organization Act (POA), Swiss Post Ltd is taxed as a private corporation. Profit earned by Swiss and foreign subsidiaries is subject to tax at the regular rates applicable in the country in question.

Deferred income taxes are determined for Swiss Post and its subsidiaries on the basis of current or expected national tax rates. Deferred income taxes take into account the income tax-related implications of temporary differences between assets and liabilities in the consolidated financial statements and their tax base (balance sheet liability method). Tax loss carryforwards are taken into account in calculating deferred taxes only to the extent that it is probable that sufficient taxable profits will be generated in future, against which these can be offset.

### Non-current assets held for sale

Non-current assets (e.g. property, plant and equipment and intangible assets) or groups of assets (e.g. an entire operation) are classified as "held for sale" if their carrying amount is to be realized first and foremost through a sale and not through continued use and Swiss Post intends to dispose of them. Non-current assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell and no longer depreciated.

## 4 | Estimation uncertainty and management's judgement

Preparation of the consolidated financial statements requires the use of estimates and assumptions. Although these estimates and assumptions were based on Executive Management's best knowledge of current events and possible future actions on the part of Swiss Post Group, actual results may ultimately differ from these estimates. The assumptions and estimates with the greatest risk of causing a material adjustment to the carrying amount of an asset or liability within the next financial year are explained below.

Those accounting policies that may have a material impact on the consolidated annual financial statements as a result of Executive Management's judgements are also explained.

### Estimation uncertainty in applying accounting policies

*Useful lives of property, plant and equipment*
The useful lives of property, plant and equipment (carrying amount as at 31 December 2017: 2,106 million francs, carrying amount as at 31 December 2016: 2,272 million francs) are defined on the basis of current technical conditions and past experience. However, as a result of technological change and market conditions, actual useful lives may differ from those originally defined. In the event of differences compared with the useful lives originally defined, these are adjusted. In the event of technical obsolescence, the assets are also depreciated or sold.

*Employee benefit obligations*
Employee benefit expenses and obligations (carrying amount as at 31 December 2017: 2,626 million francs, carrying amount as at 31 December 2016: 5,080 million francs) are calculated annually using the projected unit credit method. The calculations of employee benefit obligations are based on various actuarial assumptions such as expected salary and pension trends, the discount rate, or risk sharing characteristics which limit the employer's share in the costs of future benefits.

*Fair values of financial instruments*

Fair values of financial assets (carrying amount as at 31 December 2017: 79,366 million francs, carrying amount as at 31 December 2016: 79,248 million francs) that are not traded publicly on a stock exchange are measured using recognized estimation methods. This requires making assumptions based on observable market information. The discounted cash flow method is used to determine the fair value of some unlisted available-for-sale financial assets. The discounted cash flows are calculated on the basis of Bloomberg yield curves, taking the relevant parameters (rating, maturity, etc.) into account.

*Goodwill*

The discounted cash flow method is used annually to determine the recoverable amount of goodwill items (carrying amount as at 31 December 2017: 244 million francs, carrying amount as at 31 December 2016: 228 million francs). The parameters reflect specific assumptions for each country and cash-generating unit. The cash flows used in the calculations are based on the strategic financial planning for the next two to five years and a residual value. This does not include any growth component.

### Management's judgement used in applying accounting policies

*Financial assets held to maturity*

Financial assets with a fixed maturity which Swiss Post intends and is able to hold to maturity are classified as "held to maturity". If Swiss Post does not manage to hold these financial assets to maturity, all financial assets assigned to this category must be reclassified as "available for sale". As a result, they would no longer be measured at amortized cost but at fair value.

*Impairment of available-for-sale and held-to-maturity financial assets and loans*

In order to determine whether there is evidence of impairment, Swiss Post follows the guidance set out in IAS 39 Financial Instruments: Recognition and Measurement. In measuring impairment, the management takes into account various factors such as maturity, sector, outlook, technological conditions, etc.

## 5 | Segment information

### Basic principles

The operating segments were determined based on the organizational units for which information is reported to the management of the Group. In doing so, no operating segments were aggregated. Transactions between the segments are based on a range of services and a transfer pricing concept. Transfer prices are calculated on the basis of commercial criteria. For information on the composition of segment assets and liabilities, please see the separate section “Composition of segment assets and liabilities”.

Note 36, Relationships with subsidiaries, associates and joint ventures, shows the segments to which Swiss Post and its subsidiaries have been assigned.

### Segmentation

| Segmentation | Description |
|---|---|
| **Communication market** | |
| PostMail | Services relating to addressed letters, newspapers, unaddressed items (domestic, import and export) |
| Swiss Post Solutions | Document solutions and postal-related business process outsourcing solutions in Switzerland and internationally |
| PostalNetwork | Sales channel for postal products/services and additionally for third-party products for private customers and small and medium-sized enterprises. |
| **Logistics market** | |
| PostLogistics | E-commerce, national/international parcels, freight and warehousing, customs clearance, the transport of valuables, Innight/Express/Courier/SameDay in Switzerland and abroad |
| **Financial services market** | |
| PostFinance | Payments, savings, investments, retirement planning and financing in Switzerland as well as international payment transactions |
| **Passenger transport market** | |
| PostBus | Regional, municipal and urban transport as well as system services in Switzerland and in selected countries abroad |
| **Other** | Units that cannot be assigned to the segments such as function units (e.g. Real Estate, Information Technology, Human Resources, Finance and Communication). |
| **Consolidation** | Effects of intra-Group elimination |

### Geographical information

Geographical information is disclosed as follows. Information is presented, firstly, according to the location of the revenue-generating subsidiary (Europe, Americas, Asia) and, secondly, according to the location at which the revenue was generated (Switzerland or “International and cross-border”). The “International and cross-border” segment includes revenue from all foreign subsidiaries.

### Statutory mandates

Statutory mandates require Swiss Post to provide a universal service comprising postal services and payment transaction services. Pricing is not at Swiss Post’s discretion. The Federal Council sets upper price limits for the reserved service (monopoly). The price regulator can also monitor the prices of most products and services at any time, both within and outside the universal service, owing to Swiss Post’s dominant position in the market. The reserved service (monopoly) consists of addressed domestic letters and letters from abroad weighing up to 50 grams. It is provided by the PostMail segment.

### State compensatory payments

PostBus received compensatory payments of 211 million francs from the Swiss Confederation (prior year: 209 million francs), 204 million francs from cantons (prior year: 204 million francs) and 5 million francs from municipalities (prior year: 6 million francs) for providing legally required public passenger transport services. This compensation is included in net sales from logistics services.

During an audit of accounting of services for the purposes of reporting under subsidy law, the Federal Office of Transport (FOT) found evidence of accounting practices that do not comply with the law, resulting in a reimbursement of state compensatory payments for the years 2007 to 2017.

A reimbursement of 78.3 million francs agreed with the FOT for the excess compensatory payments received for the years 2007 to 2015 was deducted from net sales from logistics services in 2017. Also charged to these net sales were provisions of 30 million francs for estimated reimbursements for the years 2016 and 2017, recognized 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 are included in operating income for the PostBus segment. The reimbursements recorded are the subject of an ongoing investigation and may be therefore be subject to change. Any such changes could not be conclusively assessed at the time the consolidated financial statements were drawn up.

### Composition of segment assets and liabilities

If possible, the assets and liabilities resulting from a segment's operating activities are assigned to the appropriate segments. As the PostFinance segment result includes financial income and expenses relating to operations, the corresponding interest-bearing assets and liabilities are accounted for in the segment's assets and liabilities.

The "Other" column mainly includes the following items in the segment's assets and liabilities:

- the carrying amounts of properties managed centrally by Post CH Ltd and Post Real Estate Ltd
- employee benefit obligations

Unallocated assets and liabilities comprise non-operational assets (principally deferred tax assets and loans to PostBus operators) and non-operational liabilities (mainly other financial liabilities and deferred tax liabilities).

### Changes in segment assets and liabilities

In comparison with 31 December 2016, the segment assets of PostFinance rose by 1,497 million francs to 120,469 million francs, particularly with regard to cash holdings and amounts due from banks. The increase is due to higher customer deposits on the liabilities side, weakened somewhat by the decline in other financial liabilities. The segment liabilities of PostFinance increased by 1,338 million francs to 115,031 million francs in comparison with 31 December 2016. Liabilities in the "Other" segment were down 1,790 million francs to 2,465 million francs compared with 31 December 2016, mainly as a result of lower employee benefit obligations, with the increase in trade accounts payable somewhat moderating the effect.

### More information

Other non-cash income and expenses primarily include those incurred in recognizing and reversing provisions without affecting cash.

## Results by business segment and region

### Result by business segment

| Up to or as at 31.12.2016<br>CHF million | Notes | PostMail | Swiss Post Solutions | Postal-Network | Post-Logistics | Post-Finance [1] | PostBus [2] | Other [3] | Conso-lidation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income from customers | | 2,746 | 518 | 485 | 1,282 | 2,112 | 918 | 127 | | 8,188 |
| Operating income from other segments | | 160 | 40 | 711 | 290 | 43 | 5 | 792 | –2,041 | – |
| **Total operating income [4]** | | **2,906** | **558** | **1,196** | **1,572** | **2,155** | **923** | **919** | **–2,041** | **8,188** |
| **Operating profit [4]** | | **317** | **20** | **–193** | **117** | **542** | **36** | **–135** | | **704** |
| Net financial income | 12, 13 | | | | | | | | | –46 |
| Net income from associates and joint ventures | 23 | 4 | 0 | – | 4 | –1 | 0 | 0 | | 7 |
| Income taxes | 14 | | | | | | | | | –107 |
| **Group profit** | | | | | | | | | | **558** |
| Segment assets [5] | | 644 | 323 | 550 | 1,259 | 118,972 | 562 | 3,699 | –1,250 | 124,759 |
| Associates and joint ventures | | 56 | 1 | – | 11 | 73 | 2 | 1 | | 144 |
| Unallocated assets [6] | | | | | | | | | | 1,706 |
| **Total assets [5]** | | | | | | | | | | **126,609** |
| Segment liabilities [5] | | 727 | 171 | 606 | 1,208 | 113,693 | 495 | 4,255 | –1,250 | 119,905 |
| Unallocated liabilities [6] | | | | | | | | | | 1,823 |
| **Total liabilities [5]** | | | | | | | | | | **121,728** |
| Investment in property, plant and equipment, intangible assets and investment property | 24–26 | 17 | 17 | 12 | 83 | 179 | 47 | 81 | | 436 |
| Depreciation and amortization | 24–26 | 48 | 14 | 16 | 67 | 70 | 49 | 175 | | 439 |
| Impairment | 18, 24–26 | – | 1 | – | – | 45 | 1 | 7 | | 54 |
| Reversal of impairment | 18, 24–26 | – | 0 | – | – | 13 | 1 | – | | 14 |
| Other non-cash (expenses)/income | | –26 | –12 | –10 | –9 | –70 | –42 | –369 | | –538 |
| Headcount [7] | | 16,241 | 6,803 | 6,006 | 5,151 | 3,614 | 3,210 | 2,460 | | 43,485 |

1 PostFinance Ltd also applies the Swiss accounting standards for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.
2 Within regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
3 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).
4 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
5 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
6 Unallocated assets and liabilities comprise those that essentially contribute to net financial income/expenses rather than to operating profit and are therefore not assigned to segment assets or segment liabilities. Unallocated assets and liabilities are eliminated in intra-Group transactions.
7 The average is expressed in terms of full-time equivalents (excluding trainees).

### Result by region

| Up to or as at 31.12.2016<br>CHF million | Notes | Europe | Americas | Asia | Conso-lidation | Group | Switzer-land | Interna-tional and cross-border | Conso-lidation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income from customers | | 8,099 | 88 | 1 | | 8,188 | 7,064 | 1,124 | | 8,188 |
| Operating profit [1] | | 699 | 5 | 0 | | 704 | 640 | 64 | | 704 |
| Segment assets [2] | | 124,700 | 56 | 4 | –1 | 124,759 | 124,131 | 655 | –27 | 124,759 |
| Investment in property, plant and equipment, intangible assets and investment property | 24–26 | 436 | 0 | 0 | | 436 | 421 | 15 | | 436 |

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

## Result by business segment

| Up to or as at 31.12.2017<br>CHF million | Notes | PostMail | Swiss Post Solutions | PostalNetwork | PostLogistics | PostFinance [1] | PostBus [2] | Other [3] | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income from customers | | 2,628 | 519 | 437 | 1,334 | 2,037 | 832 | 143 | | 7,930 |
| Operating income from other segments | | 151 | 32 | 665 | 284 | 51 | 4 | 746 | –1,933 | – |
| **Total operating income [4]** | | **2,779** | **551** | **1,102** | **1,618** | **2,088** | **836** | **889** | **–1,933** | **7,930** |
| **Operating profit [4]** | | **315** | **25** | **–159** | **117** | **549** | **–69** | **–201** | **–4** | **573** |
| Net financial income | 12, 13 | | | | | | | | | –43 |
| Net income from associates and joint ventures | 23 | 27 | 0 | – | –3 | –36 | 0 | 2 | | –10 |
| Income taxes | 14 | | | | | | | | | –145 |
| **Group profit** | | | | | | | | | | **375** |
| Segment assets | | 816 | 298 | 518 | 992 | 120,469 | 616 | 3,454 | –1,105 | 126,058 |
| Associates and joint ventures | | 84 | – | – | 2 | 42 | 3 | 7 | | 138 |
| Unallocated assets [5] | | | | | | | | | | 1,214 |
| **Total assets** | | | | | | | | | | **127,410** |
| Segment liabilities | | 843 | 164 | 568 | 884 | 115,031 | 453 | 2,465 | –1,105 | 119,303 |
| Unallocated liabilities [5] | | | | | | | | | | 1,494 |
| **Total liabilities** | | | | | | | | | | **120,797** |
| Investment in property, plant and equipment, intangible assets and investment property | 24–26 | 20 | 13 | 7 | 79 | 84 | 64 | 104 | | 371 |
| Depreciation and amortization | 24–26 | 48 | 13 | 9 | 69 | 82 | 48 | 151 | | 420 |
| Impairment | 18, 24–26 | – | – | – | 10 | 30 | 1 | 10 | | 51 |
| Reversal of impairment | 18, 24–26 | – | – | – | – | 37 | – | – | | 37 |
| Other non-cash (expenses)/income | | 4 | –14 | –10 | –10 | –78 | –87 | –361 | | –556 |
| Headcount [6] | | 15,736 | 6,585 | 5,435 | 5,281 | 3,475 | 3,261 | 2,543 | | 42,316 |

1 PostFinance Ltd also applies the Swiss accounting standards for banks, securities dealers, financial groups and conglomerates (ARB). There are differences between the ARB and the IFRS results.
2 Within regional public transport, PostBus Switzerland Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
3 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).
4 Operating income and operating result by segment are reported before management, licence fees and net cost compensation.
5 Unallocated assets and liabilities comprise those that essentially contribute to net financial income/expenses rather than to operating profit and are therefore not assigned to segment assets or segment liabilities. Unallocated assets and liabilities are eliminated in intra-Group transactions.
6 The average is expressed in terms of full-time equivalents (excluding trainees).

## Result by region

| Up to or as at 31.12.2017<br>CHF million | Notes | Europe | Americas | Asia | Consolidation | Group | Switzerland | International and cross-border | Consolidation | Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Operating income from customers | | 7,843 | 86 | 1 | | 7,930 | 6,777 | 1,153 | | 7,930 |
| Operating profit [1] | | 568 | 3 | 2 | | 573 | 491 | 82 | | 573 |
| Segment assets | | 126,001 | 55 | 5 | –3 | 126,058 | 125,279 | 807 | –28 | 126,058 |
| Investments in property, plant and equipment, intangible assets and investment property | 24–26 | 370 | 1 | 0 | | 371 | 358 | 13 | | 371 |

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

## 6 | Net income from financial services

By presenting the result from financial services in the following format, Swiss Post takes account of the character of these financial services. The result is broken down into individual items in line with banking practice.

Net income from financial services

| CHF million | 2016 | 2017 |
|---|---|---|
| Interest income on amounts due from banks | 1 | 0 |
| Interest income on securities lending and reverse repurchase transactions | 1 | 1 |
| Interest income on interest-bearing amounts due from customers | 18 | 20 |
| Interest income on financial assets, incl. effects from hedging transactions | 938 | 815 |
| Interest income on liability transactions | 12 [1] | 33 |
| Dividend income on financial assets | 74 | 55 |
| **Interest income** | **1,044** [1] | **924** |
| Interest expense for customer deposits (PostFinance) | –62 | –40 |
| Interest expense for amounts due to banks | – | 0 |
| Interest expense on repurchase transactions | – | 0 |
| Interest expense on financial assets | –24 [1] | –6 |
| **Interest expense** | **–86** [1] | **–46** |
| **Net interest income** | **958** [1] | **878** |
| Impairment/reversal of impairment on amounts due from banks, interest-bearing amounts due from customers and financial assets | –25 | 36 |
| **Net interest income, net of impairment/reversal of impairment** | **933** [1] | **914** |
| Commission income on lending business | 12 | 16 |
| Commission income on securities and investment business | 40 [1] | 47 |
| Commission income on other services | 66 | 71 |
| Commission expenses | –57 [1] | –46 |
| Net income from services | 505 | 483 |
| **Net services and commission income** | **566** [1] | **571** |
| Net trading income | 200 | 235 |
| Net income from the disposal of available-for-sale financial assets | 105 | 101 |
| Losses on payment transactions | –9 | –9 |
| Other net financial income/finance costs | 1 | –8 |
| **Net income from financial services** | **1,796** | **1,804** |
| Shown in the consolidated income statement under: | | |
| Income from financial services | 2,053 | 1,978 |
| Expenses for financial services | –257 | –174 |

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

## 7 | Other operating income

### Other operating income

| CHF million | 2016 | 2017 |
|---|---|---|
| Rental income | 81 | 92 |
| Profits on the sale of property, plant and equipment | 44 | 38 |
| Other income | 96 | 98 |
| **Total other operating income** | **221** | **228** |

Other income mainly consists of fees for management services in public transport, sale of advertising space, military mail and charges for the collection of VAT and customs duties.

## 8 | Personnel expenses

### Composition

#### Breakdown

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| Wages and salaries | | 3,184 | 3,162 |
| Social security benefits | | 343 | 345 |
| Employee benefit expenses | 9 | 397 | 373 |
| Other personnel expenses | | 110 | 109 |
| **Total personnel expenses** | | **4,034** | **3,989** |

### Headcount

#### Headcount

| Number of employees [1] | 2016 | 2017 |
|---|---|---|
| Employees at Swiss Post Group (excluding trainees) | 43,485 | 42,316 |
| Trainees at Swiss Post Group | 2,139 | 2,127 |

1 Average expressed in terms of full-time equivalents.

## 9 | Staff pension plan

Swiss Post insures its employees with various pension plans in Switzerland. Plan assets are either kept separate in autonomous foundations or in collective foundations. The foundation board of the autonomous foundations is made up of an equal number of employee and employer representatives. In accordance with the law and employee benefit regulations, foundation boards have an obligation to act exclusively in the interests of the foundation and of beneficiaries (as at 31 December 2017: 41,716 active contributors and 36,274 pensioners). The employer is therefore not permitted to make decisions about benefits and financing on its own. Resolutions must be made jointly. Foundation boards are responsible for determining investment strategy, for making changes to employee benefit regulations (and insured benefits in particular) and for securing pension benefit funding.

Pension benefits are based on the insured salary and retirement assets. On taking retirement, insurees can choose between drawing a lifetime pension, which includes a reversionary spouse's pension, or withdrawing a lump-sum capital payment. In addition to retirement benefits, employee benefits also include disability and survivors' benefits, which are calculated as a percentage of the insured salary. Insurees also have the option of buying back pension benefits to improve their retirement situation, up to the regulatory maximum amount, or of withdrawing money early to purchase their home.

When determining benefits, the minimum legal requirements regarding the Occupational Old-age, Survivors' and Disability Benefit Plan (BVG) and its regulations of execution must be taken into account. The BVG establishes the minimum salary to be insured as well as minimum retirement assets. The minimum interest rate to be applied to the minimum retirement assets is set by the Federal Council at least once every two years. In 2017, the rate is 1.00 percent (previous year: 1.25 percent).

Due to plan arrangements and the legal provisions of the BVG, the employer is exposed to actuarial risks. The principal risks are the investment risk, the inflation risk in the event of salary changes, the interest rate risk, the disability risk and the risk of longevity. Employer and employee contributions are determined by the foundation boards. The employer pays at least 50 percent of the contributions required. In the event of a shortfall, both the employer and the employee may be required to pay restructuring contributions to fill gaps in cover.

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

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

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

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

Companies in Germany (SPS Group) have corporate retirement provision based on various regulations and works agreements. There are also individual retirement solutions for senior staff. In principle, employees are entitled to receive insurance benefits on occurrence of the insured event, i.e. retirement age, disability or death. Depending on the applicable insurance regulations, lifelong pension benefits may be received or lump-sum capital payments withdrawn. Most pension benefits are financed by the employer. If an employee leaves the company before the maturity date of an insurance benefit, contingent rights to the insurance benefits are maintained in accordance with the statutory regulations.

Due to plan arrangements and the legal provisions (Occupational Pensions Act), the employer is exposed to actuarial risks. The principal risks are the risk of longevity, the risk of salary changes and the risk of inflationary adjustments to pensions.

## Actuarial assumptions

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

Actuarial assumptions made in calculating annual employee benefit expenses

| Percent | 2016 | 2017 |
|---|---|---|
| Discount rate | 0.75 | 0.50 |

Actuarial assumptions at 31 December

| Percent | 2016 | 2017 |
|---|---|---|
| Discount rate | 0.50 | 0.50 |
| Expected change in salaries | 1.00 | 1.00 |
| Pension indexation | 0.00 | 0.00 |
| Interest on retirement assets | 1.00 | 1.00 |
| Staff turnover | 3.52 | 3.41 |
| Lump-sum capital withdrawal ratio | 10.00 | 25.00 |
| Employee share of funding gap | n/a | 25.00 |
| Current average life expectancy for a man/woman aged 65 | 22/24 years | 22/24 years |

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

No risk sharing aspects were taken into account in the financial assumptions for the purposes of the actuarial measurement as at 31 December 2016. The estimate process to establish the financial assumptions, taking risk sharing aspects into account, was modified in the 2017 financial year and first applied as at 30 April 2017, in order to provide a more realistic picture of the costs of the employee benefits plan to be expected by the company in the future. Given the current low interest rates, the non-consideration of risk sharing aspects results in an inaccurate representation of the net obligation recognized in the balance sheet and in an unrealistically high negative past service cost in the event of plan amendments.

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

Long-term employee benefits are shown and described under Note 28, Provisions.

## Employee benefit expenses

| Employee benefit expenses<br>CHF million | 2016 | 2017 |
|---|---|---|
| Current service cost | 625 | 590 |
| Service cost to be recognized | –2 | 0 |
| (Gains)/losses from plan settlements | –1 | – |
| Employee contributions | –227 | –223 |
| Administrative costs | 10 | 9 |
| Additional employee benefits | 1 | 1 |
| Other plans, reclassifications | –9 | –4 |
| **Total employee benefit expenses recognized in personnel expenses** | **397** | **373** |
| Interest expense arising from employee benefit obligations | 151 | 98 |
| Interest income on assets | –116 | –78 |
| Other plans, reclassifications | –2 | – |
| **Total net interest expense recognized in financial expenses** | **33** | **20** |
| **Total employee benefit expenses recognized in the income statement** | **430** | **393** |

| Revaluation elements recorded in the statement of comprehensive income<br>CHF million | 2016 | 2017 |
|---|---|---|
| Actuarial losses | | |
| due to the adjustment of demographic assumptions | 64 | – |
| due to the adjustment of economic assumptions | 650 | –1,409 |
| due to experience adjustments | –226 | 157 |
| Income from plan assets (excluding interest income) | –399 | –830 |
| Other | – | –2 |
| **Total revaluation gains recorded in other comprehensive income (OCI)** | **89** | **–2,084** |
| **Total employee benefit expenses** | **519** | **–1,691** |

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

Transactions between the Swiss Post pension fund foundation and Swiss Post are subject to standard market terms and conditions.

## Cover status

Statement of recognized employee benefit obligations arising from material defined benefit plans, mainly from the Swiss Post pension fund foundation in Switzerland and SPS Group in Germany:

### Summary of cover status

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Present value of employee benefit obligations including assets set aside | 20,929 | 19,428 |
| Benefit plan assets at fair value | –15,856 | –16,814 |
| **Shortfall** | **5,073** | **2,614** |
| Employee benefit obligations excluding assets set aside | 5 | 11 |
| **Total recognized employee benefit obligations arising from defined benefit plans** | **5,078** | **2,625** |
| Employee benefit obligations arising from other benefit plans | 2 | 1 |
| **Total recognized employee benefit obligations** | **5,080** | **2,626** |

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

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

| CHF million | 2016 | 2017 |
|---|---|---|
| **Balance at 1 January** | **4,844** | **5,078** |
| Employee benefit expenses arising from defined benefit plans | 435 | 398 |
| Revaluation gains recognized in other comprehensive income | 89 | –2,084 |
| Employer contributions | –290 | –767 |
| Pension payments by the employer | –1 | –1 |
| Translation differences | –1 | 1 |
| Company acquisitions, disposals or transfers | 2 | – |
| **Balance at 31 December** | **5,078** | **2,625** |
| of which: | | |
| current, i.e. payments falling due within the next twelve months | 283 | 309 |
| non-current | 4,795 | 2,316 |

## Change in employee benefit obligations

| Change in employee benefit obligations<br>CHF million | 2016 | 2017 |
|---|---|---|
| **Balance at 1 January** | **20,501** | **20,934** |
| Current service cost | 625 | 590 |
| Interest expense arising from employee benefit obligations | 150 | 98 |
| Actuarial (gains)/losses | 487 | –1,252 |
| Plan settlements | –4 | – |
| Company acquisitions, disposals or transfers | 3 | –15 |
| Additional employee benefits | 1 | 1 |
| Benefits paid from plan assets | –826 | –918 |
| Pension payments by the employer | –1 | –1 |
| Plan amendments [1] | –2 | – |
| Translation differences | 0 | 2 |
| **Balance at 31 December** | **20,934** | **19,439** |
| Employee benefit obligations including assets set aside | 20,929 | 19,428 |
| Employee benefit obligations excluding assets set aside | 5 | 11 |
| **Total employee benefit obligations** | **20,934** | **19,439** |

1 Plan amendment costs incurred in 2016 (see employee benefit expenses).

## Change in plan assets

| Change in fair value of plan assets<br>CHF million | 2016 | 2017 |
|---|---|---|
| **Balance at 1 January** | **15,657** | **15,856** |
| Interest income on assets | 116 | 79 |
| Income from plan assets (excluding interest income) | 399 | 830 |
| Employee contributions | 227 | 223 |
| Employer contributions | 290 | 767 |
| Plan settlements | –2 | – |
| Benefits paid from plan assets | –826 | –918 |
| Administrative costs | –10 | –9 |
| Company acquisitions, disposals or transfers | 5 | –12 |
| Translation differences | 0 | –2 |
| **Balance at 31 December** | **15,856** | **16,814** |

## Asset classes

| Asset allocation | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Listed | Unlisted | Total | Listed | Unlisted | Total |
| Bonds | 4,860 | 2,184 | 7,044 | 4,891 | 2,280 | 7,171 |
| Shares | 4,494 | – | 4,494 | 4,954 | – | 4,954 |
| Real estate | – [1] | 1,704 [1] | 1,704 | 8 | 1,811 | 1,819 |
| Alternative investments | 351 | 1,414 | 1,765 | 371 | 1,442 | 1,813 |
| Qualified insurance paper | – | 38 | 38 | – | – | – |
| Other financial assets | – | 15 | 15 | – | – | – |
| Cash and cash equivalents | – | 796 | 796 | – | 1,057 | 1,057 |
| **Total** | **9,705** | **6,151** | **15,856** | **10,224** | **6,590** | **16,814** |

1 Figures have been adjusted.

The foundation board of an employee benefits institution issues investment guidelines for the investment of plan assets that include tactical asset allocation and benchmarks for comparing the results with a general investment universe. The foundation board forms an investment committee to implement the investment strategy. This committee appoints asset managers and the global custodian. Assets in pension plans are well diversified. BVG legal provisions apply regarding the diversification and security of pension plans. Real estate is not owned directly.

The Foundation Board carries out regular checks to ensure that the chosen investment strategy is appropriate for meeting pension benefits and that the risk budget corresponds to the demographic structure. Compliance with investment guidelines and the investment results of the investment advisor are regularly checked by the relevant employees of the Swiss Post pension fund and by an external investment controller. The efficiency and appropriateness of the investment strategy are also regularly verified by an external consulting firm.

The assets of the Swiss Post pension fund do not include any Swiss Post assets or real estate leased by Swiss Post.

## Sensitivity

The effect of a 0.25 percentage point rise or fall in the underlying material actuarial assumptions on the present value of pension obligations as at 31 December 2016 and 2017:

**Sensitivity of pension obligations to changes in actuarial assumptions**

| | | Resulting change in present value | | | Resulting change in present value | |
|---|---|---|---|---|---|---|
| CHF million | Deviation | 31.12.2016 | 31.12.2017 | Deviation | 31.12.2016 | 31.12.2017 |
| Discount rate | +0.25 percentage point | –760 | –528 | –0.25 percentage point | 816 | 566 |
| Expected change in salaries | +0.25 percentage point | 64 | 65 | –0.25 percentage point | –62 | –63 |
| Interest on retirement assets | +0.25 percentage point | 110 | 114 | –0.25 percentage point | –108 | –111 |
| Pension indexation | +0.25 percentage point | 641 | 383 | –0.25 percentage point | – | – |
| Employee share of funding gap | +10.00 percentage point | – | –261 | –10.00 percentage point | – | 261 |
| Life expectancy at age 65 | +1 year | 722 | 721 | – 1 year | –726 | –723 |

## Information on employer contributions

The following table shows the employer contributions for the previous financial year, as well as the expected contributions for 2018. In 2017 Swiss Post paid employer contributions of 480 million francs following the plan amendment at the Swiss Post pension fund.

**Employer contributions**

| CHF million | Effective | Expected |
|---|---|---|
| 2017 | 767 | 283 |
| 2018 | | 309 |

## Maturity profile of the defined employee benefit obligation

The weighted average term of the defined employee benefit obligation is 15.7 years as at 31 December 2017 (previous year: 16.8 years).

### Expected future pension payments

The following table summarizes the expected cash flows for pension payments based on the maturity profile for the next ten years.

| Cash flows resulting from employee benefits<br>CHF million | Nominal payment of benefits (estimated) |
|---|---|
| 2018 | 976 |
| 2019 | 982 |
| 2020 | 978 |
| 2021 | 959 |
| 2022 | 945 |
| 2023–2027 | 4,576 |

## 10 | Resale merchandise and service expenses

| Resale merchandise and service expenses<br>CHF million | 2016 | 2017 |
|---|---|---|
| Working materials, semi-finished and finished goods | 41 | 38 |
| Resale merchandise expenses | 427 | 386 |
| Service expenses | 163 | 181 |
| Compensation paid to PostBus operators | 330 | 331 |
| Compensation paid to forwarding companies | 342 | 336 |
| Compensation paid for international postal traffic | 148 | 142 |
| Temporary employees | 138 | 145 |
| **Total resale merchandise and service expenses** | **1,589** | **1,559** |

## 11 | Other operating expenses

| Other operating expenses<br>CHF million | 2016 | 2017 |
|---|---|---|
| Premises | 215 | 213 |
| Maintenance and repairs of property, plant and equipment | 245 | 226 |
| Energy and fuel | 59 | 63 |
| Operating materials | 72 | 60 |
| Consulting, office and administrative expenses | 230 | 256 |
| Marketing and communications | 105 | 110 |
| Loss on disposal of property, plant and equipment | 5 | 6 |
| Other expenses | 226 | 234 |
| **Total other operating expenses** | **1,157** | **1,168** |

## 12 | Financial income

Financial income

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| Interest income on other loans | 22 | 7 | 7 |
| Foreign currency gains | | 8 | 14 |
| Other financial income | | 3 | 3 |
| **Total financial income** | | **18** | **24** |

Income from the financial services business is posted as "Income from financial services".

## 13 | Financial expenses

Financial expenses

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| Interest expense on other financial liabilities | | 13 | 33 |
| Interest expense for employee benefit obligations | 9 | 33 | 20 |
| Foreign currency losses | | 9 | 8 |
| Other financial expenses | | 9 | 6 |
| **Total financial expenses** | | **64** | **67** |

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

## 14 | Income taxes

Income taxes recognized in the income statement

| CHF million | 2016 | 2017 |
|---|---|---|
| (Expense) for current income taxes | –118 | –63 |
| Income/(expense) for deferred income taxes | 11 | –82 |
| **Total (expense) for income taxes recognized in the income statement** | **–107** | **–145** |

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

Income taxes recorded in other comprehensive income

| CHF million | 2016 | 2017 |
|---|---|---|
| Revaluation of employee benefit obligations | 45 | –414 |
| Fair value reserves | –36 | 1 |
| Hedging reserves | 10 | 22 |
| **Total income taxes recorded in other comprehensive income** | **19** | **–391** |

## Deferred taxes relating to balance sheet items

| Deferred taxes relating to balance sheet items | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Deferred tax assets | Deferred tax liabilities | Net assets/ (liabilities) | Deferred tax assets | Deferred tax liabilities | Net assets/ (liabilities) |
| Financial assets | 16 | –85 | –69 | 34 | –85 | –51 |
| Investments in subsidiaries, associates and joint ventures | 0 | –86 | –86 | 2 | –90 | –88 |
| Property, plant and equipment | 223 | –2 | 221 | 218 | –3 | 215 |
| Intangible assets | 299 | –1 | 298 | 253 | –1 | 252 |
| Other liabilities | 1 | 0 | 1 | 1 | 0 | 1 |
| Provisions | 56 | –10 | 46 | 51 | –10 | 41 |
| Employee benefit obligations | 1,004 | – | 1,004 | 512 | – | 512 |
| Other balance sheet items | 1 | –2 | –1 | 1 | –3 | –2 |
| **Deferred taxes arising from temporary differences** | **1,600** | **–186** | **1,414** | **1,072** | **–192** | **880** |
| Tax assets recognized for loss carryforwards | 24 | | 24 | 85 | | 85 |
| **Deferred tax assets/liabilities, gross** | **1,624** | **–186** | **1,438** | **1,157** | **–192** | **965** |
| Deferred tax assets/liabilities, prior year | –1,566 | 149 | –1,417 | –1,624 | 186 | –1,438 |
| Changes in the composition of the Group | 9 | 0 | 9 | 1 | –2 | –1 |
| Deferred taxes in other comprehensive income | –45 | 26 | –19 | –23 | 414 | 391 |
| **Deferred taxes recognized in the income statement** | **22** | **–11** | **11** | **–489** | **406** | **–83** |

Deferred tax assets of 1,157 million francs (previous year: 1,624 million francs) are comprised mainly of temporary differences on financial assets, property, plant and equipment and intangible assets, employee benefit provisions in accordance with IAS 19 that are not accepted for tax purposes as well as other provisions and tax loss carryforwards. Deferred tax assets are recognized only for deductible temporary differences and tax loss carryforwards to the extent that it is probable that the tax income will be realized.

Deferred tax liabilities of 192 million francs (previous year: 186 million francs) are mainly the result of temporary differences between the valuations of Group assets and the tax base of financial assets and interests as well as temporary differences arising on provisions.

As at 31 December 2017, temporary differences in relation to interests amounted to 10 million francs (previous year: 73 million francs) for which no deferred tax liabilities were recognized, given that Swiss Post is able to control the reversal of temporary differences and that it is unlikely that the temporary differences will be reversed in the foreseeable future.

## Unused loss carryforwards

| Unused loss carryforwards | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Recognized | Not recognized | Total | Recognized | Not recognized | Total |
| Maturing within 1 year | 12 | 1 | 13 | 16 | 5 | 21 |
| Maturing in 2 to 6 years | 33 | 8 | 41 | 32 | 6 | 38 |
| Maturing in more than 6 years | 42 | 4 | 46 | 349 | 5 | 354 |
| **Total unused loss carryforwards** | **87** | **13** | **100** | **397** | **16** | **413** |

The increase in capitalized unused loss carryforwards is mainly due to the loss registered at Post CH Ltd for 2017. This loss was essentially attributable to the contribution paid to help stabilize the financial situation at the Swiss Post pension fund.

Tax loss carryforwards of 16 million francs (previous year: 13 million francs) were not capitalized within Swiss Post Group, as it seems uncertain that they will be utilized in the future.

### Analysis of the expense for income taxes

The following breakdown shows the reconciliation from Group profit before tax with the income tax expense accounted for. The weighted average tax rate to be applied is 13.8 percent (previous year: 10.2 percent). The 3.6 percent rise in the Group tax rate is principally due to the effect of higher losses in tax-exempt business.

Reconciliation from Group profit before tax to provision for income taxes accounted for

| CHF million | 2016 | 2017 |
|---|---|---|
| Group profit before tax | 665 | 520 |
| Weighted average tax rate | 10.2% | 13.8% |
| **Tax expense at weighted average tax rate** | **68** | **72** |
| Reconciliation with expenses for income taxes accounted for: | | |
| Effect of change in tax status/tax rates | –28 | 0 |
| Effect of investments/impairment of goodwill | 124 | 142 |
| Effect of back taxes and tax refunds from previous years | –1 | –4 |
| Effect of change in impairment for deferred income tax assets | –1 | –1 |
| Effect of fiscally non-relevant income/expenses | –51 | –54 |
| Effect of loss carryforwards | –24 | 1 |
| Other effects | 20 | –11 |
| **Expenses for income taxes accounted for** | **107** | **145** |

## 15 | Receivables

Receivables by type

| | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Gross | Impairment | Net | Gross | Impairment | Net |
| Receivables due from banks [1] | 37,640 [2] | –69 | 37,571 [2] | 38,427 | –48 | 38,379 |
| Interest-bearing amounts due from customers [1] | 410 | –5 | 405 | 353 | –5 | 348 |
| Trade accounts receivable | 1,039 [2] | –12 | 1,027 [2] | 1,109 | –10 | 1,099 |
| Other receivables | 1,251 [2] | –1 | 1,250 [2] | 1,415 | –2 | 1,413 |
| **Total receivables** | **40,340** [2] | **–87** | **40,253** [2] | **41,304** | **–65** | **41,239** |
| 1 of which receivables from reverse repurchase transaction | | | 84 | | | 24 |
| and covered by securities with a market value of | | | 84 | | | 24 |

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

Amounts due from banks comprise current account balances, money market instruments and reverse repurchase transactions. (31 December 2017: 24 million francs; previous year: 84 million francs). The current accounts mainly relate to Swiss Post's international payment transactions. The money market instruments and reverse repurchase transactions arise from the management of customer deposits. Securities cover for reverse repurchase transactions is recognized on a daily basis at current fair values. In amounts due from banks, cash reserves remain high, and are mostly invested at the SNB.

Interest-bearing amounts due from customers comprise technical overdrafts on postal accounts and receivables from reverse repo transactions with insurance companies (31 December 2017 and 31 December 2016: none).

A receivable is entered during a reverse repurchase transaction. This reflects the right of Swiss Post to recover the cash deposit. Securities received as part of reverse repurchase transactions are recognized in the balance sheet only if risks and opportunities are entered into. The fair values of the securities received are monitored to provide or reclaim additional collateral, where required. See also Note 34, Transfers of financial assets.

No assets have been pledged (as collateral) for loans.

### Due dates of receivables

| Receivables by due date | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Total | Due in up to 3 months | Due in over 3 months | Total | Due in up to 3 months | Due in over 3 months |
| Receivables due from banks | 37,571 [1] | 37,371 [1] | 200 | 38,379 | 37,929 | 450 |
| Interest-bearing amounts due from customers | 405 | 405 | – | 348 | 341 | 7 |
| Trade accounts receivable | 1,027 [1] | 1,000 [1] | 27 | 1,099 | 1,089 | 10 |
| Other receivables | 1,250 [1] | 943 [1] | 307 | 1,413 | 993 | 420 |
| **Total receivables** | **40,253** [1] | **39,719** [1] | **534** | **41,239** | **40,352** | **887** |

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

In the reporting period, interest income calculated in accordance with the effective interest method amounted to one million francs on amounts due from banks (previous year: one million francs) and 20 million francs on interest-bearing amounts due from customers (previous year: 18 million francs).

Trade accounts receivable and other receivables are of a short-term nature and therefore are not discounted.

### Overdue receivables for which individual impairment losses are not recognized

Swiss Post writes down receivables if it expects a loss in respect of those receivables because the debtor is likely to be unable to fulfil its contractual obligations. Overdue receivables for which there are no clear indications of impairment are placed on a watchlist and monitored.

| Overdue receivables for which individual impairment losses are not recognized | 31 December 2016 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| CHF million | 1–90 days | 91–180 days | 181–365 days | > 1 year | 1–90 days | 91–180 days | 181–365 days | > 1 year |
| Interest-bearing amounts due from customers | 395 | 4 | 5 | 5 | 338 | 3 | 4 | 6 |
| Trade accounts receivable | 73 | 7 | 4 | 4 | 73 | 9 | 2 | 4 |
| Other receivables | 1 | 0 | 0 | 1 | 6 | 0 | 0 | 1 |
| **Total receivables** | **469** | **11** | **9** | **10** | **417** | **12** | **6** | **11** |

### Receivables for which impairment losses are recognized

Outstanding receivables are checked on a regular basis by means of a risk analysis specified by the Group. Individual impairment losses on receivables are determined based on the difference between the nominal amount of the receivables and the estimated net amount recoverable.

Items that are not subject to individual impairment losses are additionally subject to a portfolio impairment loss based on statistical analyses from previous years.

Receivables for which impairment losses are recognized

| CHF million | 31 December 2016 Gross | Impairment charges | Net | 31 December 2017 Gross | Impairment charges | Net |
|---|---|---|---|---|---|---|
| **Individual impairment losses** | | | | | | |
| Receivables due from banks | 69 | –69 | – | 48 | –48 | – |
| Interest-bearing amounts due from customers | 1 | –1 | – | 1 | –1 | – |
| Trade accounts receivable | 9 | –9 | 0 | 8 | –8 | 0 |
| Other receivables | 1 | –1 | – | 1 | –1 | – |
| **Total receivables for which individual impairment losses are recognized** | **80** | **–80** | **0** | **58** | **–58** | **0** |
| **Portfolio impairment losses** | | | | | | |
| Interest-bearing amounts due from customers | 409 | –4 | 405 | 336 | –4 | 332 |
| Trade accounts receivable | 38 | –3 | 35 | 39 | –2 | 37 |
| Other receivables | 3 | 0 | 3 | 4 | –1 | 3 |
| **Total receivables for which portfolio impairment losses are recognized** | **450** | **–7** | **443** | **379** | **–7** | **372** |

## Changes in impairment losses on receivables

Change in impairment of receivables

| | Receivables due from banks | | Interest-bearing amounts due from customers | | Trade accounts receivable | | Other receivables | |
|---|---|---|---|---|---|---|---|---|
| CHF million | Individual impairment charges | Portfolio impairment charges | Individual impairment charges | Portfolio impairment charges | Individual impairment charges | Portfolio impairment charges | Individual impairment charges | Portfolio impairment charges |
| **As at 1 January 2016** | **99** | **–** | **1** | **3** | **6** | **4** | **1** | **0** |
| Impairment | – | – | – | 1 | 6 | – | 0 | 0 |
| Reversal of impairment | –8 | – | 0 | – | –2 | –1 | – | – |
| Reclassifications | – | – | – | – | 0 | 0 | – | – |
| Disposals | –22 | – | – | – | –1 | – | – | – |
| Currency translation differences | – | – | – | – | 0 | 0 | 0 | 0 |
| **As at 31 December 2016** | **69** | **–** | **1** | **4** | **9** | **3** | **1** | **0** |
| **As at 1 January 2017** | **69** | **–** | **1** | **4** | **9** | **3** | **1** | **0** |
| Impairment | – | – | – | – | 3 | 0 | 0 | 1 |
| Reversal of impairment | –2 | – | 0 | 0 | –2 | –1 | 0 | – |
| Reclassifications | – | – | – | – | – | – | – | – |
| Disposals | –19 | – | – | – | –2 | – | – | – |
| Currency translation differences | – | – | – | – | 0 | 0 | 0 | 0 |
| **As at 31 December 2017** | **48** | **–** | **1** | **4** | **8** | **2** | **1** | **1** |

## 16 | Inventories

Inventories

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Resale merchandise | 39 | 31 |
| Fuel and operating materials | 24 | 22 |
| Production materials | 15 | 14 |
| Work in progress and finished goods | 0 | 0 |
| Impairment loss for inventories which are not easily marketable | 0 | 0 |
| **Total inventories** | **78** | **67** |

## 17 | Non-current assets held for sale

"Non-current assets held for sale" are no longer systematically amortized and will probably be sold within one year.

Non-current assets held for sale

| CHF million | Operating property | Other property, plant and equipment | Total |
|---|---|---|---|
| **As at 1 January 2016** | **–** | **0** | **0** |
| Additions arising from reclassifications in accordance with IFRS 5 | – | 14 | 14 |
| Disposals | – | –13 | –13 |
| **As at 31 December 2016** | **–** | **1** | **1** |
| **As at 1 January 2017** | **–** | **1** | **1** |
| Additions arising from reclassifications in accordance with IFRS 5 | – | 16 | 16 |
| Disposals | – | –16 | –16 |
| **As at 31 December 2017** | **–** | **1** | **1** |

Information on fair values can be found in Note 33, Fair value disclosures.

## 18 | Financial assets

Financial assets

| CHF million | Held to maturity | Available for sale | Derivative financial instruments | Loans | Total |
|---|---|---|---|---|---|
| Notes | 19 | 20 | 21 | 22 | |
| **As at 1 January 2016** | **47,687** | **9,892** | **61** | **14,839** | **72,479** |
| Additions | 6,918 | 8,585 | – | 14,956 | 30,459 |
| Change in value recognized in profit or loss | –58 | 53 | – | –7 | –12 |
| Change in value recognized directly in equity | – | 224 | – | – | 224 |
| Change in value of derivatives | – | – | 4 | – | 4 |
| Reversal of impairment/ impairment, net | 13 | –39 | – | –6 | –32 |
| Disposals | –7,345 | –3,755 | – | –12,774 | –23,874 |
| **As at 31 December 2016** | **47,215** | **14,960** | **65** | **17,008** | **79,248** |
| **As at 1 January 2017** | **47,215** | **14,960** | **65** | **17,008** | **79,248** |
| Additions | – | 9,414 | – | 15,097 | 24,511 |
| Change in value recognized in profit or loss | 48 | 601 | – | –20 | 629 |
| Change in value recognized directly in equity | – | –97 | – | – | –97 |
| Change in value of derivatives | – | – | –21 | – | –21 |
| Reversal of impairment/ impairment, net | 36 | –4 | – | 1 | 33 |
| Disposals | –7,644 | –1,199 | – | –16,094 | –24,937 |
| **As at 31 December 2017** | **39,655** | **23,675** | **44** | **15,992** | **79,366** |

Available-for-sale financial assets and derivative financial instruments are presented at fair value if the latter can be directly derived from prices on publicly organized or standardized markets. Items for which there are no official price quotations are measured on the basis of yield curves, risk premiums and derivatives quotations (credit default swaps).

Of the derivative financial instruments (positive replacement values), 35 million francs (previous year: 61 million francs) are managed in accordance with hedge accounting requirements (see Note 21, Derivative financial instruments).

The recoverable amount of the bonds is systematically reviewed. Investments with one of the following characteristics undergo a closer assessment:

– non-investment-grade rating (< BBB–)
– quoted market price of less than 60 percent
– a price cannot be reliably determined
– verified for impairment the previous month

The assessment was carried out in preparing the annual financial statements.

## 19 | Financial assets held to maturity

| Financial assets held to maturity | | | | Term to maturity |
|---|---|---|---|---|
| CHF million | Total | Up to 1 year | 1–5 years | Over 5 years |
| **31 December 2016** | | | | |
| Bonds | 47,215 | 7,532 | 26,422 | 13,261 |
| **Total held to maturity** | **47,215** | **7,532** | **26,422** | **13,261** |
| **31 December 2017** | | | | |
| Bonds | 39,655 | 8,218 | 22,348 | 9,089 |
| **Total held to maturity** | **39,655** | **8,218** | **22,348** | **9,089** |

In the reporting period, interest income calculated in accordance with the effective interest method stood at 636 million francs (previous year: 772 million francs).

### Held-to-maturity financial assets for which impairment losses are recognized

| Held-to-maturity financial assets for which impairment losses are recognized | | | 31 December 2016 | | | 31 December 2017 |
|---|---|---|---|---|---|---|
| CHF million | Gross | Impairment charges | Net | Gross | Impairment charges | Net |
| **Portfolio impairment losses** | | | | | | |
| Bonds | 47,320 | –105 | 47,215 | 39,724 | –69 | 39,655 |
| **Total held-to-maturity financial assets for which portfolio impairment losses are recognized** | **47,320** | **–105** | **47,215** | **39,724** | **–69** | **39,655** |

### Changes in impairment losses on held-to-maturity financial assets

| Changes in impairment losses of held-to-maturity investments<br>CHF million | Individual impairment losses | Portfolio impairment losses | Total |
|---|---|---|---|
| **As at 1 January 2016** | **7** | **118** | **125** |
| Reversal of impairment | – | –13 | –13 |
| Disposals | –7 | – | –7 |
| **As at 31 December 2016** | **–** | **105** | **105** |
| | | | |
| **As at 1 January 2017** | **–** | **105** | **105** |
| Reversal of impairment | – | –36 | –36 |
| Disposals | – | – | – |
| **As at 31 December 2017** | **–** | **69** | **69** |

No interest income was recognized in 2017 on held-to-maturity financial assets including impairment losses (previous year: income of under one million francs).

## 20 | Financial assets available for sale

| Financial assets available for sale | | Term to maturity | | | |
|---|---|---|---|---|---|
| CHF million | Total | Up to 1 year | 1–5 years | Over 5 years | None |
| **31 December 2016** | | | | | |
| Bonds | 13,206 | 766 | 3,360 | 9,080 | – |
| Shares | 508 | – | – | – | 508 |
| Other | 1,246 | 0 | – | – | 1,246 |
| **Total available for sale** | **14,960** | **766** | **3,360** | **9,080** | **1,754** |
| **31 December 2017** | | | | | |
| Bonds | 22,336 | 756 | 7,439 | 14,141 | – |
| Shares | 118 | – | – | – | 118 |
| Other | 1,221 | 0 | – | – | 1,221 |
| **Total available for sale** | **23,675** | **756** | **7,439** | **14,141** | **1,339** |

Gains and losses on the disposal and early repayment of available-for-sale financial assets are presented as net income from the disposal of available-for-sale financial assets (income from financial services). In the reporting period, they amounted to a gain of 101 million francs (previous year: 105 million francs). The gain in the current year is primarily due to the sale of two equity portfolios. See also Note 6, Net income from financial services.

In the reporting period, interest income calculated in accordance with the effective interest method amounted to 174 million francs (previous year: 102 million francs). Dividend income stood at 55 million francs (previous year: 74 million francs).

## 21 | Derivative financial instruments

| Derivative financial instruments | 31 December 2016 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| CHF million | Positive fair values | Contract volume | Negative fair values | Contract volume | Positive fair values | Contract volume | Negative fair values | Contract volume |
| Notes | 18 | | 27 | | 18 | | 27 | |
| **Cash flow hedges** | | | | | | | | |
| Currency | 58 | 2,214 | 79 | 3,490 | 26 | 1,245 | 614 | 6,586 |
| Interest rates | 1 | 114 | – | – | 0 | 25 | – | – |
| **Fair value hedges** | | | | | | | | |
| Currency | 2 | 169 | 51 | 1,236 | 9 | 669 | 5 | 554 |
| Interest rates | – | – | 133 | 3,055 | – | – | 93 | 2,125 |
| **Derivatives for hedging, excluding hedge accounting** | | | | | | | | |
| Currency | 0 | 10 | 1 | 14 | 5 | 693 | 13 | 1,104 |
| **Derivatives for trading purposes** | | | | | | | | |
| Currency | 4 | 373 | 5 | 407 | 4 | 295 | 4 | 262 |
| **Total derivative financial instruments** | **65** | **2,880** | **269** | **8,202** | **44** | **2,927** | **729** | **10,631** |

Gains and losses recognized in income from sales and from the measurement at fair value of derivative financial assets are stated in the result from trading activities. During the period under review, a net gain of 9 million francs was generated with derivative financial assets in the result from trading activities (previous year: net loss of 0.2 million francs).

### Derivatives due dates

| Due dates of derivative financial instruments | 31 December 2016 | | | | 31 December 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| CHF million | Positive fair values | Contract volume | Negative fair values | Contract volume | Positive fair values | Contract volume | Negative fair values | Contract volume |
| Notes | 18 | | 27 | | 18 | | 27 | |
| **Cash flow hedges** | | | | | | | | |
| Less than 1 year | 0 | 114 | – | – | 0 | 25 | 4 | 49 |
| 1 to 5 years | 17 | 442 | 25 | 576 | 13 | 512 | 209 | 2,488 |
| Over 5 years | 42 | 1,772 | 54 | 2,914 | 13 | 733 | 401 | 4,049 |
| **Fair value hedges** | | | | | | | | |
| Less than 1 year | 2 | 169 | 58 | 2,166 | 9 | 669 | 10 | 1,153 |
| 1 to 5 years | – | – | 60 | 1,495 | – | – | 50 | 1,136 |
| Over 5 years | – | – | 66 | 630 | – | – | 38 | 390 |
| **Derivatives for hedging, excluding hedge accounting** | | | | | | | | |
| Less than 1 year | 0 | 10 | 1 | 14 | 5 | 693 | 13 | 1,100 |
| 1 to 5 years | – | – | – | – | – | – | 0 | 4 |
| **Derivatives for trading purposes** | | | | | | | | |
| Less than 1 year | 4 | 372 | 5 | 404 | 4 | 282 | 4 | 250 |
| 1 to 5 years | 0 | 1 | 0 | 3 | 0 | 13 | 0 | 12 |
| **Total derivative financial instruments** | **65** | **2,880** | **269** | **8,202** | **44** | **2,927** | **729** | **10,631** |

### Replacement value

The replacement value corresponds to the fair value of a derivative financial instrument, i.e. the price that would have to be paid for the conclusion of a substitute transaction if the counterparty defaults. Positive replacement values are exposed to the credit risk and represent the maximum loss that Swiss Post would suffer on the due date if the counterparty were to default. Negative replacement values result if the substitute transactions were possible on more favourable terms.

### Contract volume

Corresponds to the receivables side of the derivative financial instruments' underlying value.

Swiss Post acquires derivative financial instruments predominantly for hedging purposes. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in replacement value or cash flows attributable to the hedged items. Derivatives for which hedge accounting is not applied are classified as trading instruments.

### Cash flow hedges

Swiss Post is exposed both to currency fluctuations and interest rate changes. The risks associated with foreign-currency bond investments as a result of currency fluctuations are hedged using currency swaps. Fluctuations of the future interest cash flows on financial assets are hedged by interest rate swaps with various maturities.

On 31 December 2017, the hedging reserve stood at 131 million francs before tax (previous year: 44 million francs). The overall fair value changes of the hedging instruments are included in the hedging reserves directly in equity. Subsequently, the net interest accrued and paid/received (12 million francs; previous year: 17 million francs) and the foreign currency share (454 million francs of expenses; previous year: 18 million francs of expenses) are transferred to the income statement (recycled in the result from trading activities, see also Note 6, Net income from financial services). Thus the residual fair value change of the hedging instruments remains in the cash flow hedge reserve.

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

| Cash flows (not discounted) | | | Term to maturity |
|---|---|---|---|
| CHF million | Up to 1 year | 1–5 years | Over 5 years |
| **31 December 2016** | | | |
| Inflows of funds | 32 | 128 | 76 |
| Outflows of funds | –94 | –368 | –217 |
| **31 December 2017** | | | |
| Inflows of funds | 41 | 153 | 60 |
| Outflows of funds | –124 | –449 | –171 |

### Fair value hedges

Fluctuations in fair value as a result of changes in market interest rates (LIBOR) are partly hedged using interest rate swaps. The risks associated with foreign currency bond and equity funds as a result of currency fluctuations are hedged using foreign exchange transactions.

Net income from fair value hedges

| CHF million | 2016 | 2017 |
|---|---|---|
| **Fair value hedges for interest rate risks** | | |
| Profit / (loss) on hedging instrument | 25 | 37 |
| Profit / (loss) on hedged activities or those which are allocated to the hedged risk | –25 | –37 |
| **Net profit / (loss) corresponding to the ineffective share of the fair value hedges** | **–** | **–** |
| **Fair value hedges for foreign currency risks** | | |
| Profit / (loss) on hedging instrument | –42 | 53 |
| Profit / (loss) on hedged activities or those which are allocated to the hedged risk | 33 | –43 |
| **Net profit / (loss) corresponding to the ineffective share of the fair value hedges** | **–9** | **10** |

## 22 | Loans

Loans

| | | Term to maturity | | |
|---|---|---|---|---|
| CHF million | Total | Up to 1 year | 1–5 years | Over 5 years |
| **31 December 2016** | | | | |
| State-owned enterprises | 555 | 205 | 200 | 150 |
| Cantons, cities and municipalities [1] | 11,820 | 2,679 | 3,649 | 5,492 |
| Banks | 4,175 | 715 | 1,364 | 2,096 |
| PostBus operators | 63 | 16 | 42 | 5 |
| Other [2] | 395 | 15 | 75 | 305 |
| **Total loans** | **17,008** | **3,630** | **5,330** | **8,048** |
| **31 December 2017** | | | | |
| State-owned enterprises | 350 | 350 | – | – |
| Cantons, cities and municipalities [1] | 11,142 | 1,779 | 3,462 | 5,901 |
| Banks | 4,121 | 105 | 1,699 | 2,317 |
| PostBus operators | 45 | 13 | 30 | 2 |
| Other [2] | 334 | 19 | 53 | 262 |
| **Total loans** | **15,992** | **2,266** | **5,244** | **8,482** |

1 Loans to cantons, cities and municipalities as well as borrower’s note loans to public entities.
2 Loans and borrower’s note loans to “Other institutions” and mortgages previously granted by the Swiss Post pension fund (less than one million francs; previous year: less than one million francs) which were assumed by PostFinance.

In the reporting period, interest income calculated in accordance with the effective interest method stood at 157 million francs (previous year: 180 million francs).

## Loans with impairment losses

| Impairment losses on loans to cantons, cities, municipalities and banks<br>CHF million | 31 December 2016<br>Gross | <br>Impairment losses | <br>Net | 31 December 2017<br>Gross | <br>Impairment losses | <br>Net |
|---|---|---|---|---|---|---|
| **Portfolio impairment losses** | | | | | | |
| Loans to cantons, cities and local authorities | 11,855 | –35 | 11,820 | 11,177 | –35 | 11,142 |
| Loans to banks | 4,176 | –1 | 4,175 | 4,122 | 0 | 4,122 |
| **Total loans for which portfolio impairment losses are recognized** | **16,031** | **–36** | **15,995** | **15,299** | **–35** | **15,264** |

## Change in impairment losses on loans

| Change in impairment losses on loans to cantons, cities, municipalities, banks and other entities<br>CHF million | Individual impairment losses | Portfolio impairment losses | Total |
|---|---|---|---|
| **As at 1 January 2016** | **–** | **30** | **30** |
| Impairment | – | 6 | 6 |
| **As at 31 December 2016** | **–** | **36** | **36** |
| **As at 1 January 2017** | **–** | **36** | **36** |
| Reversal of impairment | – | –1 | –1 |
| **As at 31 December 2017** | **–** | **35** | **35** |

## 23 | Investments in associates and joint ventures

No substantial investments in associates or joint ventures exist. In addition, there were no material transactions between the Group and any associates and joint ventures (see also Note 38, Transactions with related companies and parties). Further details on associates and joint ventures can be found in Note 36, Relationships with subsidiaries, associates and joint ventures.

| Investments in associates and joint ventures<br>CHF million | 2016 | 2017 |
|---|---|---|
| **Balance at 1 January** | **104** | **144** |
| Additions | 42 | 13 |
| Disposals | 0 | –3 |
| Dividends received | –8 | –10 |
| Share of net profit (after taxes) recognized in the income statement | 7 | –10 |
| Share of net profit (after taxes) recorded in other comprehensive income | –1 | –4 |
| Currency translation differences | 0 | 8 |
| **Balance at 31 December** | **144** | **138** |

## Comprehensive income from associates and joint ventures

### Net income from associates and joint ventures

| CHF million | 2016 | 2017 |
|---|---|---|
| Share of net profit (after taxes) recognized in the income statement | 7 | –10 |
| Share of net profit (after taxes) recorded in other comprehensive income | –1 | –4 |
| **Comprehensive income from associates and joint ventures** | **6** | **–14** |

## Additions and disposals of associates and joint ventures

*2016*

PostFinance Ltd, based in Berne, acquired a 20.39 percent interest in moneymeets GmbH and moneymeets community GmbH, both based in Cologne (Germany), on 23 June 2016.

Finform Ltd, based in Berne, was founded on 27 June 2016 (Swiss Post share: 50 percent).

PostFinance Ltd, based in Berne, acquired 24.445 percent in Lendico Schweiz AG, based in Zurich, on 8 July 2016.

PostFinance Ltd, SIX Ltd and partner banks have agreed to introduce a joint mobile payment system for Switzerland. The development and operation of the joint platform was assigned to TWINT Ltd on 30 September 2016. PostFinance Ltd holds a one-third interest in TWINT Ltd after the transaction. This means that TWINT Ltd, based in Zurich, has no longer been considered a fully consolidated subsidiary since 30 September 2016 (100 percent), but is accounted for using the equity method (33.333 percent) in the consolidated financial statements.

Swiss Post Solutions GmbH, based in Bamberg (Germany) sold its interest (49.85 percent) in eSourceONE GmbH, based in Bamberg (Germany), on 20 December 2016.

*2017*

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

PostFinance Ltd, based in Berne, acquired a further 14.444 percent in Lendico Schweiz AG, based in Zurich, on 20 February 2017, in addition to the 24.445 percent already held. The remaining 61.111 percent was purchased on 20 November 2017. Since this date, Lendico Schweiz AG has no longer been accounted for in the consolidated financial statements using the equity method (38.889 percent), but reported as a fully consolidated subsidiary (100 percent). For further information, see Note 37, Additions and disposals of subsidiaries.

As part of the acquisition of 100 percent of the shares in JTB Holding AG and HAMIPO Holding AG, both based in Saillon, Post CH Ltd acquired 50 percent of the shares in GSF Spedition Schweiz GmbH, based in Gütersloh (Germany), on 12 April 2017. For further information, see Note 37, Additions and disposals of subsidiaries.

As part of the acquisition of a 100 percent interest in Autocars Trans-Azur SAS, based in Salon-de-Provence (France), CarPostal France SAS, based in Saint-Priest (France) acquired a 50 percent interest in SCI Les Romarins, based in Salon-de-Provence (France), on 12 April 2017. For further information, see Note 37, Additions and disposals of subsidiaries.

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

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

Energie Logistik Schweiz (ELS) AG in liquidation, based in Berne, was deleted in the commercial register on 12 July 2017.

PostFinance Ltd, based in Berne, acquired 10.47 percent in TONI Digital Insurance Solutions AG, based in Schlieren, on 14 July 2017, and 19.54 percent on 15 December 2017. Since this date TONI Digital Insurance Solutions AG has been accounted for using the equity method (30.01 percent) in the consolidated financial statements.

## 24 | Property, plant and equipment

Investment commitments for property, plant and equipment amount to 85 million francs (previous year: 55 million francs).

As at 31 December 2017, as in the previous year, no property, plant and equipment had been pledged in relation to mortgages.

As in the previous year, no borrowing costs were capitalized in 2017.

Property, plant and equipment

| 2016<br>CHF million | Operating property | Assets under construction: operating property | Equipment, machinery and IT systems | Furniture, vehicles and other assets | Assets under construction: other asset classes | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| **As at 1.1.2016** | **5,172** | **62** | **1,176** | **798** | **9** | **7,217** |
| Additions to the consolidated Group | 1 | – | – | – | – | 1 |
| Additions | –1 [1] | 104 | 58 | 92 | 34 | 287 |
| Disposals | –168 | –2 | –96 | –44 | –2 | –312 |
| Reclassifications | 70 | –75 | 28 | 1 | –32 | –8 |
| Disposals arising from reclassifications (IFRS 5) | – | – | – | –57 | 0 | –57 |
| Currency translation differences | 0 | – | –2 | –1 | 0 | –3 |
| **As at 31.12.2016** | **5,074** | **89** | **1,164** | **789** | **9** | **7,125** |
| **Cumulative amortization** | | | | | | |
| **As at 1.1.2016** | **3,701** | **–** | **702** | **391** | **–** | **4,794** |
| Depreciation | 194 | – | 104 | 89 | – | 387 |
| Impairment | 3 | – | 0 | 0 | – | 3 |
| Disposals | –156 | – | –87 | –36 | – | –279 |
| Reclassifications | –5 | – | –1 | 0 | – | –6 |
| Disposals arising from reclassifications (IFRS 5) | – | – | – | –43 | – | –43 |
| Currency translation differences | –1 | – | –2 | 0 | – | –3 |
| **As at 31.12.2016** | **3,736** | **–** | **716** | **401** | **–** | **4,853** |
| **Carrying amount as at 1.1.2016** | **1,471** | **62** | **474** | **407** | **9** | **2,423** |
| **Carrying amount as at 31.12.2016** | **1,338** | **89** | **448** | **388** | **9** | **2,272** |
| of which assets in leasing | 0 | – | 0 | 12 | – | 12 |

1 Includes less than one million francs from subsidies for railway track installations for 2016.

| Property, plant and equipment<br>2017<br>CHF million | Operating property | Assets under construction: operating property | Equipment, machinery and IT systems | Furniture, vehicles and other assets | Assets under construction: other asset classes | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| **As at 1.1.2017** | **5,074** | **89** | **1,164** | **789** | **9** | **7,125** |
| Additions to the consolidated Group | 0 | – | 0 | 4 | – | 4 |
| Additions | –3 [1] | 100 | 47 | 110 | 33 | 287 |
| Disposals | –254 | –1 | –72 | –50 | –4 | –381 |
| Reclassifications | 44 | –115 | 13 | 3 | –17 | –72 |
| Disposals arising from reclassifications (IFRS 5) | – | – | 0 | –58 | 0 | –58 |
| Currency translation differences | 1 | – | 3 | 9 | 0 | 13 |
| **As at 31.12.2017** | **4,862** | **73** | **1,155** | **807** | **21** | **6,918** |
| **Cumulative amortization** | | | | | | |
| **As at 1.1.2017** | **3,736** | **–** | **716** | **401** | **–** | **4,853** |
| Depreciation | 186 | – | 106 | 83 | – | 375 |
| Impairment | 8 | – | 9 | – | 0 | 17 |
| Disposals | –246 | – | –66 | –45 | – | –357 |
| Reclassifications | –42 | – | 0 | 0 | – | –42 |
| Disposals arising from reclassifications (IFRS 5) | – | – | – | –42 | – | –42 |
| Currency translation differences | 1 | – | 3 | 4 | – | 8 |
| **As at 31.12.2017** | **3,643** | **–** | **768** | **401** | **0** | **4,812** |
| **Carrying amount as at 1.1.2017** | **1,338** | **89** | **448** | **388** | **9** | **2,272** |
| **Carrying amount as at 31.12.2017** | **1,219** | **73** | **387** | **406** | **21** | **2,106** |
| of which assets in leasing | 0 | – | 0 | 20 | – | 20 |

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

## 25 | Investment property

| Investment property<br>CHF million | 2016<br>Investment property | 2016<br>Investment property under construction | 2016<br>Total | 2017<br>Investment property | 2017<br>Investment property under construction | 2017<br>Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| **Balance at 1 January** | **8** | **219** | **227** | **248** | **7** | **255** |
| Additions | – | 31 | 31 | –1 | 30 | 29 |
| Disposals | 0 | –3 | –3 | –8 | –1 | –9 |
| Reclassifications | 240 | –240 | – | 51 | 1 | 52 |
| **Balance at 31 December** | **248** | **7** | **255** | **290** | **37** | **327** |
| **Cumulative amortization** | | | | | | |
| **Balance at 1 January** | **0** | **–** | **0** | **9** | **–** | **9** |
| Depreciation | 9 | – | 9 | 10 | – | 10 |
| Impairment | – | – | – | 3 | – | 3 |
| Disposals | 0 | – | 0 | –8 | – | –8 |
| Reclassifications | – | – | – | 23 | – | 23 |
| **Balance at 31 December** | **9** | **–** | **9** | **37** | **–** | **37** |
| **Carrying amount as at 1 January** | **8** | **219** | **227** | **239** | **7** | **246** |
| **Carrying amount as at 31 December** | **239** | **7** | **246** | **253** | **37** | **290** |

The following amounts from investment property were recognized in the result:

– Rental income: 18.2 million francs (previous year: 14.7 million francs).
– Direct operating expenses (incl. depreciation) that generated rental income during the reporting period: 22.3 million francs (previous year: 14.8 million francs).

On 31 December 2017, there were no restrictions on the saleability or transfer of earnings and proceeds from any sale.

There are investment commitments for investment property of 15 million francs (previous year: 61 million francs).

## 26 | Intangible assets

| Intangible assets | | | | 2016 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| CHF million | Goodwill [1] | Other intangible assets | Other intangible assets under construction | Total | Goodwill [1] | Other intangible assets | Other intangible assets under construction | Total |
| **Acquisition cost** | | | | | | | | |
| **Balance at 1 January** | **261** | **302** | **78** | **641** | **256** | **317** | **139** | **712** |
| Additions to the consolidated Group | 1 | – | – | 1 | 16 | 5 | 0 | 21 |
| Additions | – | 14 | 106 | 120 | – | 13 | 50 | 63 |
| Disposals | –5 | –41 | –2 | –48 | – | –10 | –1 | –11 |
| Reclassifications | – | 45 | –43 | 2 | – | 18 | –17 | 1 |
| Currency translation differences | –1 | –3 | 0 | –4 | 3 | 4 | 0 | 7 |
| **Balance at 31 December** | **256** | **317** | **139** | **712** | **275** | **347** | **171** | **793** |
| **Cumulative amortization** | | | | | | | | |
| **Balance at 1 January** | **23** | **182** | **0** | **205** | **28** | **208** | **0** | **236** |
| Depreciation | – | 43 | – | 43 | – | 35 | – | 35 |
| Impairment | 4 | 1 | – | 5 | 2 [2] | 5 | 20 | 27 |
| Disposals | – | –16 | – | –16 | – | –10 | – | –10 |
| Reclassifications | – | 0 | 0 | 0 | – | – | – | – |
| Currency translation differences | 1 | –2 | 0 | –1 | 1 | 4 | – | 5 |
| **Balance at 31 December** | **28** | **208** | **0** | **236** | **31** | **242** | **20** | **293** |
| **Carrying amount as at 1 January** | **238** | **120** | **78** | **436** | **228** | **109** | **139** | **476** |
| **Carrying amount as at 31 December** | **228** | **109** | **139** | **476** | **244** | **105** | **151** | **500** |

1 Goodwill relating to fully consolidated companies. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of these equity interests (see Note 23, Investments in associates and joint ventures).
2 See following table "Goodwill by segment".

Other intangible assets essentially comprise purchased standard software.

Investment commitments for intangible assets amount to 4 million francs (previous year: 2 million francs).

### Reviewing the recoverable amount of goodwill

In the event of a new acquisition, goodwill is allocated to identifiable groups of units known as cash-generating units (CGUs) and tested annually for impairment. A CGU is usually a company.

A CGU's recoverable amount is based on a calculation of its value in use, in turn based on the strategic financial planning. The calculation of a CGU's value in use reflects the future cash flows for the next two to five years, discounted to present value at the weighted cost of capital, and an estimated residual value. This does not include any growth component.

The goodwill refers to the following segments or subsidiaries:

| Goodwill by segment | 31 December 2016 | | | | | | 31 December 2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CHF million | Total goodwill | PostMail | Post-Logistics | Swiss Post Solutions | PostBus | Other | Total goodwill | PostMail | Post-Logistics | Swiss Post Solutions | PostBus | Other |
| SPS Group | 25 | – | – | 25 | – | – | 27 | – | – | 27 | – | – |
| Swiss Post Solutions AG | 29 | – | – | 29 | – | – | 29 | – | – | 29 | – | – |
| Swiss Post Solutions Inc. | 37 | – | – | 37 | – | – | 35 | – | – | 35 | – | – |
| Swiss Post Solutions Ltd | 22 | – | – | 22 | – | – | 23 | – | – | 23 | – | – |
| Swiss Post Solutions SAS Group | 1 | – | – | 1 | – | – | 1 | – | – | 1 | – | – |
| Presto Presse-Vertriebs AG | 41 | 41 | – | – | – | – | 41 | 41 | – | – | – | – |
| Direct Mail Company AG | 26 | 26 | – | – | – | – | 26 | 26 | – | – | – | – |
| PostLogistics Ltd | 27 | – | 27 | – | – | – | 27 | – | 27 | – | – | – |
| Swiss Post SAT Holding Ltd | 9 | – | 9 | – | – | – | 9 | – | 9 | – | – | – |
| Société d’Affrètement et de Transit S.A.T. SA | 2 | – | 2 | – | – | – | 2 | – | 2 | – | – | – |
| BPS Group | – | – | – | – | – | – | 13 | – | 13 | – | – | – |
| health care research institute AG (hcri) [1] | 2 | – | – | – | – | 2 | – | – | – | – | – | – |
| Other | 7 | – | 5 | – | 2 | – | 11 | – | 8 | – | 3 | – |
| **Total** | **228** | **67** | **43** | **114** | **2** | **2** | **244** | **67** | **59** | **115** | **3** | **–** |

1 Goodwill of 2 million francs was impaired.

To determine the recoverable amount of goodwill for subsidiaries on 31 December 2017 based on the discounted cash flow method, the following parameters were set per country. In addition, a market risk premium of 6 percent (Switzerland and abroad) and depending on the risks a small cap premium of between 0 and 4 percent as well as a debt premium of 2 to 6 percent were applied for the calculation, as in the previous year.

| Parameters for the determination of the recoverable amount of goodwill by country | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| Percent | Interest rate [1] | Tax rate [2] | WACC [3] | Interest rate [1] | Tax rate [2] | WACC [3] |
| Switzerland | 0.0 | 20.8–25.9 | 5.6–9.5 | 0.4 | 17.0–31.9 | 7.4–12.6 |
| Belgium | 1.1 | 34.0 | 12.4 | 1.8 | 34.0 | 14.9 |
| Germany | 0.4 | 29.0 | 7.9 | 1.3 | 29.0 | 10.7 |
| France | 1.0 | 33.3–34.0 | 8.8–10.0 | 1.8 | 28.0–34.0 | 8.7–15.0 |
| United Kingdom | 1.5 | 21.0 | 8.4 | 1.9 | 18.0 | 10.1 |
| US | 2.3 | 45.0 | 15.1 | 2.9 | 42.0 | 15.6 |

1 Yield on 30-year bonds of the relevant country.
2 Tax rates of the acquired companies (CGU).
3 Weighted average cost of capital.

## 27 | Financial liabilities

Financial liabilities

| CHF million | On demand | Callable[1] | Up to 1 year | 1–5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | |
| Postal accounts | 67,485[2] | – | – | – | – | 67,485[2] |
| Deposito and investment accounts | – | 42,866 | – | – | – | 42,866 |
| Medium-term notes for customers | – | – | 21 | 85 | 8 | 114 |
| **Total customer deposits (PostFinance)** | **67,485**[2] | **42,866** | **21** | **85** | **8** | **110,465**[2] |
| Due to banks | 2 | – | 848 | – | – | 850 |
| Derivative financial instruments | – | – | 64 | 85 | 120 | 269 |
| Other financial liabilities | | | | | | |
| Finance leases | 0 | – | 2 | 4 | 1 | 7 |
| Repurchase transactions | – | – | 723 | – | – | 723 |
| Bonds | – | – | – | 595 | 675 | 1,270 |
| Other | 3 | – | 351 | – | 2 | 356 |
| **Total other financial liabilities** | **5** | **–** | **1,988** | **684** | **798** | **3,475** |
| **Total financial liabilities** | **67,490**[2] | **42,866** | **2,009** | **769** | **806** | **113,940**[2] |
| **31 December 2017** | | | | | | |
| Postal accounts | 71,235 | – | – | – | – | 71,235 |
| Deposito and investment accounts | – | 41,852 | – | – | – | 41,852 |
| Medium-term notes for customers | – | – | 13 | 73 | 6 | 92 |
| Money market investments for customers | – | – | 5 | – | – | 5 |
| **Total customer deposits (PostFinance)** | **71,235** | **41,852** | **18** | **73** | **6** | **113,184** |
| Due to banks | 57 | – | 64 | – | – | 121 |
| Derivative financial instruments | – | – | 30 | 260 | 439 | 729 |
| Other financial liabilities | | | | | | |
| Finance leases | 15 | – | – | – | – | 15 |
| Repurchase transactions | – | – | – | – | – | – |
| Bonds | – | – | 300 | 330 | 640 | 1,270 |
| Other | 1 | – | 3 | 3 | 2 | 9 |
| **Total other financial liabilities** | **73** | **–** | **397** | **593** | **1,081** | **2,144** |
| **Total financial liabilities** | **71,308** | **41,852** | **415** | **666** | **1,087** | **115,328** |

1 Call deposits for which no notice of withdrawal has been given, recallable provided an agreed notice period is observed.
2 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).

Other financial liabilities in cash flow from financing activities

| CHF million | Due to banks | Derivative financial instruments | Finance leases | Repurchase transactions | Bonds | Other | Total |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **60** | **210** | **8** | **108** | **1,270** | **9** | **1,665** |
| Cash flow from operating and investment activities | 58 | 210 | – | 108 | – | 5 | 381 |
| **Cash flow from financing activities as at 1 January 2016** | **2** | **–** | **8** | **–** | **1,270** | **4** | **1,284** |
| Cash changes | 0 | – | –2 | – | – | 355 | 353 |
| Changes to scope of consolidation | – | – | – | – | – | –22 | –22 |
| Currency translation differences | 0 | – | 0 | – | – | 0 | 0 |
| Other non-cash changes | – | 1 | 1 | – | – | 17 | 19 |
| **Cash flow from financing activities as at 31 December 2016** | **2** | **1** | **7** | **–** | **1,270** | **354** | **1,634** |
| Cash flow from operating and investment activities | 848 | 268 | – | 723 | – | 2 | 1,841 |
| **As at 31 December 2016** | **850** | **269** | **7** | **723** | **1,270** | **356** | **3,475** |
| **As at 1 January 2017** | **850** | **269** | **7** | **723** | **1,270** | **356** | **3,475** |
| Cash flow from operating and investment activities | 848 | 268 | – | 723 | – | 2 | 1,841 |
| **Cash flow from financing activities as at 1 January 2017** | **2** | **1** | **7** | **–** | **1,270** | **354** | **1,634** |
| Cash changes | 2 | – | –4 | – | – | –351 | –353 |
| Changes to scope of consolidation | – | – | 2 | – | – | 0 | 2 |
| Currency translation differences | 0 | – | 1 | – | – | 0 | 1 |
| Other non-cash changes | 2 | – | 9 | – | – | 0 | 11 |
| **Cash flow from financing activities as at 31 December 2017** | **6** | **1** | **15** | **–** | **1,270** | **3** | **1,295** |
| Cash flow from operating and investment activities | 115 | 728 | – | – | – | 6 | 849 |
| **As at 31 December 2017** | **121** | **729** | **15** | **–** | **1,270** | **9** | **2,144** |

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

The fourth quarter of 2012 saw the borrowing of funds by means of a private placement as long-term funds of 1,280 million francs were raised on the capital market from major, predominantly domestic, private and institutional investors. Several tranches were issued with an average maturity of around 11 years. The average interest rate applicable to these private placements is 0.83 percent. The average remaining maturity of the outstanding tranches was approximately seven years at the end of 2017.

In accordance with hedge accounting requirements, 712 million francs (previous year: 263 million francs) were posted to derivative financial instruments (negative fair values).

Interest expense for customer deposits (PostFinance) amounted to 40 million francs in the reporting period (previous year: 62 million francs).

### Present value of the commitments from finance leases

| Cash value of the commitments from finance leases | 31 December 2016 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| CHF million | Nominal | Discount | Present value | Nominal | Discount | Present value |
| Due within 1 year | 2 | 0 | 2 | 4 | 0 | 4 |
| Due within 1 to 5 years | 4 | 0 | 4 | 6 | 0 | 6 |
| Due date longer than 5 years | 1 | 0 | 1 | 5 | 0 | 5 |
| **Total** | **7** | **0** | **7** | **15** | **0** | **15** |

## 28 | Provisions

| Provisions<br>CHF million | Other long-term employee benefits | Restructuring | Claims incurred | Litigation risks | Other | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **290** | **23** | **25** | **11** | **78** | **427** |
| Recognition | 25 | 17 | 11 | 2 | 60 | 115 |
| Present value adjustment | 2 | – | – | – | 0 | 2 |
| Use | –31 | –10 | –9 | –1 | –11 | –62 |
| Reversal | –1 | –1 | –4 | –2 | –14 | –22 |
| Reclassifications | – | 0 | – | – | 0 | 0 |
| Currency translation differences | – | 0 | – | 0 | 0 | 0 |
| **As at 31 December 2016** | **285** | **29** | **23** | **10** | **113** | **460** |
| of which short term | 31 | 6 | 17 | 5 | 3 | 62 |
| | | | | | | |
| **As at 1 January 2017** | **285** | **29** | **23** | **10** | **113** | **460** |
| Additions to the consolidated Group | – | – | – | 0 | 0 | 0 |
| Recognition | 4 | 48 | 32 | 6 | 88 | 178 |
| Present value adjustment | 1 | – | – | – | 0 | 1 |
| Use | –27 | –9 | –7 | 0 | –15 | –58 |
| Reversal | –3 | 0 | –3 | –2 | –14 | –22 |
| Reclassifications | – | – | – | – | – | – |
| Currency translation differences | – | 0 | – | 0 | 0 | 0 |
| **As at 31 December 2017** | **260** | **68** | **45** | **14** | **172** | **559** |
| of which short term | 27 | 24 | 19 | 8 | 64 | 142 |

Provisions of 48 million francs were recognized for planned and communicated restructuring plans. The amount consists of benefits due based on the collective employment agreement redundancy plan as well as additional benefits. In the year under review, other provisions were recognized for the removal of asbestos from the real estate portfolio, onerous contracts and outstanding obligations arising from business activities and excess compensatory payments received.

### Other long-term employee benefits

Other long-term employee benefits essentially comprise bonuses for anniversaries for numbers of years of service (loyalty bonuses including sabbaticals for management employees) and staff vouchers (predominantly for retired employees). The performance can be found in the following breakdown.

The following parameters were applied:

| Assumptions for the calculation | Loyalty bonuses | | Staff vouchers | |
|---|---|---|---|---|
| as at | 31.12.2016 | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| Discount rate | 0.25% | 0.25% – 0.50% | 0.50% | 0.75% |
| Annual change in salaries | 1.00% | 1.00% | – | – |
| Percentage rate of staff voucher use | – | – | 95.00% | 95.00% |
| Leave share | 55.80% | 55.80% | – | – |
| Voluntary turnover | 7.48% | 9.27% | 3.56% | 3.49% |
| Average remaining service in years | 9.56 | 9.31 | 11.38 | 11.21 |

## Change in other long-term employee benefits

| Other long-term employee benefits | Loyalty bonuses | | Staff vouchers | |
|---|---|---|---|---|
| CHF million | 2016 | 2017 | 2016 | 2017 |
| **Balance at 1 January** | **131** | **118** | **156** | **164** |
| Accrued claims | 9 | 9 | 4 | 4 |
| Benefits paid | –26 | –22 | –5 | –5 |
| Interest on employee benefit obligations | 1 | 0 | 1 | 1 |
| Income from plan amendments | –1 | –2 | – | – |
| (Gains)/losses resulting from changes in assumptions | 3 | –2 | 8 | –7 |
| Actuarial (gains)/losses | 1 | 1 | 0 | –3 |
| **Balance at 31 December** | **118** | **102** | **164** | **154** |

In addition to loyalty bonuses, sabbaticals and staff vouchers, other benefits amounting to 4 million francs are also included in provisions for other long-term employee benefits (previous year: 3 million francs).

## Other long-term employee benefits recognized in the income statement

| Expenses recognized in the income statement | Loyalty bonuses | | Staff vouchers | |
|---|---|---|---|---|
| CHF million | 2016 | 2017 | 2016 | 2017 |
| Accrued claims | 9 | 9 | 4 | 4 |
| Interest on employee benefit obligations | 1 | 0 | 1 | 1 |
| Income from plan amendments | –1 | –2 | – | – |
| Actuarial (gains)/losses | 4 | –1 | 8 | –10 |
| **Total expenses for other long-term employee benefits** | **13** | **6** | **13** | **–5** |

## 29 | Equity

### Share capital

On 1 January 1998, the Swiss Confederation provided Swiss Post with interest-free endowment capital of 1,300 million francs. Swiss Post was converted from an institution under public law into a company limited by shares subject to a special statutory regime with share capital of 1,300 million francs in accordance with the Postal Organization Act on 26 June 2013 with retroactive effect to 1 January 2013. Swiss Post remains wholly owned by the Swiss Confederation.

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

### Profits and losses recorded directly in other comprehensive income

*Revaluation of employee benefit obligations*
Changes in revaluation gains from employee benefit obligations in accordance with IAS 19 that occurred during the year and that were recorded in other comprehensive income (OCI) as equity are shown in the following table. Revaluation gains are the result of differences between assumed (estimated) amounts and their actual realizations.

*Fair value reserves*
Fair value reserves comprise fluctuations in the value of financial assets available for sale, which are caused mainly by fluctuations in capital market interest rates. When financial assets are sold, the relevant fair value reserve is recognized in the income statement.

*Hedging reserves*
Hedging reserves include net gains and losses resulting from fair value changes attributable to the effective portion of cash flow hedges. The hedging reserves are reclassified in the income statement when the hedged item is closed out.

*Currency translation reserves*
Currency translation reserves contain the cumulative differences resulting from the translation of the financial statements of subsidiaries, associates and joint ventures from their functional currency into Swiss francs.

*Other gains and losses*
These reserves comprise any other gains and losses recorded in other comprehensive income, such as those arising from associates and joint ventures.

### Appropriation of profit

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

According to the proposal submitted by the Board of Directors to the General Meeting of Swiss Post Ltd, a total of 200 million francs will be distributed as a dividend for the 2017 financial year. This corresponds to a dividend of 153.85 francs per share. The amount available for dividends is based on the statutory equity of the parent company Swiss Post Ltd. Further details can be found in the Swiss Post Ltd annual financial statements.

Other comprehensive income includes the following:

| **Group** \| Profits and losses recorded directly in other comprehensive income<br>CHF million | Notes | Revaluation of employee benefit obligations | Fair value reserves | Hedging reserves | Currency translation reserves | Other profits and losses | Equity attributable to the owner | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2016** | | **–2,214** | **130** | **–3** | **–67** | **9** | **–2,145** | **0** | **–2,145** |
| Revaluation of employee benefit obligations | 9 | –89 | – | – | – | – | –89 | – | –89 |
| Change in deferred income taxes | 14 | 45 | – | – | – | – | 45 | – | 45 |
| **Items not reclassifiable in the consolidated income statement, after tax** | | **–44** | **–** | **–** | **–** | **–** | **–44** | **–** | **–44** |
| Change in currency translation reserves | | – | – | – | –9 | – | –9 | 0 | –9 |
| Change in share of other comprehensive income from associates and joint ventures | | – | – | – | – | –1 | –1 | – | –1 |
| Change in fair value reserves from available-for-sale financial assets, net | | – | 270 | – | – | – | 270 | – | 270 |
| Change in hedging reserves from cash flow hedges, net | | – | – | –51 | – | – | –51 | – | –51 |
| Change in deferred income taxes | 14 | – | –36 | 10 | – | – | –26 | – | –26 |
| **Reclassifiable items in income statement, after tax** | | **–** | **234** | **–41** | **–9** | **–1** | **183** | **0** | **183** |
| **Other comprehensive income** | | **–44** | **234** | **–41** | **–9** | **–1** | **139** | **0** | **139** |
| Adjustments in connection with disposals | 37 | 2 | – | – | – | – | 2 | – | 2 |
| **Balance as at 31 December 2016** | | **–2,256** | **364** | **–44** | **–76** | **8** | **–2,004** | **0** | **–2,004** |
| **Balance as at 1 January 2017** | | **–2,256** | **364** | **–44** | **–76** | **8** | **–2,004** | **0** | **–2,004** |
| Revaluation of employee benefit obligations | 9 | 2,084 | – | – | – | – | 2,084 | – | 2,084 |
| Change in deferred income taxes | 14 | –414 | – | – | – | – | –414 | – | –414 |
| **Items not reclassifiable in the income statement, after tax** | | **1,670** | **–** | **–** | **–** | **–** | **1,670** | **–** | **1,670** |
| Change in currency translation reserves | | – | – | – | 19 | – | 19 | 0 | 19 |
| Change in share of other comprehensive income from associates and joint ventures | | – | – | – | – | –4 | –4 | – | –4 |
| Change in fair value reserves from available-for-sale financial assets, net | | – | –42 | – | – | – | –42 | – | –42 |
| Change in hedging reserves from cash flow hedges, net | | – | – | –109 | – | – | –109 | – | –109 |
| Change in deferred income taxes | 14 | – | 1 | 22 | – | – | 23 | – | 23 |
| **Reclassifiable items in consolidated income statement, after tax** | | **–** | **–41** | **–87** | **19** | **–4** | **–113** | **0** | **–113** |
| **Other comprehensive income** | | **1,670** | **–41** | **–87** | **19** | **–4** | **1,557** | **0** | **1,557** |
| Adjustments in connection with disposals | 37 | –2 | – | – | – | – | –2 | – | –2 |
| **Balance as at 31 December 2017** | | **–588** | **323** | **–131** | **–57** | **4** | **–449** | **0** | **–449** |

## 30 | Operating leases

### Swiss Post as lessee

Minimum commitments under non-cancellable lease and rental agreements break down as follows:

Commitments under operating leases

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **Future commitments under operating leases due in** | | |
| Less than 1 year | 75 | 78 |
| 1 to 5 years | 181 | 173 |
| Over 5 years | 85 | 79 |
| **Future payment commitments under operating leases** | **341** | **330** |
| Minimum lease payments | 138 | 143 |
| Conditional lease payments | 8 | 8 |
| **Lease expenses for the period** | **146** | **151** |
| Income from sub-letting in the past financial year | 23 | 25 |
| Future income from sub-letting | 39 | 38 |

Payments arising from operating leases relate mainly to rent for the postal network's real estate (with an average remaining term of two years), rent for business premises and ground rent agreements at the Real Estate unit. Income from sub-letting relates to the postal network's real estate which, for the purposes of optimization, has been sub-let to third parties until the lease expires.

Conditional lease payments occur if the lease is index-linked.

### Swiss Post as lessor

Income from the rental of Swiss Post's own properties to third parties amounted to 39 million francs in the reporting period (previous year: 39 million francs). As at the end of the reporting period, Swiss Post had not entered into any other significant lease agreements as lessor.

Income from lease agreements

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **Future minimum lease payments due under agreements in** | | |
| Less than 1 year | 74 | 75 |
| 1 to 5 years | 195 | 193 |
| Over 5 years | 60 | 59 |
| **Total** | **329** | **327** |

## 31 | Contingent liabilities

Contingent liabilities were as follows as at 31 December 2017:

### Guarantees and guarantee obligations

There were no guarantees or guarantee obligations at the end of 2017.

### Legal cases

As regards claims or legal cases for which no reliable estimate of the amount of the obligation can be made, no provision is recognized. Executive Management believes either that they can be refuted or that they will not have a material impact on the Group's financial position or operating profit. In the reporting period, the resulting contingent liabilities amounted to 50 million francs (previous year: 47 million francs).

## 32 | Risk management

### Risk management (corporate risk management)

*Organization*

Swiss Post operates a comprehensive risk management system, applicable to all units and subsidiaries. Risk policy is defined by Executive Management and the Board of Directors. The implementation of risk management lies with line management. The Executive Board members of the different Group units are responsible for their own risk portfolio. Risks are freshly assessed every six months, and the control measures updated.

The Group risk managers run the process, develop Group-wide risk management methods and submit reports to Executive Management and the Board of Directors. The unit risk managers implement the directives and coordinate independent risk controls by the Risk Officer. Reporting documents are prepared for the relevant Executive Board and for Group risk managers. The risk managers monitor the necessary controls, measures and limits as well as the potential risks. Risk management ensures that all detectable risks are identified and recorded in full in the risk analysis and reporting systems. The areas considered include strategy, operation, finance and legal aspects.

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

*Risk situation*

Successful entrepreneurial action is based on adequately controlling or avoiding material risks and taking advantage of opportunities that arise in a value-enhancing way. At Swiss Post, risks and opportunities are assessed as part of operational planning for a one-year planning period (risks and opportunities with a short-term impact), while the strategic risk situation is established over the planning horizon until 2020.

Risks and opportunities with a short-term impact

Swiss Post understands risks with a short-term impact to be any event which can have a negative influence on the achievement of its goals within the next 12 months. Short-term opportunities refer to potential results which go beyond the goals defined for the financial year. The individual risks and opportunities for all the units identified using the Monte Carlo simulation procedure are combined to establish the overall risk position of the Group. As well as calculating the average expected loss/gain potential, the maximum annual loss potential is determined with a confidence interval of 99 percent.

Based on the latest calculations, the Group has an expected loss potential of –41.9 million francs in relation to the financial year 2018. Average expected losses compared to the prior-year period have therefore increased by –24.5 million francs (expected loss in 2017: –17.4 million francs). The unexpected annual loss potential (VaR 99 percent) for the Group totals –433.0 million francs for 2018. Risks have therefore increased year-on-year (unexpected loss potential in 2017 [VaR 95 percent]: –98.3 million francs). Overall, an analysis of the results shows that economic equity at Swiss Post exceeds the simulated maximum loss potential. The Group's risk capacity is thereby guaranteed.

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

Risks and opportunities with a long-term impact

As well as assessing the short-term risk situation, Swiss Post also identifies and evaluates strategic risks and opportunities. Any developments or events that could result in deviations in relation to the planned pre-tax profit (EBIT) in 2020 are regarded as strategic risks and opportunities.

The most significant strategic risks include declining volume trends. Changes in the regulatory framework could also have an effect on the company. The growth programmes and cost-cutting measures which have been initiated offer promising long-term opportunities. PostFinance's result is greatly dependent on market interest rate changes.

## Internal control system

Swiss Post operates an internal control system (ICS) that promptly identifies and assesses the relevant financial processes and risks related to bookkeeping and the rendering of accounts and incorporates appropriate key controls to cover those processes and risks. The ICS encompasses those procedures and measures that ensure proper bookkeeping and rendering of accounts. It thus ensures that financial reporting is of a high quality. Swiss Post sees the ICS as an activity aimed at the continuous improvement of processes.

In accordance with Article 728 a, paragraph 1, section 3 of the Swiss Code of Obligations, the external auditors check that an ICS is in place in conducting their regular audit.

## Risk management at PostFinance

### *Business model and risk profile*

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

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

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

## Governance and reporting

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

PostFinance's Board of Directors conducts an annual risk assessment. Assisted by the Board of Directors' Audit & Compliance Committee, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective internal control system (ICS) which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of "equity needed to meet regulatory requirements". Maximum risk exposure is determined by the risk capacity of PostFinance and the risk appetite of the Board of Directors.

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

The PostFinance Executive Board is responsible for the active management of financial, strategic and operational risks within the framework defined by the Board of Directors and ensures that the risk management infrastructure meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up directives and guidelines and by establishing limits in individual risk categories and by defining requirements for risk monitoring reports.

If limits are exceeded, the relevant official body is informed promptly so that decisions can be made on the measures to be taken. The Executive Board ensures that a consistent approach is adopted when limits are exceeded by defining an escalation process.

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

The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee, as the non profit-oriented unit of the 1st line of defence mandated for this purpose, in managing financial risks in the overall balance sheet. It identifies and measures the financial risks entered into by PostFinance and proposes control measures. It also monitors and reports on the effectiveness of the control decided upon. The Risk Management department submits weekly and monthly reports to the Executive Board on the risk measurement results and the extent to which limits are used. This enables it to decide on the necessary control measures, if any, with regard to financial risks. The monthly reports are also discussed as a standard agenda item in the Board of Directors' Risk Committee meetings.

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

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

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

Facts of major importance are reported by Risk Control, Compliance, and Security & Shared Services immediately and on an ad-hoc basis.

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

### Risk measurement methods

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

PostFinance measures and monitors financial risks both at individual portfolio level and with regard to the overall balance sheet. Risks are limited by means of a multi-dimensional limit system. A variety of methods of differing degrees of complexity are used to measure financial risks. In concrete terms, they include scenario analyses (e.g. to measure the earnings effects of interest rate risks or the full utilization of credit risk limits), sensitivity analyses (e.g. to measure the present value effects arising from interest rate risks) and value at risk methods (e.g. to measure fair value risks resulting from equity investments). The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

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

## Stress testing

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

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

## Financial risk management at PostFinance

The following financial risks are constantly taken, measured, controlled and monitored at PostFinance:

*Interest rate risk and balance sheet structure risk*
The term "interest rate risk" refers to the potential impact of a change in market interest rates on the present value of assets and liabilities in the balance sheet, resulting mainly from maturity mismatches, as well as the possible effect on the result from interest operations in the income statement.

PostFinance's interest-earning operations are a key earnings driver for Swiss Post. As changes in interest rates have a direct impact on net interest income, management of the risks associated with such changes is considered a priority.

The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest or require capital commitment. The interest rate and capital commitment of these deposits are therefore estimated using a replication method which aims to map the most closely matching maturities of similar customer products while minimizing the interest margin volatility of each product. The maturities of money and capital market investments are determined on the basis of the target present value sensitivity, and used to define the maturity transformation strategy. The resulting imbalance between the liability and asset interest rates corresponds to the maturity transformation, which is controlled from a present value and income perspective.

The present value perspective covers the net effect of a change in interest rates on the equity of PostFinance in the event of modifications to the yield curve. Future cash flow accruals are discounted according to the risk-adjusted present value formula. Sensitivity to a parallel shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other.

As at 31 December 2017, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –29 million francs (previous year: –158 million francs with a shift in interest of +100 basis points).

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future net interest income. In addition, dynamic income simulations are carried out for several deterministic scenarios. These scenarios describe future market interest trends and the resulting changes in customer interest and customer volumes for each replica, as well as different maturity transformation strategies where applicable. Dynamic income simulations are carried out by the Risk Management department. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

*Credit risks*

The term "credit risk" refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the other party to incur a financial loss. Credit risks increase as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the solvency of an entire group of otherwise unrelated counterparties.

PostFinance Ltd was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance Ltd is not permitted to issue direct loans and mortgages due to postal legislation provisions. Interest-bearing customer deposits therefore do not go towards granting mortgages, but are invested on the money and capital markets. PostFinance continues to pursue a conservative investment strategy. Liquidity and creditworthiness are the main criteria for its investment decisions. The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the sectors, countries and counterparties. A large proportion of customer deposits are invested as a sight deposit balance at the SNB. On 31 December 2017, this sight deposit balance stood at 36,362 million francs (previous year: 35,596 million francs).

The conservative investment strategy pursued by PostFinance is reflected in the figures for financial assets according to rating as at 31 December 2016 and 31 December 2017:

Rating structure of financial assets [1]

| Rating category in percent | 31.12.2016 | 31.12.2017 |
|---|---|---|
| AAA (incl. SIC) | 60 | 57 |
| AA | 22 | 22 |
| A | 13 | 15 |
| < A | 5 | 6 |

1 Includes cash and capital contributions; based on nominal values.

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

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

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

The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the counterparties. An overview of major counterparties as at 31 December 2016 and 31 December 2017 is given below:

Breakdown of the largest counterparties [1]

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Pfandbriefbank schweizerischer Hypothekarinstitute AG, Zurich | 10,660 | 9,316 |
| Pfandbriefzentrale der schweizerischen Kantonalbanken AG, Zurich | 7,347 | 7,850 |
| Swiss Confederation, Berne | 3,034 | 2,744 |

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

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

Breakdown of the three main country exposures [1]

| CHF million | 31.12.2016 |
|---|---|
| Switzerland | 47,401 |
| France | 4,869 |
| USA | 4,061 |

Breakdown of the three main country exposures [1]

| CHF million | 31.12.2017 |
|---|---|
| Switzerland | 46,630 |
| USA | 5,364 |
| France | 4,609 |

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

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

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

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

Note on the maximum default risk at PostFinance Ltd:
in the case of cash holdings, amounts due from banks, interest-bearing amounts due from customers, trade accounts receivable and other receivables (excluding accrued income and prepaid expenses), the maximum default risk corresponds to the carrying amount. The maximum default risk for financial assets exposed to the credit risk is also equal to the carrying amount, and totals 77,971 million francs (previous year: 77,413 million francs). Collateral is not taken into account in the figures shown.

Note on collateral concentration risks:
Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk, as it can be realized by PostFinance in the event of default by the counterparty. High concentrations of collateral are measured, monitored and restricted, as considerable losses in collateral value can lead to the insolvency of counterparties (the issuers of the collateral).

Note on credit risks arising from mortgage lending and SME financing:
The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 do not result in any credit risks for PostFinance. These are borne entirely by the partner bank. Since autumn 2009, PostFinance has been collaborating with Valiant Bank on financing for SMEs. This cooperation arrangement has enabled PostFinance to expand its range of services in the retail market. Since autumn 2010, PostFinance has also worked with Valiant Bank on mortgage lending to private customers. The credit risks resulting from the two areas of cooperation are assumed by Valiant Bank.

*Liquidity risks*
Liquidity risk refers to the risk that current and future payment obligations cannot be met on time or in full. Liquidity risks are managed in the short, medium and long term. To guarantee liquidity on a daily basis, financial cushions are defined for the settlement of unforeseen payments. These financial cushions should be available for use in stress situations in particular, when it may no longer be possible to turn to the unsecured interbank market for liquidity. The minimum amount for a financial cushion is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity in the short term is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure. As at 31 December 2017, the Liquidity Coverage Ratio stood at 194 percent (previous year: 204 percent). LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

To ensure liquidity in the medium term, liquidity stress scenarios are defined that last at least three months and must not lead to illiquidity. The long-term structural liquidity situation is reassessed by the Executive Board on an annual basis. There is an emergency plan to resolve any liquidity crises.

The following table shows an analysis of financial assets and financial liabilities in accordance with the contractual maturities remaining as per the balance sheet date.

## PostFinance Ltd: Contractual maturities

| 31 December 2016<br>CHF million | 0–3 months | 4–12 months | 1–5 years | over 5 years | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash holdings | 1,777 [1] | – | – | – | 1,777 [1] |
| Amounts due from banks | 35,921 | – | – | – | 35,921 |
| Interest-bearing amounts due from customers | 410 | – | – | – | 410 |
| Financial assets (without derivatives) | | | | | |
| Held-to-maturity | 1,905 | 5,521 | 26,528 | 13,261 | 47,215 |
| Available-for-sale | 100 | 665 | 3,360 | 9,080 | 13,205 |
| Loans | 2,382 | 1,266 | 5,237 | 8,042 | 16,927 |
| **Total non-derivative financial assets** | **42,495** [1] | **7,452** | **35,125** | **30,383** | **115,455** [1] |
| Derivative financial instruments for trading purposes | | | | | |
| Outflow | –260 | –107 | –1 | – | –368 |
| Inflow | 263 | 109 | 1 | – | 373 |
| Derivative financial instruments for hedging purposes (risk management) | | | | | |
| Outflow | –9 | –25 | –136 | –69 | –239 |
| Inflow | 4 | 8 | 50 | 27 | 89 |
| **Total derivative financial assets** | **–2** | **–15** | **–86** | **–42** | **–145** |
| **Financial liabilities** | | | | | |
| Postal accounts | 68,251 [1] | – | – | – | 68,251 [1] |
| Deposito and investment accounts | 42,865 | – | – | – | 42,865 |
| Cash bonds for customers | 10 | 11 | 85 | 8 | 114 |
| **Total customer deposits** | **111,126** [1] | **11** | **85** | **8** | **111,230** [1] |
| Liabilities relating to banks | 848 | – | – | – | 848 |
| Other financial liabilities | 22 | – | – | – | 22 |
| Repurchase transactions | 723 | – | – | – | 723 |
| **Total other financial liabilities (excluding derivatives)** | **1,593** | **–** | **–** | **–** | **1,593** |
| Irrevocable credit commitments | 709 | – | – | – | 709 |
| **Total off-balance-sheet positions** | **709** | **–** | **–** | **–** | **709** |
| **Total non-derivative financial liabilities** | **113,428** [1] | **11** | **85** | **8** | **113,532** [1] |
| Derivative financial instruments for trading purposes | | | | | |
| Outflow | –298 | –111 | –3 | – | –412 |
| Inflow | 295 | 109 | 3 | – | 407 |
| Derivative financial instruments for hedging purposes (risk management) | | | | | |
| Outflow | –1,364 | –911 | –1,843 | –822 | –4,940 |
| Inflow | 1,291 | 851 | 1,579 | 679 | 4,400 |
| **Total derivative financial liabilities** | **–76** | **–62** | **–264** | **–143** | **–545** |

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

PostFinance Ltd: Contractual maturities

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

*Market risks*

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

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

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

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

From an aggregated perspective, value at risk for the income statement as per IFRS stood at 84 million francs as at 31 December 2017 (previous year: 98 million francs). The reduction of equity positions in foreign currencies resulted in a decline in value at risk, while the constitution of an overlay hedged fixed income portfolio in foreign currencies led to an increase in value at risk for the income statement as per IFRS. As at 31 December 2017, the P&L value at risk arising from foreign currency risks stands at 31.6 million francs (previous year: 18 million francs) and value at risk for the income statement from share price, credit spread and interest rate risks amounts to 53 million francs (previous year: 80 million francs).

From an aggregated perspective, value at risk for OCI stands at 1,207 million francs as at 31 December 2017 (previous year: 730 million francs). The sharp rise in value at risk for OCI is principally due to the accounting practice of classifying fixed income assets as available for sale. As at 31 December 2017, value at risk for OCI arising from foreign currency risks stands at 10 million francs (previous year: 7 million francs) and value at risk for OCI from share price, credit spread and interest rate risks amounts to 1,197 million francs (previous year: 723 million francs).

The following table shows the Group's foreign currency exposure as at 31 December 2016 and 31 December 2017:

| Financial instruments by currency (Group)<br>31 December 2016<br>CHF million | Functional currency | Foreign currencies: CHF | EUR | USD | GBP | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,120[1] | 0 | 141[1] | 1 | 0 | 0 | 2,262[1] |
| Receivables due from banks | 37,433[1] | 0 | 83 | 41 | 2 | 12 | 37,571[1] |
| Interest-bearing amounts due from customers | 404 | – | 1 | 0 | 0 | 0 | 405 |
| Trade accounts receivable | 741[1] | 0 | 202 | 0 | 1 | 83 | 1,027[1] |
| Other receivables excluding prepaid expenses | 523[1] | – | 1 | 4 | 1 | 1 | 530[1] |
| Financial assets | 69,346 | – | 6,944 | 2,757 | 54 | 147 | 79,248 |
| Held for trading and derivatives | 4 | – | 56 | 5 | 0 | 0 | 65 |
| Held to maturity | 44,990 | – | 1,882 | 343 | – | – | 47,215 |
| Available for sale | 7,359 | – | 4,991 | 2,409 | 54 | 147 | 14,960 |
| Loans | 16,993 | – | 15 | – | – | – | 17,008 |
| **Liabilities** | | | | | | | |
| Customer deposits (PostFinance) | 107,541[1] | 0 | 2,438[1] | 404 | 37 | 45 | 110,465[1] |
| Other financial liabilities | 3,394 | – | 55 | 25 | 1 | 0 | 3,475 |
| Trade accounts payable | 525 | 0 | 182 | 0 | 1 | 95 | 803 |
| Other liabilities excluding deferred income | 730 | – | 8 | 0 | 0 | 0 | 738 |

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

| Financial instruments by currency (Group)<br>31 December 2017<br>CHF million | Functional currency | Foreign currencies: CHF | EUR | USD | GBP | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash | 2,358 | 0 | 177 | 1 | 0 | 0 | 2,536 |
| Receivables due from banks | 38,258 | 1 | 66 | 37 | 3 | 14 | 38,379 |
| Interest-bearing amounts due from customers | 340 | – | 1 | 7 | 0 | 0 | 348 |
| Trade accounts receivable | 744 | 0 | 250 | 0 | 1 | 104 | 1,099 |
| Other receivables excluding prepaid expenses | 348 | – | 0 | 5 | 0 | 0 | 353 |
| Financial assets | 65,341 | – | 10,179 | 3,766 | 0 | 80 | 79,366 |
| Held for trading and derivatives | 14 | – | 12 | 17 | 0 | 1 | 44 |
| Held to maturity | 37,815 | – | 1,522 | 318 | – | – | 39,655 |
| Available for sale | 11,531 | – | 8,634 | 3,431 | – | 79 | 23,675 |
| Loans | 15,981 | – | 11 | – | – | – | 15,992 |
| **Liabilities** | | | | | | | |
| Customer deposits (PostFinance) | 110,127 | 0 | 2,523 | 434 | 51 | 49 | 113,184 |
| Other financial liabilities | 1,529 | – | 599 | 16 | 0 | 0 | 2,144 |
| Trade accounts payable | 589 | 0 | 232 | 0 | 1 | 107 | 929 |
| Other liabilities excluding deferred income | 590 | – | 9 | 0 | 0 | 0 | 599 |

## Operational risk management at PostFinance

### *Definition*
In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The principles on managing operational risk at PostFinance are set out in the risk policy.

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

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

## Capital management at PostFinance Ltd

According to the decree issued by the Swiss National Bank on 29 June 2015, PostFinance Ltd was designated a systemically important financial group. As a result, the requirements set out in articles 124 to 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) also became relevant to PostFinance Ltd. A capital adequacy disclosure in accordance with the guidelines for systemically important banks can be found in the PostFinance Ltd statutory annual financial statements from page 175.

## Capital management at Swiss Post

Swiss Post endeavours to achieve a solid equity base (fully paid-in share capital and reserves), taking into account the objective of the owner to establish a sustainable dividend policy. The continued existence of the company should be ensured at all times, and the resources implemented should result in appropriate income. Constraints such as observing a set level of maximum net debt and increasing the company's value, taking capital costs into consideration, guarantee the company's long-term capacity to act.

Net debt is measured in relation to EBITDA (operating profit before depreciation and amortization) and must not exceed the figure of 1 for long periods. With external debt in the form of outstanding private placements currently totalling 1,270 million francs (31 December 2016: 1,270 million francs), Swiss Post meets this objective and gives the company financial leeway. Customer deposits and financial assets of PostFinance Ltd are not included in the calculation of this indicator.

Economic value added is established on the basis of the earnings generated in relation to the economically accurate cost of invested capital, whereby the basis of capital costs is determined from a comparison with other companies in the sector.

The appropriation of profit is determined by legal provisions, by the goals set by the Federal Council, and by the requirements of the business. The key issues are an appropriate capital structure and the financing of investments. The aim is also to achieve a sustainable dividend policy.

## 33 | Fair value disclosures

### Carrying amounts and fair values of financial instruments and other assets

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

| Fair values and carrying amounts of financial instruments and other assets | 31 December 2016 | | 31 December 2017 | |
|---|---|---|---|---|
| CHF million | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets measured at fair value** | | | | |
| Financial assets | | | | |
| Available for sale | | | | |
| Bonds | 13,206 | 13,206 | 22,336 | 22,336 |
| Shares | 500 | 500 | 60 | 60 |
| Funds | 1,246 | 1,246 | 1,221 | 1,221 |
| Positive replacement values | 65 | 65 | 44 | 44 |
| **Financial assets not measured at fair value** | | | | |
| Financial assets | | | | |
| Held to maturity | 47,215 | 49,249 | 39,655 | 40,971 |
| Loans | 17,008 | 17,419 | 15,992 | 16,671 |
| **Financial liabilities measured at fair value** | | | | |
| Other financial liabilities | | | | |
| Negative replacement values | 269 | 269 | 729 | 729 |
| Deferred purchase price payments (earn out) | 1 | 1 | 7 | 7 |
| **Financial liabilities not measured at fair value** | | | | |
| Other financial liabilities | | | | |
| Private placements | 1,270 | 1,362 | 1,270 | 1,344 |
| **Other assets not measured at fair value** | | | | |
| Investment property | 246 | 323 | 290 | 441 |

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

### Fair value hierarchy

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

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. For an instrument to be assigned to level 1, it must be traded on an active market (public stock exchange), have a quoted price on the reference date and be available in sufficient quantities to ensure a liquid market.

Level 2 Valuation method based on observable model inputs: Positions that are not traded on an active market but whose fair values are measured on the basis of similar assets and liabilities traded on active markets or using valuation techniques are classified as level 2. 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 according to standard market yield curve modelling and models.

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

Fair values are determined as follows:

Fair value of financial instruments and other assets

| CHF million | 31 December 2016 Total | Level 1 | Level 2 | Level 3 | 31 December 2017 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|---|---|
| Available for sale | | | | | | | | |
| Bonds | 13,206 | 10,708 | 2,497 | 1 | 22,336 | 18,467 | 3,866 | 3 |
| Shares | 500 | 500 | – | 0 | 60 | 60 | – | – |
| Funds | 1,246 | 0 | 1,246 | – | 1,221 | 0 | 1,221 | – |
| Positive replacement values | 65 | – | 65 | – | 44 | 0 | 44 | – |
| Held to maturity [1] | 49,249 | 38,704 | 10,545 | – | 40,971 | 32,998 | 7,973 | – |
| Loans [2] | 17,419 | 0 [3] | 17,401 [3] | 18 | 16,671 | – | 16,660 | 11 |
| Negative replacement values | 269 | – | 269 | – | 729 | 1 | 728 | – |
| Deferred purchase price payments (earn out) | 1 | – | – | 1 | 7 | – | – | 7 |
| Private placements | 1,362 | – | 1,362 | – | 1,344 | – | 1,344 | – |
| Investment property [4] | 10 | – | – | 10 | 370 | – | – | 370 |
| Investment property under construction [4] | 313 | – | – | 313 | 71 | – | – | 71 |

1 Financial assets held to maturity are recognized at amortized cost using the effective interest method.
2 Loans are measured at amortized cost. In the case of the loans to PostBus 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.
3 Loans of around 63 million francs were disclosed under level 1 instead of level 2 in the previous year's report.
4 Recognized in the balance sheet at amortized cost.

Interests amounting to around 58 million francs (31 December 2016: around 8 million francs) are measured at cost in "available-for-sale" shares. The overview above and the table on the previous page (Carrying amounts and fair values of financial instruments and other assets) therefore do not include the values of these interests.

45 million francs of available-for-sale financial assets were reclassified from level 2 to level 1 as at 31 December 2017 (previous year: none). Reclassifications between the different levels are carried out at the end of each reporting period.

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

- Property: PostParc (investment property)
  As at 31 December 2017, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

  The following assumptions were made for determining fair value:

  - Letting of the property at market terms
  - The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator.
  - The discounting is based on a risk-compliant real interest rate of 3.8 per cent, also taken from the database of the evaluator (previous year: 4.2 percent).

  As at 31 December 2017, the fair value determined for the PostParc stands at around 342 million francs (previous year: around 313 million francs).

- Property: Bellinzona Autorimessa (investment property)
  As at 31 December 2017, the property is measured using the capitalized earnings method. The following rate was applied to capitalize effective rental income. In the capitalization rate used, the operating, maintenance and repair costs were considered. Accrued provisions were deducted from the earnings value calculated.

  The following assumptions were made for determining fair value:

  - Letting of the property at sustainable tenancy terms
  - Average capitalization rate: 6.4 percent (previous year: 7.0 percent)

  As at 31 December 2017, the fair value determined for the Autorimessa in Bellinzona stands at around 10 million francs (previous year: around 10 million francs).

- Property: Interlaken (investment property)
  As at 31 December 2017, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

  The following assumptions were made for determining fair value:

  - Letting of the property at sustainable tenancy terms
  - Average capitalization rate: 3.9 percent (property managed as investment property for the first time, no prior-year figure available)

  As at 31 December 2017, the fair value determined stands at around 18 million francs (property managed as investment property for the first time, no prior-year figure available).

– Property: Zurich 50 Oerlikon (investment property under construction)
As at 31 December 2017, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

The following assumptions were made for determining fair value:

– Letting of the property at market terms
– The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator
– The discounting is based on a risk-compliant real interest rate of 4.5 per cent, also taken from the database of the evaluator (new project in 2017, no prior-year figure available)

As at 31 December 2017, the fair value determined stands at around 34 million francs (new project in 2017, no prior-year figure available).

– Property: Frauenfeld 1 (investment property under construction)
As at 31 December 2017, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

The following assumptions were made for determining fair value:

– Letting of the property at market terms
– The operating and maintenance costs considered during the valuation are guided by benchmarks from the database of the evaluator
– The discounting is based on a risk-compliant real interest rate of 4.2 per cent, also taken from the database of the evaluator (new project in 2017, no prior-year figure available)

As at 31 December 2017, the fair value determined stands at around 19 million francs (new project in 2017, no prior-year figure available).

– Property: Dübendorf (investment property under construction)
As at 31 December 2017, the property is measured using the discounted cash flow approach. The fair value of the property on the due evaluation date is calculated in accordance with the measurement standard from the sum of the anticipated cash flows (including investments not yet undertaken) discounted on the due date and not taking into account any change of ownership, profit from sale of land, value added tax or other costs or commissions arising if selling the property.

The following assumptions were made for determining fair value:

– Letting of the property at sustainable tenancy terms
– Average capitalization rate: 3.2 percent (new project in 2017, no prior-year figure available).

As at 31 December 2017, the fair value determined stands at around 18 million francs (new project in 2017, no prior-year figure available).

## 34 | Transfers of financial assets

Securities received as part of reverse repurchase transactions are recognized in the balance sheet only if risks and opportunities are entered into. Securities transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under "Financial assets". Financial instruments loaned as part of securities lending transactions also continue to be recognized in the balance sheet as financial assets.

Financial assets from reverse repurchase, repurchase and securities lending transactions are pledged as follows:

Reverse repurchase transactions and securities lending and repurchase transactions

| CHF million | Notes | 31.12.2016 | 31.12.2017 |
|---|---|---|---|
| **Receivables** | | | |
| Receivables from cash collateral in reverse repurchase transactions | 15 | 84 | 24 |
| of which recognized in amounts due from banks | 15 | 84 | 24 |
| of which recognized in interest-bearing amounts due from customers | 15 | – | – |
| **Commitments** | | | |
| Commitments from cash collateral in securities lending transactions | | – | – |
| of which recognized in financial liabilities – other financial liabilities | | – | – |
| Commitments from cash collateral in repurchase transactions | 27 | 723 | – |
| of which recognized in financial liabilities – other financial liabilities | 27 | 723 | – |
| **Securities cover** | | | |
| Own lent securities or securities provided as collateral for borrowed securities in repurchase transactions | 18 | 3,251 | 3,192 |
| of which securities for which an unrestricted right to dispose of or pledge was granted | | 2,528 | 3,192 |
| of which recognized in financial assets – held to maturity | | 2,459 | 2,698 |
| of which recognized in financial assets – available for sale | | 69 | 494 |
| Borrowed securities or securities received as collateral for lent securities as part of securities lending and reverse repurchase transactions | | 2,906 | 3,523 |

## 35 | Potential offsetting of financial assets and financial liabilities

No offsetting took place. The financial assets and financial liabilities listed below were subject to offsetting agreements, enforceable global offsetting or similar agreements as at 31 December 2016 or 31 December 2017: Both the Swiss Master Agreement for Repo Transactions (Multilateral Version) and the Agreement on the Settlement of Repo Transactions (Triparty Service Agreement) apply to repurchase and reverse repurchase transactions. There is also a master agreement applicable to securities lending transactions, as well as agreements for Triparty Collateral Management (TCM) between SIX Ltd, third parties and PostFinance Ltd.

| Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements<br>31.12.2016, CHF million | Financial assets with offsetting agreements | | | Unrecognized offsetting options | | |
|---|---|---|---|---|---|---|
| | Financial assets before offsetting (gross) | Offsetting with financial liabilities | Financial assets after offsetting (net) | Financial liabilities | Collateral received | Financial assets after consideration of offsetting options |
| **Item in the balance sheet** | | | | | | |
| Positive fair values | 65 | – | 65 | – | – | 65 |
| Reverse repurchase transactions | 84 | – | 84 | – | –84 | 0 |

| Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements<br>31.12.2016, CHF million | Financial liabilities with offsetting agreements | | | Unrecognized offsetting options | | |
|---|---|---|---|---|---|---|
| | Financial liabilities before offsetting (gross) | Offsetting with financial assets | Financial liabilities after offsetting (net) | Financial assets | Collateral issued | Financial liabilities after consideration of offsetting options |
| **Item in the balance sheet** | | | | | | |
| Negative fair values | 269 | – | 269 | –210 | – | 59 |
| Repurchase transactions | 723 | – | 723 | – | –723 | 0 |
| Securities lending and similar agreements | 2,528 | – | 2,528 | – | –2,822 | –294 |

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

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

## 36 | Relationships with subsidiaries, associates and joint ventures

### Subsidiaries (scope of consolidation)

The companies listed below are fully consolidated.

| Segment | Company | Domicile | Currency | Share capital in 000s | Equity interest in percent as at 31.12.2016 | Equity interest in percent as at 31.12.2017 |
|---|---|---|---|---|---|---|
| **Switzerland** | | | | | | |
| 7 | Swiss Post Ltd | Berne | CHF | 1,300,000 | | |
| 1 | Presto Presse-Vertriebs AG | Berne | CHF | 100 | 100 | 100 |
| 1 | Epsilon SA | Lancy | CHF | 100 | 100 | 100 |
| 1 | Direct Mail Company AG | Basel | CHF | 420 | 100 | 100 |
| 1 | Direct Mail Logistik AG | Basel | CHF | 100 | 100 | 100 |
| 1 | Swiss Post International Holding Ltd [1] | Berne | CHF | 63,300 | 100 | – |
| 1 | IPO Input Processing Output Service AG [2] | Bösingen | CHF | 100 | – | 100 |
| 2 | Swiss Post Solutions Ltd | Zurich | CHF | 1,000 | 100 | 100 |
| 4 | Post Company Cars Ltd (previously Mobility Solutions Ltd) | Berne | CHF | 100 | 100 | 100 |
| 4 | PostLogistics Ltd | Dintikon | CHF | 20,000 | 100 | 100 |
| 4 | SecurePost Ltd | Oensingen | CHF | 4,000 | 100 | 100 |
| 4 | Swiss Post International Logistics Ltd [1] | Basel | CHF | 1,000 | 100 | – |
| 4 | Swiss Post SAT Holding Ltd | Berne | CHF | 2,000 | 100 | 100 |
| 4 | Tele-Trans AG | Basel | CHF | 50 | 100 | 100 |
| 4 | Botec Boncourt S.A. | Boncourt | CHF | 200 | 100 | 100 |
| 4 | Relatra AG [2] | Kreuzlingen | CHF | 180 | – | 100 |
| 4 | DESTINAS AG [2] | Kreuzlingen | CHF | 140 | – | 100 |
| 4 | JTB Holding AG [2] | Saillon | CHF | 120 | – | 100 |
| 4 | HAMIPO Holding AG [2] | Saillon | CHF | 100 | – | 100 |
| 4 | Eden-Trans GmbH [2] | Aadorf | CHF | 100 | – | 100 |
| 4 | Walli-Trans AG [2] | Brig-Glis | CHF | 100 | – | 100 |
| 4 | BPS Speditions-Service AG [2] | Pfungen | CHF | 100 | – | 100 |
| 4 | BPS Speditions-Service Basel AG, Arlesheim [2] | Arlesheim | CHF | 150 | – | 100 |
| 5 | PostFinance Ltd | Berne | CHF | 2,000,000 | 100* | 100* |
| 5 | Lendico Schweiz AG [3] | Zurich | CHF | 100 | – | 100 |
| 6 | PostBus Switzerland Ltd | Berne | CHF | 1,000 | 100 | 100 |
| 6 | PubliBike AG | Fribourg | CHF | 200 | 100 | 100 |
| 6 | PostBus Ltd (previously PostBus Management Ltd) | Berne | CHF | 1,100 | 100* | 100* |
| 6 | PostBus Mobility Solutions Ltd | Berne | CHF | 1,100 | 100 | 100 |
| 6 | PostBus Production Ltd | Berne | CHF | 1,100 | 100 | 100 |
| 6 | PostBus Vehicles Ltd | Berne | CHF | 1,100 | 100 | 100 |
| 7 | Post Real Estate Management and Services Ltd | Berne | CHF | 1,000 | 100 | 100 |
| 7 | Post Real Estate Ltd [4] | Berne | CHF | 100,000 | 20*/80 | 20*/80 |
| 7 | health care research institute AG (hcri) [1] | Zurich | CHF | 100 | 100 | – |
| 7 | SwissSign AG [5] | Opfikon | CHF | 450 | 100 | – |
| 1–7 | Post CH Ltd | Berne | CHF | 500,000 | 100* | 100* |

* Equity interest is held by Swiss Post Ltd.
1 Merged with Post CH Ltd.
2 Shares (100 percent) acquired.
3 Shares (14.444 percent and 61.111 percent, now fully consolidated) purchased.
4 Swiss Post Ltd and Post CH Ltd hold 20 percent and 80 percent respectively of shares in Post Real Estate Ltd.
5 Transferred from Swiss Post Solutions to Other. Shares (50 percent) sold.

**Segment**
1 = PostMail
2 = Swiss Post Solutions
3 = PostalNetwork
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

| Segment | Company | Domicile | Currency | Share capital in 000s | Equity interest in percent as at 31.12.2016 | Equity interest in percent as at 31.12.2017 |
|---|---|---|---|---|---|---|
| **Belgium** | | | | | | |
| 4 | Société d'Affrètement et de Transit S.A.T. SA | Brussels | EUR | 62 | 100 | 100 |
| **Germany** | | | | | | |
| 2 | Swiss Post Solutions GmbH | Bamberg | EUR | 5,000 | 100 | 100 |
| 2 | Swiss Post Solutions Holding GmbH | Bamberg | EUR | 25 | 100* | 100* |
| 2 | Swiss Post Solutions GmbH | Prien | EUR | 1,050 | 100 | 100 |
| 4 | Trans-Euro GmbH | Weil am Rhein | EUR | 25 | 100 | 100 |
| 4 | Zollagentur Imlig GmbH | Rheinfelden Baden | EUR | 25 | 100 | 100 |
| **France** | | | | | | |
| 2 | Swiss Post Solutions SAS | Paris | EUR | 50 | 100 | 100 |
| 4 | Société d'Affrètement et de Transit S.A.T. SAS | Bartenheim | EUR | 200 | 100 | 100 |
| 4 | Société de Transports Internationaux S.T.I. SARL | Bartenheim | EUR | 8 | 100 | 100 |
| 4 | SCI S.A.T. | Bartenheim | EUR | 1 | 100 | 100 |
| 4 | Tele Trans SAS | Saint-Louis | EUR | 38 | 100 | 100 |
| 4 | Botec Sàrl | Fêche-l'Église | EUR | 15 | 100 | 100 |
| 6 | CarPostal France SAS | Saint-Priest | EUR | 18,200 | 100 | 100 |
| 6 | CarPostal Bourg-en-Bresse SAS | Bourg-en-Bresse | EUR | 190 | 100 | 100 |
| 6 | CarPostal Haguenau SAS | Haguenau | EUR | 464 | 100 | 100 |
| 6 | CarPostal Interurbain SAS | Voreppe | EUR | 250 | 100 | 100 |
| 6 | CarPostal Mâcon SAS [6] | Mâcon | EUR | 300 | 100 | – |
| 6 | CarPostal Dole SAS | Dole | EUR | 300 | 100 | 100 |
| 6 | CarPostal Foncière SCI | Saint-Priest | EUR | 50 | 100 | 100 |
| 6 | CarPostal Villefranche-sur-Saône SAS | Arnas | EUR | 150 | 100 | 100 |
| 6 | CarPostal Agde SAS | Agde | EUR | 250 | 100 | 100 |
| 6 | CarPostal Bourgogne Franche-Comté SAS | Mâcon | EUR | 300 | 100 | 100 |
| 6 | CarPostal Méditerranée SAS | Agde | EUR | 420 | 100 | 100 |
| 6 | Holding Rochette Participations SAS | Montverdun | EUR | 400 | 100 | 100 |
| 6 | CarPostal Loire SARL | Montverdun | EUR | 1,925 | 100 | 100 |
| 6 | CarPostal Riviera SAS | Menton | EUR | 200 | 100 | 100 |
| 6 | CarPostal Salon de Provence SAS | Salon-de-Provence | EUR | 200 | 100 | 100 |
| 6 | CarPostal Bassin de Thau SAS | Sète | EUR | 250 | 100 | 100 |
| 6 | GR4 SAS [7] | Crolles | EUR | 200 | 48 | 48 |
| 6 | Autocars et Transports Grindler SAS | Vif | EUR | 250 | 100 | 100 |
| 6 | Autocars Trans-Azur SAS [8] | Salon-de-Provence | EUR | 77 | – | 100 |
| **United Kingdom** | | | | | | |
| 2 | Swiss Post Solutions Ltd | Richmond | GBP | 7,272 | 100 | 100 |
| **Italy** | | | | | | |
| 2 | Swiss Post Solutions S.p.A. | Milan | EUR | 500 | 100 | 100 |
| **Liechtenstein** | | | | | | |
| 6 | PostAuto Liechtenstein Anstalt | Vaduz | CHF | 1,000 | 100 | 100 |
| 7 | Swiss Post Insurance AG | Triesen | CHF | 30,000 | 100* | 100* |
| 7 | SwissSign AG [9] | Vaduz | CHF | 500 | 100 | – |

* Equity interest is held by Swiss Post Ltd.
6 Merged with CarPostal France SAS.
7 Share of voting rights: around 56 percent.
8 Shares (100 percent) acquired.
9 Transferred from Swiss Post Solutions to Other. Included in the joint venture SwissSign.

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

| Segment | Company | Domicile | Currency | Share capital in 000s | Equity interest in percent as at 31.12.2016 | Equity interest in percent as at 31.12.2017 |
|---|---|---|---|---|---|---|
| **Slovakia** | | | | | | |
| 2 | Swiss Post Solutions s.r.o. | Bratislava | EUR | 15 | 100 | 100 |
| **USA** | | | | | | |
| 2 | Swiss Post Solutions Inc. | New York | USD | 45 | 100 | 100 |
| 2 | Swiss Post US Holding Inc. | New York | USD | 10,100 | 100 | 100 |
| **Vietnam** | | | | | | |
| 2 | Swiss Post Solutions Ltd. | Ho-Chi-Minh City | VND | 1,821,446 | 100 | 100 |

**Segment**
2 = Swiss Post Solutions

## Associates and joint ventures

The companies listed below are accounted for using the equity method.

| Segment | Company | Domicile | Currency | Share capital in 000s | Equity interest in percent as at 31.12.2016 | Equity interest in percent as at 31.12.2017 |
|---|---|---|---|---|---|---|
| **Switzerland** | | | | | | |
| 1 | AZ Vertriebs AG | Aarau | CHF | 100 | 25 | 25 |
| 1 | SCHAZO AG | Schaffhausen | CHF | 300 | 50 | 50 |
| 1 | Somedia Distribution AG | Chur | CHF | 100 | 35 | 35 |
| 1 | DMB Direct Mail Biel-Bienne AG | Biel/Bienne | CHF | 100 | 50 | 50 |
| 1 | Asendia Holding Ltd | Berne | CHF | 100 | 50 | 50 |
| 1 | Prime Data AG [1] | Brugg | CHF | 100 | – | 25 |
| 4 | TNT Swiss Post AG | Buchs (AG) | CHF | 1,000 | 50 | 50 |
| 4 | Energy Logistics Schweiz (ELS) Ltd in liquidation [2] | Berne | CHF | 125 | 20 | – |
| 5 | SIX Interbank Clearing AG | Zurich | CHF | 1,000 | 25 | 25 |
| 5 | Finform Ltd | Berne | CHF | 100 | 50 | 50 |
| 5 | Lendico Schweiz AG [3] | Zurich | CHF | 100 | 24 | – |
| 5 | TWINT Ltd | Zurich | CHF | 10,200 | 33 | 33 |
| 5 | TONI Digital Insurance Solutions AG [4] | Schlieren | CHF | 244 | – | 30 |
| 6 | Sensetalbahn AG | Berne | CHF | 2,888 | 34 | 34 |
| 7 | SwissSign AG [5] | Opfikon | CHF | 450 | – | 50 |
| **Germany** | | | | | | |
| 2 | CF Card Factory GmbH [6] | Hessisch Lichtenau | EUR | 500 | 49 | – |
| 4 | GSF Spedition Schweiz GmbH [7] | Gütersloh | EUR | 25 | – | 50 |
| 5 | Swiss Euro Clearing Bank GmbH | Frankfurt am Main | EUR | 30,000 | 25 | 25 |
| 5 | moneymeets GmbH | Cologne | EUR | 81 | 20 | 20 |
| 5 | moneymeets community GmbH | Cologne | EUR | 81 | 20 | 20 |
| **France** | | | | | | |
| 6 | SCI Les Romarins [7] | Salon-de-Provence | EUR | 150 | – | 50 |
| **Liechtenstein** | | | | | | |
| 7 | Liechtensteinische Post AG | Schaan | CHF | 5,000 | 25 | 25 |

1 Shares (25 percent) acquired.
2 Liquidated.
3 Shares (14.444 percent and 61.111 percent, now fully consolidated) purchased.
4 Shares (10.47 percent and 19.54 percent) acquired.
5 New share 50 percent (previously 100 percent and fully consolidated).
6 Shares (49 percent) sold.
7 Shares (50 percent) acquired.

**Segment**
1 = PostMail
2 = Swiss Post Solutions
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

## 37 | Additions and disposals of subsidiaries

### Full year 2016

PostFinance Ltd, based in Berne, sold Debtors Service Ltd, based in Urtenen-Schönbühl, on 1 February 2016.

On 31 May 2016, Swiss Post Solutions GmbH sold Swiss Post Solutions Card Systems GmbH, both based in Bamberg (Germany).

SwissSign AG, based in Vaduz (Liechtenstein), was founded on 10 June 2016.

PostFinance Ltd, SIX Ltd and partner banks agreed to introduce a joint mobile payment system for Switzerland. The development and operation of the joint platform was assigned to TWINT Ltd on 30 September 2016. PostFinance Ltd holds a one-third interest in TWINT Ltd after the transaction. This means that TWINT Ltd, based in Zurich, has no longer been considered a fully consolidated subsidiary since 30 September 2016 (100 percent), but is accounted for using the equity method (33.333 percent) in the consolidated financial statements.

### Full year 2017

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

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

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

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

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

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

## Assets and liabilities arising from acquisitions

The following assets and liabilities were newly consolidated, based on temporary figures, in connection with acquisitions of subsidiaries:

| Assets and liabilities arising from acquisitions | Total fair value [1] | Total fair value [2] |
|---|---|---|
| CHF million | 2016 | 2017 |
| Cash and cash equivalents | – | 14 |
| Trade accounts receivable and other receivables | 0 | 11 |
| Inventories | – | – |
| Property, plant and equipment, intangible assets and financial assets | 0 | 10 |
| Other financial liabilities | – | –2 |
| Trade accounts payable | – | –6 |
| Provisions and other liabilities | 0 | –5 |
| **Fair value of net assets** | **0** | **22** |
| Goodwill | 1 | 16 |
| Badwill | – | –1 |
| Cash and cash equivalents acquired [3] | – | –14 |
| Fair value of existing investments | – | 0 |
| Purchase price payments falling due at a later date (earn-outs) | 0 | –9 |
| Payment of liabilities from acquisitions in previous years | 2 | 1 |
| **Net cash outflow for acquisitions** | **3** | **15** |

1 Composition: Botec Boncourt S.A., Tele-Trans AG.
2 Composition: IPO Input Processing Output Service AG, Relatra AG, DESTINAS AG, JTB Holding AG, HAMIPO Holding AG, BPS Speditions-Service Basel AG, Arlesheim, BPS Speditions-Service AG, Eden-Trans GmbH, Walli-Trans AG, Lendico Schweiz AG, Autocars Trans-Azur SAS.
3 Composition: cash and current receivables due from banks.

The acquisition costs for the companies acquired in 2017 amount to a total of 37 million francs. The purchase price payments (earn-outs) due at a later date amount to 9 million francs. The remaining amount was settled in liquid assets.

The goodwill arising from these transactions consists of assets that are not separately identifiable or cannot be reliably determined, primarily acquired expertise and synergies expected within the Group. Goodwill is not tax deductible.

The directly attributable acquisition expense amounts to 0.2 million francs and is recognized in the income statement under “Other operating expenses”.

Since the acquisition date, the acquired entities have contributed 21 million francs to operating income and minus one million francs to operating profit.

Overall, the effect of these acquisitions on the consolidated financial statements is not material in nature.

## Assets and liabilities arising from disposals

The following assets and liabilities were deconsolidated in connection with disposals of subsidiaries:

| Assets and liabilities arising from disposals<br>CHF million | Total carrying amount[1] 2016 | Total carrying amount[2] 2017 |
|---|---|---|
| Cash and cash equivalents | 3 | 0 |
| Trade accounts receivable and other receivables | 85 | 12 |
| Inventories | 6 | – |
| Property, plant and equipment, intangible assets and financial assets | 35 | 1 |
| Other financial liabilities | –29 | – |
| Trade accounts payable | –12 | –1 |
| Provisions and other liabilities | –15 | –3 |
| **Carrying amount of net assets disposed of** | **73** | **9** |
| Cash and cash equivalents disposed of[3] | –3 | 0 |
| Net loss from disposals[4] | –4 | –1 |
| Associate fair value addition | –32 | –4 |
| **Net cash inflow from disposals** | **34** | **4** |

1 Composition: Debtors Service Ltd, TWINT Ltd, Swiss Post Solutions Card Systems GmbH.
2 Composition: SwissSign AG (CH), SwissSign AG (LI).
3 Composition: cash and current receivables due from banks.
4 The net loss from disposals was reported in net financial income in the income statement.

Sales proceeds arising from disposals stood at 8 million francs in 2017.

Overall, the effect of these disposals on the consolidated financial statements is not material in nature.

## 38 | Transactions with related companies and parties

Within the meaning of the IFRSs, Swiss Post Group has relationships with related companies and parties. As the owner of Swiss Post, the Swiss Confederation is deemed to be a related party.

All transactions between Swiss Post and the related companies and parties are carried out at market conditions. Transactions between Swiss Post and its subsidiaries were eliminated during the consolidation and are no longer included in these notes.

Swiss Post and its subsidiaries carried out the following transactions with related companies and parties that are not part of the Group.

| Transactions with related companies and parties | Sale of goods and services | | Purchases of goods and services | | Receivables and loans with related companies | | Liabilities to related companies | |
|---|---|---|---|---|---|---|---|---|
| CHF million | 2016 | 2017 | 2016 | 2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| Swiss Confederation | 263[1] | 212[1] | 7 | 6 | 201 | 126 | 528 | 745 |
| Swisscom | 127 | 113 | 43 | 33 | 233 | 163 | 140 | 251 |
| Swiss Federal Railways SBB | 38 | 48 | 56 | 49 | 110 | 23 | 13 | 10 |
| RUAG | 1 | 1 | 0 | 0 | 0 | 0 | 3 | 2 |
| SKYGUIDE | 3 | 3 | 0 | – | 200 | 200 | 21 | 16 |
| **Companies with joint management or significant influence** | **432** | **377** | **106** | **88** | **744** | **512** | **705** | **1,024** |
| **Associates and joint ventures** | **138** | **135** | **32** | **31** | **41** | **43** | **53** | **28** |
| **Other related companies and parties** | **1** | **2** | **3** | **3** | **1** | **0** | **11**[2] | **71**[2] |

1 Includes compensatory payments for passenger transport of 211 million francs for 2017 (previous year: 209 million francs).
2 Primarily includes customer deposits of the Swiss Post pension fund held at PostFinance.

### Remuneration paid to members of the management

In the past financial year, remuneration including fringe benefits of 5.9 million francs (previous year: 6.0 million francs) and pension benefits of around 0.92 million francs (previous year: around 0.87 million francs) was paid to members of the management (Board of Directors and Executive Management). The performance-related component paid out to members of Executive Management in 2017 was based on target attainment in 2015 and 2016 and amounted to around 1.66 million francs (previous year: around 1.2 million francs). There are no loan agreements in place with members of the Board of Directors or Executive Management.

## 39 | Key exchange rates

The following exchange rates were applied in translating the financial statements of foreign subsidiaries into Swiss francs:

| Exchange rates | | Closing rate as at | | Average rate for the period ending | |
|---|---|---|---|---|---|
| Unit | | 31.12.2016 | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| 1 euro | EUR | 1.08 | 1.17 | 1.09 | 1.11 |
| 1 US dollar | USD | 1.02 | 0.98 | 0.99 | 0.98 |
| 1 pound sterling | GBP | 1.26 | 1.32 | 1.33 | 1.27 |

## 40 | Events after the reporting period

Prior to the approval of the 2017 consolidated annual financial statements by Swiss Post Ltd’s Board of Directors on 6 March 2018, no events came to light which either would have resulted in changes to the carrying amounts of the Group’s assets and liabilities or would have to be disclosed in this section of the Report.

# Statutory Auditor's Report
# To the General Meeting of Swiss Post Ltd, Berne

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the pages 76 to 158 of the financial report covering the consolidated financial statements of Swiss Post Ltd and its subsidiaries (the Group) – which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes as at 31 December 2017 including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards (PS). Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter

As part of an audit by the Federal Office of Transport (FOT) of the internal accounting of services in the PostBus segment, there were indications of accounting practices that do not comply with the law in conjunction with the reporting pursuant to the subsidy law, resulting in a reimbursement of state compensatory payments for the years 2007 to 2017. With regard to the financial consequences of the aforementioned matter, please refer to the explanatory note "5 Segment information – state compensatory payments" in the notes to the consolidated financial statements. Our audit opinion is not qualified with respect to this matter.

### Other information in the Financial Report

The Board of Directors is responsible for the other information in the financial report. The other information comprises all information included in the financial report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company Swiss Post Ltd, Postfinance Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the financial report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

**KPMG AG**

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

Gümligen-Berne, 6 March 2018

# SWISS POST LTD
# ANNUAL FINANCIAL STATEMENTS

The annual financial statements issued by Swiss Post Ltd as the parent of Swiss Post Group meet the requirements of Swiss law.

# Income statement

**Swiss Post Ltd** | Income statement

| CHF million | 2016 | 2017 |
|---|---|---|
| **Operating income** | | |
| Trade income | 54 | 25 |
| Income from interests | 357 | 450 |
| **Total operating income** | **411** | **475** |
| **Operating expenses** | | |
| Personnel expenses | –5 | –4 |
| Other operating expenses | –53 | –63 |
| Depreciation of intangible assets | –67 | –67 |
| **Total operating expenses** | **–125** | **–134** |
| **Operating profit** | **286** | **341** |
| Financial income | 96 | 172 |
| Financial expenses | –31 | –53 |
| **Total net financial income** | **65** | **119** |
| **Profit for the year before tax** | **351** | **460** |
| Direct taxes | –2 | –3 |
| **Profit for the year** | **349** | **457** |

# Balance sheet

**Swiss Post Ltd** | Balance sheet

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Amounts due from banks | 1,264 | 1,149 |
| Amounts due from PostFinance Ltd | 5 | 1 |
| Trade accounts receivable | – | 10 |
| Other current receivables | 1,461 | 1,575 |
| Accrued income and prepaid expenses | – | 1 |
| **Total current assets** | **2,730** | **2,736** |
| **Fixed assets** | | |
| Financial assets | 816 | 814 |
| Interests | 7,920 | 7,947 |
| Intangible assets | 733 | 667 |
| **Total fixed assets** | **9,469** | **9,428** |
| **Total assets** | **12,199** | **12,164** |
| **Equity and liabilities** | | |
| **Liabilities** | | |
| Trade accounts payable | 19 | 77 |
| Current interest-bearing liabilities | 411 | 60 |
| Other current liabilities | 1 | 1 |
| Deferred income | 3 | 4 |
| **Total current liabilities** | **434** | **142** |
| Non-current interest-bearing liabilities | 1,270 | 1,270 |
| Provisions | 0 | 0 |
| **Total non-current liabilities** | **1,270** | **1,270** |
| **Total liabilities** | **1,704** | **1,412** |
| **Equity** | | |
| Share capital | 1,300 | 1,300 |
| Statutory capital reserves | | |
| Other capital reserves | 8,685 | 8,685 |
| Distributable profit | | |
| Profit carried forward | 161 | 310 |
| Profit for the year | 349 | 457 |
| **Total equity** | **10,495** | **10,752** |
| **Total equity and liabilities** | **12,199** | **12,164** |

# Notes

## 1 | Basic principles

### 1.1 General

A description is given below of any significant valuation principles applied that are not specified by law.

### 1.2 Legal form

Swiss Post Ltd was established as a company limited by shares subject to a special statutory regime. It is domiciled in Berne.

### 1.3 Financial assets

Financial assets include long-term loans to subsidiaries of Swiss Post Ltd. They are measured at a maximum of acquisition cost less any necessary impairment losses. Loans granted in foreign currencies are measured at the current closing rate. Unrealized losses are recognized, whereas unrealized profits are not disclosed (imparity principle).

### 1.4 Interests

Swiss Post Ltd controls various subsidiaries. These interests are carried in the balance sheet at acquisition cost less any necessary impairment losses.

### 1.5 Intangible assets

Any intangible assets acquired are capitalized at acquisition cost, provided that they offer the company economic benefits over several years. Internally generated intangible assets are capitalized if they meet the necessary requirements at the balance sheet date. Intangible assets are depreciated on a straight-line basis. If there are any signs of overvaluation, the carrying amounts are checked and impairment losses recognized if necessary.

### 1.6 Decision to dispense with additional information in the notes to the annual financial statements, cash flow statement and management report

Swiss Post Ltd, as the parent company within Swiss Post Group, prepares consolidated financial statements in accordance with a recognized financial reporting standard (International Financial Reporting Standards, IFRS). Consequently, and as set out in article 961d, paragraph 1 of the Swiss Code of Obligations, additional information in the notes to the annual financial statements, the cash flow statement and the management report is dispensed with in these financial statements, in accordance with the requirements for financial reporting for larger undertakings.

## 2 | Information on the balance sheet and income statement

### 2.1 Trade accounts receivable

**Swiss Post Ltd** | Trade accounts receivable

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Amounts due from third parties | – | 0 |
| Amounts due from interests | – | 10 |
| **Total trade accounts receivable** | **–** | **10** |

## 2.2 Other current receivables

**Swiss Post Ltd** | Other current receivables

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Amounts due from third parties | 125 | 0 |
| Amounts due from investors and organs | – | 277 |
| Amounts due from interests | 1,336 | 1,298 |
| **Total other current receivables** | **1,461** | **1,575** |

## 2.3 Financial assets

**Swiss Post Ltd** | Financial assets

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Financial assets due from third parties | 0 | 0 |
| Financial assets due from interests | 816 | 814 |
| **Total financial assets** | **816** | **814** |

## 2.4 Interests

**Swiss Post Ltd** | Interests

| | | | Share capital | Investment in percent | |
|---|---|---|---|---|---|
| Company | Domicile | Currency | in 1000 | Balance as at 31.12.2016 | Balance as at 31.12.2017 |
| **Directly held interests** | | | | | |
| **Switzerland** | | | | | |
| PostFinance Ltd | Berne | CHF | 2,000,000 | 100 | 100 |
| Post Real Estate Ltd | Berne | CHF | 100,000 | 20 [1] | 20 [1] |
| Post CH Ltd | Berne | CHF | 500,000 | 100 | 100 |
| PostBus Ltd (previously PostBus Management Ltd) | Berne | CHF | 1,100 | 100 | 100 |
| **Germany** | | | | | |
| Swiss Post Solutions Holding GmbH | Bamberg | EUR | 25 | 100 | 100 |
| **Liechtenstein** | | | | | |
| Swiss Post Insurance AG | Triesen | CHF | 30,000 | 100 | 100 |
| **Significant indirectly held interests** | | | | | |
| **Switzerland** | | | | | |
| Swiss Post Solutions Ltd | Zürich | CHF | 1,000 | 100 | 100 |
| Post Company Cars Ltd (previously Mobility Solutions Ltd) | Berne | CHF | 100 | 100 | 100 |
| PostLogistics Ltd | Dintikon | CHF | 20,000 | 100 | 100 |
| SecurePost Ltd | Oensingen | CHF | 4,000 | 100 | 100 |
| PostBus Switzerland Ltd | Berne | CHF | 1,000 | 100 | 100 |
| PostBus Production Ltd | Berne | CHF | 1,100 | 100 | 100 |
| PostBus Vehicles Ltd | Berne | CHF | 1,100 | 100 | 100 |

1 Swiss Post Ltd indirectly holds an additional 80 percent in Post Real Estate Ltd.

## 2.5 Intangible assets

The intangible assets disclosed in the balance sheet are capitalized Swiss Post brands.

## 2.6 Trade accounts payable

**Swiss Post Ltd** | Trade accounts payable

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Liabilities relating to third parties | 0 | 0 |
| Liabilities relating to interests | 19 | 77 |
| **Total trade accounts payable** | **19** | **77** |

## 2.7 Current interest-bearing liabilities

**Swiss Post Ltd** | Current interest-bearing liabilities

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Liabilities relating to third parties | 350 | – |
| Liabilities relating to interests | 61 | 60 |
| **Total current interest-bearing liabilities** | **411** | **60** |

## 2.8 Other current liabilities

**Swiss Post Ltd** | Other current liabilites

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Liabilities relating to third parties | 1 | 1 |
| **Total other current liabilities** | **1** | **1** |

## 2.9 Non-current interest-bearing liabilities

**Swiss Post Ltd** | Non-current interest-bearing liabilities

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Liabilities relating to third parties | 1,270 | 1,270 |
| **Total non-current interest-bearing liabilities** | **1,270** | **1,270** |

## 2.10 Share capital

The share capital stands at 1,300,000,000 francs. The 1,300,000 registered shares, each with a face value of 1,000 francs, are owned by the Swiss Confederation.

## 2.11 Trade income

Trade income principally discloses revenue from licence fees.

## 2.12 Income from interests

Dividend income from the financial years 2017 and 2016 from the following interests is reported in income from interests: Post CH Ltd, PostFinance Ltd, PostBus Ltd, Swiss Post Insurance AG and Post Real Estate Ltd.

## 2.13 Financial income

Financial income mainly consists of interest income from loans to interests as well as reversals of impairment on interests and loans to interests.

# 3 | Additional information

## 3.1 Full-time equivalents

The average annual number of full-time equivalents did not exceed 50, either in the year under review or in the previous year.

## 3.2 Bond issues

Swiss Post Ltd has several outstanding private placements totalling 1,270 million francs. 11 tranches overall, expiring between 2018 and 2032, were raised on the capital market from major, predominantly domestic, private and institutional investors. The average interest rate applicable to these private placements is 0.83 percent, and the average remaining maturity of the outstanding tranches was approximately seven years at the end of 2017.

## 3.3 Liabilities relating to employee benefits schemes

The liabilities relating to the Swiss Post pension fund totalled 51,331 francs at 31 December 2017 (31 December 2016: 53,795 francs), and are reported in other current liabilities. They are classed as liabilities relating to third parties.

The Foundation Board of the Swiss Post pension fund decided on compensation measures as part of its plan amendment. Employers with an affiliation agreement with the Swiss Post pension fund were obliged to make one-off payments totalling around 500 million francs to the Swiss Post pension fund. The pro-rata margin requirement for Swiss Post Ltd stands at 125,493 francs. Payments of 120,473 francs were made in the year under review. Provisions were recognized on the balance sheet date and reported as such for the remaining liability of 5,020 francs.

## 3.4 Collateral for third party liabilities

As at 31 December 2017, guarantees and guarantee obligations amounted to 16 million francs (31 December 2016: 24 million francs).

Collateral has been made available to guarantee intra-Group receivables from cash pooling via a time deposit (amounts due from banks) of over 100 million francs (31 December 2016: 50 million francs).

In addition, on 31 December 2017, as in the previous year, Letters of Comfort existed, deposited by Swiss Post Ltd (31 December 2017: 2,038 million francs, 31 December 2016: 2,025 million francs).

Under the system of group taxation for value added tax, liability is as follows: each person or partnership belonging to a VAT group is jointly and severally liable together with the taxpayer for all taxes owed by the group (VAT).

## 3.5 Material events after the reporting period

No material events occurred after the reporting period which either would have resulted in changes to the carrying amounts of the assets and liabilities disclosed or would have to be disclosed in this section of the Report.

There is no other information required by law as set out in article 959c, paragraph 1, section 4 of the Swiss Code of Obligations.

## 4 | Proposed appropriation of distributable profit

At the General Meeting, the Board of Directors will propose that the distributable profit of 767 million francs for the financial year ended 31 December 2017 be appropriated as follows:

**Swiss Post Ltd** | Appropriation of distributable profit proposed by the Board of Directors

| CHF million | 31.12.2017 |
|---|---|
| Amount carried forward from the previous year | 310 |
| Profit for the year | 457 |
| **Available distributable profit** | **767** |
| Dividends | –200 |
| **Amount carried forward to new account** | **567** |

# Report of the Statutory Auditor to the General Meeting of Shareholders of Swiss Post Ltd, Berne

## Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Swiss Post Ltd, presented on pages 164 to 170 of the financial report, which comprise the income statement, balance sheet and notes for the year ended December 31, 2017.

### Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements for the year ended December 31, 2017 comply with Swiss law and the company's articles of incorporation.

## Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

**KPMG AG**

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Stefan Andres
Licensed Audit Expert

Gümligen-Bern, March 6, 2018

# POSTFINANCE ANNUAL FINANCIAL STATEMENTS

PostFinance Ltd reports to the Group in accordance with International Financial Reporting Standards (IFRS) and issues its financial statements pursuant to the Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) (FINMA Circular 2015/1 "Accounting – banks").

# Reconciliation

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

**PostFinance Ltd** | Reconciliation of profit

| CHF million | 2016 | 2017 |
|---|---|---|
| **PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation** | **542** | **549** |
| Management/licence fees/net cost compensation | 14 | –5 |
| **PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation** | **556** | **544** |
| Net income from associates | –1 | –36 |
| Net financial income | –2 | –38 |
| **PostFinance segment earnings before tax (EBT)** | **553** | **470** |
| Income tax | –120 | –84 |
| **PostFinance segment profit** | **433** | **386** |
| Consolidation effects from associates | 2 | –6 |
| Consolidation effects from subsidiaries | –17 | –1 |
| **PostFinance Ltd profit before reconciliation** | **418** | **379** |
| Amortization of revalued held-to-maturity financial assets | –44 | –22 |
| Valuation differences for financial assets as per ARB | 78 | –28 |
| Realized gains from (earlier than scheduled) sales | –5 | –34 |
| Reversal of impairment/impairment on loans | 3 | – |
| Valuation differences between IAS 19 and Swiss GAAP ARR 16 | 22 | –3 |
| Depreciation of revalued real estate | –4 | –1 |
| Individual impairment losses due to lower fair value (fixed assets) | –4 | –9 |
| Amortization of goodwill | –200 | –200 |
| Valuation differences for investments as per ARB | – | 5 |
| Realized gains from investments | 1 | – |
| Adjustment of deferred tax effects as per IFRS | 46 | 49 |
| **PostFinance Ltd profit as per ARB** | **311** | **136** |

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

- The goodwill capitalized as part of the conversion is amortized by 200 million francs annually.
- Swiss Post reports its segments in accordance with IFRS based on operating profit before management, licence fees and net cost compensation. For this reason, the reconciliation of profit includes a charge of 5 million francs on the operating profit (previous year: offset of 14 million francs).

# POSTFINANCE LTD STATUTORY ANNUAL FINANCIAL STATEMENTS

The following pages show the PostFinance Ltd statutory financial statements in accordance with the Accounting rules for banks (articles 25–28 of the Banking Ordinance, FINMA Circular 2015/1 “Accounting – banks” ARB).

# Balance sheet

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

| CHF million | Notes | 31.12.2016 | 31.12.2017 |
|---|---|---|---|
| **Assets** | | | |
| Liquid assets | | 37,453 | 38,476 |
| Amounts due from banks | | 4,397 | 4,823 |
| Amounts due from securities financing transactions | 5 | 84 | 24 |
| Amounts due from customers | 6 | 13,169 | 12,173 |
| Mortgage loans | 6 | 0 | 0 |
| Trading portfolio assets | | – | – |
| Positive replacement values of derivative financial instruments | 7 | 65 | 43 |
| Other financial instruments at fair value | | – | – |
| Financial investments | 8 | 61,742 | 62,819 |
| Accrued income and prepaid expenses | | 598 | 556 |
| Participations | 9, 10 | 101 | 122 |
| Tangible fixed assets | 11 | 1,259 | 1,223 |
| Intangible assets | 12 | 1,200 | 1,000 |
| Other assets | 13 | 311 | 374 |
| **Total assets** | | **120,379** | **121,633** |
| Total subordinated claims | | 1 | 13 |
| of which subject to mandatory conversion and/or debt waiver | | – | – |
| **Liabilities** | | | |
| Amounts due to banks | | 2,406 | 543 |
| Liabilities from securities financing transactions | 5 | 723 | – |
| Amounts due in respect of customer deposits | | 109,709 | 113,292 |
| Trading portfolio liabilities | | – | – |
| Negative replacement values of derivative financial instruments | 7 | 268 | 728 |
| Liabilities from other financial instruments at fair value | | – | – |
| Cash bonds | | 114 | 93 |
| Bond issues and central mortgage institution loans | | – | – |
| Accrued expenses and deferred income | | 138 | 108 |
| Other liabilities | 13 | 8 | 6 |
| Provisions | 16 | 20 | 45 |
| Reserves for general banking risks | | – | – |
| Bank's capital | 17 | 2,000 | 2,000 |
| Statutory capital reserve | | 4,682 | 4,682 |
| of which tax-exempt capital contribution reserve | | 4,682 | 4,682 |
| Statutory retained earnings reserve | | – | – |
| Voluntary retained earnings reserves | | – | – |
| Profit carried forward | | – | – |
| Profit | | 311 | 136 |
| **Total liabilities** | | **120,379** | **121,633** |
| Total subordinated liabilities | | – | – |
| of which subject to mandatory conversion and/or debt waiver | | – | – |

**PostFinance Ltd** | Off-balance sheet transactions

| CHF million | Notes | 31.12.2016 | 31.12.2017 |
|---|---|---|---|
| Contingent liabilities | 25 | 0 | 33 |
| Irrevocable commitments | | 709 | 722 |
| Obligations to pay up shares and make further contributions | | – | – |
| Credit commitments | | – | – |

# Income statement

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

| CHF million | Notes | 2016 | 2017 |
|---|---|---|---|
| Interest and discount income | 28 | 175 | 171 |
| Interest and dividend income from trading portfolios | | – | – |
| Interest and dividend income from financial investments | 28 | 790 | 689 |
| Interest expense | 28 | –44 | 4 |
| **Gross result from interest operations** | | **921** | **864** |
| Changes in value adjustments for default risks and losses from interest operations | | 21 | 40 |
| **Net result from interest operations** | | **942** | **904** |
| Commission income from securities trading and investment activities | | 40 | 47 |
| Commission income from lending activities | | 16 | 20 |
| Commission income from other services | | 633 | 626 |
| Commission expense | | –462 | –438 |
| **Result from commission business and services** | | **227** | **255** |
| **Result from trading activities and the fair value option** | 27 | **211** | **222** |
| Result from the disposal of financial investments | | 28 | 67 |
| Income from participations | | 2 | 2 |
| Result from real estate | | 68 | 80 |
| Other ordinary income | | 158 | 100 |
| Other ordinary expenses | | – | –20 |
| **Other result from ordinary activities** | | **256** | **229** |
| **Operating income** | | **1,636** | **1,610** |
| Personnel expenses | 29 | –488 | –512 |
| General and administrative expenses | 30 | –516 | –554 |
| **Operating expenses** | | **–1,004** | **–1,066** |
| Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets | | –275 | –369 |
| Changes to provisions and other value adjustments, and losses | | –8 | –9 |
| **Operating result** | | **349** | **166** |
| Extraordinary income | 31 | 74 | 10 |
| Extraordinary expenses | 31 | –29 | – |
| Changes in reserves for general banking risks | | – | – |
| Taxes | 32 | –83 | –40 |
| **Profit** | | **311** | **136** |

# Appropriation of profit

**PostFinance Ltd** | Distributable profit

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Profit for the year | 311 | 136 |
| Profit carried forward | – | – |
| **Total distributable profit** | **311** | **136** |

At the General Meeting on 6 April 2018, the Board of Directors of PostFinance will propose the following appropriation of profit (previous year: 7 April 2017):

**PostFinance Ltd** | Appropriation of profit

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Allocation to other reserves | – | – |
| Dividend distributions | 311 | 136 |
| Profit carried forward to new account | – | – |
| **Total distributable profit** | **311** | **136** |

# Cash flow statement

**PostFinance Ltd** | Cash flow statement as per ARB

| CHF million | Cash inflow 2016 | Cash outflow 2016 | Cash inflow 2017 | Cash outflow 2017 |
|---|---|---|---|---|
| **Cash flow from operating activities (internal financing)** | | | | |
| Profit for the year | 311 | – | 136 | – |
| Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets | 275 | – | 359 | – |
| Provisions and other value adjustments | 7 | – | 25 | – |
| Change in value adjustments for default risks and losses | – | 5 | – | 39 |
| Accrued income and prepaid expenses | 54 | – | 42 | – |
| Accrued expenses and deferred income | 20 | – | – | 30 |
| Other items | 44 | – | 23 | – |
| Previous year's dividend | – | 221 | – | 311 |
| **Subtotal** | **485** | **–** | **205** | **–** |
| **Cash flow from shareholder's equity transactions** | | | | |
| Share capital | – | – | – | – |
| Recognized in reserves | – | – | – | – |
| **Subtotal** | **–** | **–** | **–** | **–** |
| **Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets** | | | | |
| Participations | – | 43 | 1 | 61 |
| Real estate | 11 | 86 | 9 | 45 |
| Other tangible fixed assets | – | 83 | – | 47 |
| Intangible assets | – | – | – | – |
| **Subtotal** | **–** | **201** | **–** | **143** |
| **Cash flow from banking operations** | | | | |
| Amounts due to banks | 1,186 | – | – | 1,863 |
| Liabilities from securities financing transactions | 615 | – | – | 723 |
| Amounts due in respect of customer deposits | 2,743 | – | 3,651 | – |
| Cash bonds | – | 19 | – | 22 |
| Negative replacement values of derivative financial instruments | 58 | – | 460 | – |
| Other liabilities | – | 10 | – | 1 |
| Amounts due from banks | 74 | – | – | 425 |
| Amounts due from securities financing transactions | 227 | – | 59 | – |
| Amounts due from customers | – | 2,183 | 998 | – |
| Mortgage loans | 0 | – | 0 | – |
| Positive replacement values of derivative financial instruments | – | 4 | 21 | – |
| Financial investments | – | 4,378 | – | 1,062 |
| Other accounts receivable | – | 22 | – | 64 |
| **Subtotal** | **–** | **1,713** | **1,029** | **–** |
| **Liquidity** | | | | |
| Liquid assets | 1,429 | – | – | 1,091 |
| **Subtotal** | **1,429** | **–** | **–** | **1,091** |
| **Total** | **1,914** | **1,914** | **1,234** | **1,234** |

# Statement of changes in equity

Presentation of the statement of changes in equity

| CHF million | Bank's capital | Capital reserve | Retained earnings reserve | Reserves for general banking risks | Voluntary retained earnings reserves and profit carried forward | Result of the period | Total |
|---|---|---|---|---|---|---|---|
| **Equity as at 01.01.2017** | **2,000** | **4,682** | **–** | **–** | **311** | **–** | **6,993** |
| Dividends | – | – | – | – | −311 | – | −311 |
| Profit | – | – | – | – | – | 136 | 136 |
| **Equity as at 31.12.2017** | **2,000** | **4,682** | **0** | **0** | **0** | **136** | **6,818** |

# Notes

## 1 | Business name and the legal form and domicile of the bank

Business name: PostFinance Ltd (company number CHE-114.583.749)
Legal form: Private limited company (Ltd)
Domicile: Berne (Switzerland)

## 2 | Accounting and valuation policies

### General principles

The bookkeeping, accounting and valuation policies are based on the Swiss Code of Obligations, the Banking Act and the related ordinance, statutory provisions and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA). The true and fair view statutory single-entity financial statements give an accurate picture of the assets, liabilities, financial position and results of operations of the company in accordance with the Accounting rules for banks, securities dealers, financial groups and conglomerates.

Individual report figures are rounded in the notes, while calculations are carried out using the non-rounded figures. Small rounding differences may therefore occur.

### Foreign currency translation

Balance sheet items in foreign currency are converted at the foreign exchange rates valid at the end of the year. Any resulting exchange gains and losses are recognized in the income statement. Income and expenses are converted at the applicable daily rates.

Closing rates

| | 31.12.2016 | 31.12.2017 |
|---|---|---|
| EUR | 1.0753 | 1.1685 |
| USD | 1.0227 | 0.9766 |
| GBP | 1.2554 | 1.3163 |
| JPY | 0.0087 | 0.0087 |

### Offsetting

In principle, no offsetting takes place, except in the cases set out below. Receivables and liabilities are offset if all the following conditions are met: the receivables and payables arise from transactions of the same type with the same counterparty, with the same maturity or earlier maturity of the receivable and in the same currency, and cannot lead to a counterparty risk. Positive and negative replacement values with the same counterparty are offset provided that legally recognized and enforceable bilateral agreements are in place. Value adjustments are deducted from the corresponding asset item.

### Trade date/settlement date accounting

In principle, securities transactions are recognized on the trade date. Concluded foreign exchange and money market transactions are recognized in the balance sheet on the settlement date (value date). Foreign exchange transactions are recognized in the balance sheet in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments until their settlement date.

### General valuation principles

The detailed positions of items in the balance sheet are valued separately (item-by-item valuation).

### Liquid assets, amounts due from banks and amounts due from securities financing transactions

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans / receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Cash outflows arising from reverse repurchase transactions are presented as amounts due from securities financing transactions. Financial investments obtained from transactions as collateral are generally not recognized in the balance sheet. Interest income from reverse repurchase transactions is accounted for using the accrual-based accounting principle. Securities lending and borrowing transactions are recorded at the value of the cash deposits that have been received or made, including the accrued interest. Securities borrowed or received as collateral are only recognized in the balance sheet if PostFinance gains control over the contractual rights associated with these securities. Securities lent and provided as collateral are only taken off the balance sheet if PostFinance loses the contractual rights associated with these securities. The fair values of the securities borrowed and lent are monitored on a daily basis in order to provide or claim additional collateral where required. Securities cover for reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values. Fees received or paid in relation to securities lending and repurchase transactions are stated in the result from commission business and services.

### Amounts due from customers and mortgage loans

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans / receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Receivables are classed as impaired at the latest when the contractually agreed payments of capital and/or interest are more than 90 days outstanding. Interest outstanding for more than 90 days is regarded as overdue. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Bad debt provisions are made for the accounts of private and business customers that have been overdrawn for more than 60 days. Value adjustments that are no longer economically necessary are released to income. All value adjustments are deducted directly from this item in the balance sheet.

Overdue interest, the collection of which is impaired, is no longer accrued as income, but is reported without interest when its collection is so doubtful that the accrual of such interest is no longer deemed appropriate. If a receivable is considered entirely or partially uncollectible or a waiver has been granted, the amount of the receivable is derecognized from the corresponding value adjustment.

### Trading portfolio assets

Securities held for trading acquired primarily with the aim of achieving short-term gains by making targeted use of fluctuations in market prices are measured at fair value. Realized and unrealized profit and loss from these securities is recorded in the result from trading activities and the fair value option. Interest and dividend income from securities held for trading is recognized under net interest income. Where, as an exception, no fair value is ascertainable, valuation and recognition are to follow the principle of the lower of cost or market value.

### Positive and negative replacement values of derivative financial instruments

Derivative financial instruments which are not accounted for under the hedge accounting rules or which do not meet the conditions to qualify for hedge accounting are treated as trading instruments. Derivative financial instruments acquired for trading purposes are recognized at fair value and are subsequently measured at fair value. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months. Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged underlying instrument are recognized in the income statement. Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are allocated to the compensation account, while changes in value to the extent a hedge is ineffective are recorded in the income statement. Positive and negative replacement values for all derivatives are recognized at fair value in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments.

### Financial investments

Financial investments with a fixed maturity that PostFinance intends and is able to hold to maturity are measured at amortized cost (accrual method). The effective interest method spreads the difference between the acquisition cost and the repayment amount (premium/discount) over the life of the investment in question using the present value method. The fair values of financial instruments are determined on the basis of stock market prices and valuation techniques (present value method, etc.). In the case of listed financial instruments, the fair values correspond to market prices provided that such prices have been set on a price-efficient and liquid market. If financial investments intended to be held to maturity are sold or repaid prior to maturity, the profits and losses realized that correspond to the interest component are accrued over the remaining term. Holdings in equity securities (shares) are valued according to the principle of the lower of cost or market value. Debt securities acquired without the intention of being held to maturity are also valued according to the principle of the lower of cost or market value. PostFinance checks its financial investments on a regular basis for any indication that an asset may be impaired. Here it looks in particular to fair value trends and the downgrading of credit ratings by recognized rating agencies or qualified banks. If there are indications that an asset is impaired, the recoverable amount is calculated. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Both value adjustments are deducted directly from this item in the balance sheet. Value adjustments that are no longer economically necessary are released to income. Recoveries of receivables written off in prior periods are credited to this item in the balance sheet. Real estate available for sale is recognized in the balance sheet under financial investments according to the principle of the lower of cost or market value.

### Participations

All equity securities in companies intended to be held as long-term investments are reported as participations. These items are included in the balance sheet at acquisition cost less economically necessary depreciation in accordance with the individual valuation principle.

## Tangible fixed assets

Tangible fixed assets are recognized in the balance sheet at historical cost less cumulative depreciation. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life. Useful life is as follows:

– IT infrastructure 3–4 years
– Postomats 10 years
– Payment transaction software 10 years
– Real estate 10–50 years

Assets associated with the purchase, installation and development of payment transaction software are capitalized if they are of measurable economic benefit.

Regular checks are carried out to determine if there are signs of overvaluation. If this is the case, the book value is compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If the book value of an asset exceeds its recoverable amount, an impairment equal to the difference between the book value and the recoverable amount is recognized in the income statement. Profits realized from the disposal of tangible fixed assets are recorded in extraordinary income, while realized losses are recognized as extraordinary expenses.

## Intangible assets

Surplus assets (goodwill) arising from the initial valuation of a business acquisition are included in the balance sheet under “Intangible assets” and depreciated over their useful life. Capitalized goodwill is depreciated on a straight-line basis over a ten-year period. If an assessment on the balance sheet date shows that the capitalization of a proportion of goodwill is no longer justified, the proportion in question is additionally depreciated on the relevant date. An assessment is carried out if there are any indications of impairment.

## Accrued income and prepaid expenses, and accrued expenses and deferred income

Interest income and expenses, commission and other income and expenses during the accounting period are accounted for using the accrual-based accounting principle to ensure that they are correctly represented in the income statement.

## Amounts due to banks, liabilities from securities financing transactions and amounts due in respect of customer deposits

Private and business accounts are included in the balance sheet at their nominal value. Financial investments transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under “Financial investments”. Interest expenses from repurchase transactions are accounted for using the accrual-based accounting principle. Securities cover for repurchase and securities borrowing transactions is recognized on a daily basis at current fair values. Amounts borrowed from banks and cash bonds are recorded on the balance sheet at nominal value.

## Provisions

Provisions are made according to objective criteria for all risks detectable on the balance sheet date and presented under this item in the balance sheet. Provisions that are no longer economically necessary are released to income.

## Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions

These items are recorded at their nominal value as off-balance sheet transactions. Provisions are made for foreseeable default risks.

### Pension benefit obligations

The accounting treatment of pension benefit obligations at PostFinance is based on Swiss GAAP ARR 16/26 in accordance with FINMA Circular 2015/1, margin no. 495 ff. PostFinance employees are insured with the Swiss Post pension fund foundation under a Duoprimat (combined defined benefit and defined contribution) scheme in accordance with the Federal Law on the Occupational Old-age, Survivors' and Disability Benefit Plan (BVG). Staff are thereby insured against the financial consequences of old age, death and disability. The retirement benefits of all active members are calculated on a defined contribution basis and the risk cover (death and disability) on a defined benefit basis. Expenses related to pension benefit obligations are recognized in personnel expenses. Pension benefit obligations represent the actuarial present value of benefits for the employee's eligible insurance period and take the future into account by including statistical probabilities such as death and disability.

The employer contribution reserve is part of the Swiss Post pension fund. PostFinance Ltd has no power of disposal over it. The employer contributions are not capitalized, given that PostFinance does not have control over the future economic benefit.

### Taxes

Income tax is determined in each reporting period on the basis of the profit/loss accrued for the year. Deferred tax liabilities are calculated at the current tax rate. Accruals and deferrals are recognized in the balance sheet under accrued income and prepaid expenses or accrued expenses and deferred income.

The tax consequences of time differences between the values of assets and liabilities shown in the balance sheet and their tax bases are recognized as deferred taxes under provisions. Deferred taxes are determined separately in each business period.

### Outsourcing of business units

PostFinance Ltd has outsourced various services to Swiss Post Group companies. Outsourcing relationships exist, notably with Post CH Ltd in payment transactions, financial and IT services, and with Swiss Post Solutions Ltd for printing and sending account documents and for the e-bill solution.

### Accounting changes year-on-year

In the financial year 2017, there were no accounting changes year-on-year.

### Business policy on the use of derivative financial instruments and hedge accounting

PostFinance Ltd uses derivative financial instruments exclusively to hedge interest and currency risks.

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

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

Interest rate swaps are used to control duration on the assets side. Long (short) duration bonds are transformed into short (long) duration bonds by means of interest rate swaps. In principle, interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

*Types of hedged items and hedging transactions*

PostFinance Ltd mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate / interest rate currency swaps) and shares (partial hedging of the currency risk via foreign exchange forward contracts).

*Composition of groups of financial instruments*

Financial investments that are sensitive to interest rates and currencies are hedged by micro hedges. In the case of shares, the currency risk is largely reduced by foreign exchange forward contracts.

*Economic relationship between hedged items and hedging transactions*

PostFinance Ltd records the relationship between the hedging instrument and the hedged item on the date on which a financial instrument is classed as a hedging relationship. The information recorded includes the risk management objectives and strategy of the hedging transaction, and the methods used to measure the effectiveness of the hedging relationship. The economic relationship between the hedged item and the hedging transaction is constantly measured on a prospective basis in the course of effectiveness tests by measuring factors such as inverse performance and its correlation.

*Effectiveness measurement*

Hedging is deemed to be highly effective if the following criteria are essentially met:

– Hedging is considered to be highly effective both upon its initial recognition (on a prospective basis via regression analysis) and throughout its term (retrospectively via the dollar offset method).
– There is a close economic relationship between the hedged item and the hedging transaction.
– There is an inverse relationship between the value changes of the hedged item and those of the hedging transaction with regard to the hedged risk.
– The actual results of the hedging are within a range of 80–125 percent.

*Ineffectiveness*

If the result of the effectiveness test is within a range of 80–125 percent, hedge accounting may be applied for the relevant period in accordance with IAS 39. If this results in an ineffective portion, this is included in the income statement for the period in question.

## Events after the balance sheet date

On the date of issue of the financial statements, no material events had occurred as at 31 December 2017 which would have to be disclosed in the financial statements and/or in the notes.

## 3 | Risk management

### Business model and risk profile

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

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

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

### Governance and reporting

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

PostFinance's Board of Directors conducts an annual risk assessment. Assisted by the Board of Directors' Risk and Audit & Compliance Committees, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective internal control system (ICS) which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of "equity needed to meet regulatory requirements". Maximum risk exposure is determined by the risk capacity of PostFinance and the risk appetite of the Board of Directors.

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

The PostFinance Executive Board is responsible for the active management of financial, strategic and operational risks within the framework defined by the Board of Directors and ensures that the risk management infrastructure meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up requirements and guidelines and by establishing limits in individual risk categories and by defining requirements for risk monitoring reports. If limits are exceeded, the relevant official body is informed promptly so that decisions can be made on the measures to be taken. The Executive Board ensures that a consistent approach is adopted when limits are exceeded by defining an escalation process.

The business units which represent the 1st line of defence carry out this function by managing risks in day-to-day business and, in particular, by monitoring, controlling and reporting on such risks. The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee, as the non profit-oriented unit of the 1st line of defence mandated for this purpose, in managing financial risks in the overall balance sheet. It identifies and measures the financial risks entered into by PostFinance and proposes control measures. It also monitors and reports on the effectiveness of the control decided upon. The Risk Management department submits weekly and monthly reports to the Executive Board on the risk measurement results and the extent to which limits are used. This enables it to decide on the necessary control measures, if any, with regard to financial risks. The monthly reports are also discussed as a standard agenda item in the Board of Directors' Risk Committee meetings.

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

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

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

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

## Risk measurement methods

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

PostFinance measures and monitors financial risks both at individual portfolio level and with regard to the overall balance sheet. Risks are limited by means of a multi-dimensional limit system. A variety of methods of differing degrees of complexity are used to measure financial risks. In concrete terms, they include scenario analyses (e.g. to measure the earnings effects of interest rate risks or the full utilization of credit risk limits), sensitivity analyses (e.g. to measure the present value effects arising from interest rate risks) and value at risk methods (e.g. to measure fair value risks resulting from equity investments). The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

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

## Stress testing

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

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

## Financial risk management at PostFinance

### *Interest rate risk and balance sheet structure risk*

The term "interest rate risk" refers to the potential impact of a change in market interest rates on the present value of assets and liabilities in the balance sheet, resulting mainly from maturity mismatches, as well as the possible effect on the result from interest operations in the income statement. PostFinance's interest-earning operations are a key earnings driver for Swiss Post. As changes in interest rates have a direct impact on net interest income, management of the risks associated with such changes is considered a priority. The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest or require capital commitment. The interest rate and capital commitment of these deposits are therefore estimated using a replication method which aims to map the most closely matching maturities of similar customer products while minimizing the interest margin volatility of each product.

The maturities of money and capital market investments are determined on the basis of the target present value sensitivity, and used to define the maturity transformation strategy. The resulting imbalance between the liability and asset interest rates corresponds to the maturity transformation, which is controlled from a present value and income perspective.

The present value perspective covers the net effect of a change in interest rates on the equity of PostFinance in the event of modifications to the yield curve. Future cash flow accruals are discounted according to the risk-adjusted present value formula. Sensitivity to a parallel shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other. Present value sensitivity is measured by the Risk Management department on a weekly basis and reported to the Executive Board. If present value sensitivity deviates significantly from the level specified by the Executive Board due to short-term shocks, maturity can be controlled on the asset side using swaps.

As at 31 December 2017, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –29 million francs (previous year: –158 million francs with a shift in interest of +100 basis points).

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future net interest income. In addition, dynamic income simulations are carried out for several deterministic scenarios. These scenarios describe future market interest trends and the resulting changes in customer interest and customer volumes for each replica, as well as different maturity transformation strategies where applicable. Dynamic income simulations are carried out by the Risk Management department on a monthly basis. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

### *Credit risks*

PostFinance Ltd was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance Ltd is not permitted to issue direct loans and mortgages due to postal legislation provisions. Interest-bearing customer deposits therefore do not go towards granting mortgages, but are invested on the money and capital markets. PostFinance continues to pursue a conservative investment strategy. Liquidity and creditworthiness are the main criteria for its investment decisions. The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the sectors, countries and counterparties. A large proportion of customer deposits are invested as a sight deposit balance at the SNB. On 31 December 2017, this sight deposit balance stood at 36,362 million francs (previous year: 35,596 million francs).

The term “credit risk” refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the creditor to incur a financial loss. Credit risk increases as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the solvency of an entire group of otherwise unrelated counterparties.

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

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

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

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

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

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

*Note on collateral concentration risks:*
Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk, as it can be realized by PostFinance in the event of default by the counterparty. High concentrations of collateral are measured, monitored and restricted, as considerable losses in collateral value can lead to the insolvency of counterparties (the issuers of the collateral).

*Note on credit risks arising from mortgage lending and SME financing:*
The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 do not result in any credit risks for PostFinance. These are borne entirely by the partner bank. Since autumn 2009, PostFinance has been collaborating with Valiant Bank on financing for SMEs. This cooperation arrangement has enabled PostFinance to expand its range of services in

the retail market. Since autumn 2010, PostFinance has also worked with Valiant Bank on mortgage lending to private customers. The credit risks resulting from the two areas of cooperation are assumed by Valiant Bank.

*Liquidity risks*

Liquidity risk refers to the risk that current and future payment obligations cannot be met on time or in full. Liquidity risks are managed in the short, medium and long term. To guarantee liquidity on a daily basis, financial cushions are defined for the settlement of unforeseen payments. These financial cushions should be available for use in stress situations in particular, when it may no longer be possible to turn to the unsecured interbank market for liquidity. The minimum amount for a financial cushion is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity in the short term is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure. As at 31 December 2017, the Liquidity Coverage Ratio stood at 194 percent (previous year: 204 percent). LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

To ensure liquidity in the medium term, liquidity stress scenarios are defined that last at least three months and must not lead to illiquidity. The long-term structural liquidity situation is reassessed by the Executive Board on an annual basis. There is an emergency plan to resolve any liquidity crises.

*Market risks*

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

According to PostFinance's business model, market risks are expressed by increased volatility in the income statement in the short term. PostFinance is exposed to market risks for two reasons

– Open foreign currency items and changes in value arising from foreign currency derivatives affect the volatility of the income statement (foreign currency risks).
– Changes in value of instruments that are recognized according to the principle of the lower of cost or market value or managed in accordance with hedge accounting (including equity positions, fund investments in the banking book, hedged items and the related hedge instruments) also have an effect on the volatility of the income statement.

Market risks are modelled according to value at risk and measured in the income statement. To measure market risks, the risk factors that have an impact on the present value of the relevant item are assigned to each item. The change in present value is modelled according to the change in the allocated risk factors. A functional correlation between the item value and the associated risk factors must also be defined. The stochasticity of all relevant risk factors over the next 250 days is determined on the basis of probability distribution assumptions. Corresponding market data time series are used to calibrate the probability distributions. The distribution of changes to the income statement as per ARB over a one-year period can be determined with the help of the functional correlation established between risk factors and portfolio items. Value at risk is then determined on the basis of the 95 percent quantile.

As at 31 December 2017, value at risk for the income statement as per ARB stood at 66 million francs (previous year: 98 million francs). The decline in value at risk was principally due to the reduction of equity positions in foreign currencies.

### Operational risk management at PostFinance

*Definition*
In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The principles on managing operational risk at PostFinance are set out in the risk policy.

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

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

## 4 | Capital adequacy disclosure in accordance with FINMA Circular 2016/01

According to the decree issued by the SNB on 29 June 2015, PostFinance Ltd was designated a systemically important financial group. As a result, the requirements set out in articles 124 to 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) also became relevant to PostFinance Ltd. In its ruling dated 23 May 2016, the Swiss Financial Market Supervisory Authority (FINMA) set out extended individual requirements based on the CAO valid until 30 June 2016. The new CAO, which also amended the requirements for systemically important banks, came into force on 1 July 2016.

As at 31 December 2017 two disclosures were published, the “Capital adequacy disclosure” and the “Capital adequacy disclosure on grounds of systemic importance”. The “Capital adequacy disclosure on grounds of systemic importance” is a parallel calculation which supplements the “Capital adequacy disclosure”. The different requirements result in deviations, particularly with regard to eligible equity and capital ratios. The specified documents are published at postfinance.ch.

# Information on the balance sheet

## 5 | Securities financing transactions

### Breakdown of securities financing transactions (assets and liabilities)

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions | 84 | 24 |
| Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions | 723 | – |
| Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements | 3,251 | 3,046 |
| with unrestricted right to resell or pledge | 2,528 | 3,046 |
| Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge | 2,906 | 3,523 |

## 6 | Collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

### Presentation of collateral for loans/receivables

| as at 31.12.2017<br>CHF million | | Type of collateral: Secured by mortgage | Other collateral | Unsecured | Total |
|---|---|---|---|---|---|
| **Loans (before netting with value adjustments)** | | | | | |
| Amounts due from customers | | – | 16 | 12,195 | 12,211 |
| Mortgage loans | | 0 | – | – | 0 |
| Residential property | | 0 | – | – | 0 |
| **Total loans (before netting with value adjustments)** | **31.12.2017** | **0** | **16** | **12,195** | **12,211** |
| | 31.12.2016 | 0 | – | 13,210 | 13,210 |
| **Total loans (after netting with value adjustments)** | **31.12.2017** | **0** | **16** | **12,157** | **12,173** |
| | 31.12.2016 | 0 | – | 13,169 | 13,169 |

Presentation of collateral for off-balance-sheet transactions

| as at 31.12.2017<br>CHF million | | Type of collateral<br>Secured by mortgage | Other collateral | Unsecured | Total |
|---|---|---|---|---|---|
| **Off-balance sheet** | | | | | |
| Contingent liabilities | | – | 31 | 2 | 33 |
| Irrevocable commitments | | – | – | 722 | 722 |
| **Total off-balance sheet** | **31.12.2017** | **–** | **–** | **724** | **755** |
| | 31.12.2016 | – | – | 709 | 709 |

Impaired loans/receivables

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Gross debt amount | 1 | 1 |
| Net debt amount | 1 | 1 |
| Individual value adjustments | 1 | 1 |

## 7 | Derivative financial instruments

Presentation of derivative financial instruments (assets and liabilities)

| as at 31.12.2017<br>CHF million | Trading instruments<br>Positive replacement values | Negative replacement values | Contract volume | Hedging instruments<br>Positive replacement values | Negative replacement values | Contract volume |
|---|---|---|---|---|---|---|
| **Interest rate instruments** | | | | | | |
| Forward contracts including FRAs | – | – | – | 0 | – | 25 |
| Swaps | – | – | – | – | 93 | 2,125 |
| **Foreign exchange / precious metals** | | | | | | |
| Forward contracts | 4 | 4 | 557 | 14 | 17 | 2,986 |
| SWAPS CCIRS | – | – | – | 26 | 614 | 7,832 |
| **Equity securities / indices** | | | | | | |
| Options (exchange-traded) | – | – | 2 | – | – | – |
| **Total before netting agreements as at 31.12.2017** | **4** | **4** | **559** | **39** | **724** | **12,967** |
| of which, determined using a valuation model | 4 | 4 | | 39 | 724 | |
| 31.12.2016 | 4 | 5 | 779 | 61 | 263 | 10,278 |
| of which, determined using a valuation model | 4 | 5 | | 61 | 263 | |
| **Total after netting agreements as at 31.12.2017** | **4** | **4** | **559** | **39** | **724** | **12,967** |
| 31.12.2016 | 4 | 5 | 779 | 61 | 263 | 10,278 |

Breakdown by counterparty

| as at 31.12.2017<br>CHF million | Central clearing houses | Banks and securities dealers | Other customers |
|---|---|---|---|
| Positive replacement values (after netting agreements) | – | 43 | 0 |

## 8 | Financial investments

Breakdown of financial investments

| CHF million | Book value 31.12.2016 | Book value 31.12.2017 | Fair value 31.12.2016 | Fair value 31.12.2017 |
|---|---|---|---|---|
| Debt securities | 60,118 | 61,614 | 62,374 | 63,238 |
| of which, intended to be held to maturity | 60,118 | 61,614 | 62,374 | 63,238 |
| Equity securities | 1,624 | 1,205 | 1,706 | 1,222 |
| **Total** | **61,742** | **62,819** | **64,080** | **64,460** |
| of which, securities eligible for repo transactions in accordance with liquidity requirements | 47,097 | 42,657 | – | – |

Breakdown of counterparties by rating [1]

| as at 31.12.2017<br>CHF million | AAA to AA– | A+ to A– | BBB+ to BBB– | BB+ to B– | Below B– | Unrated |
|---|---|---|---|---|---|---|
| Debt securities: book values | 41,105 | 12,382 | 6,036 | – | – | 2,092 |

1 The following ratings agencies, all of which are recognized by FINMA, were consulted for the ratings: fedafin AG, Fitch Ratings, Moody’s Investors Service, Standard & Poor’s Ratings Services.

## 9 | Participations

Presentation of participations

| | | | | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| CHF million | Acquisition cost | Accumulated value adjustments | Book value 31.12.2016 | Reclassifications | Additions | Disposals | Value adjustments | Depreciation reversals [1] | Book value 31.12.2017 | Market value 31.12.2017 |
| **Participations** | | | | | | | | | | |
| with market value | 47 | –10 | 37 | – | – | –1 | – | 10 | 46 | 55 |
| without market value | 64 | | 64 | – | 61 | 0 | –49 | – | 76 | – |
| **Total participations** | **111** | **–10** | **101** | **–** | **61** | **–1** | **–49** | **10** | **122** | **55** |

1 Price losses from a participation with market value were recouped in 2017 and the participation was revalued up to acquisition cost.

## 10 | Significant participations

Non-consolidated significant participations

| CHF or EUR, percent | Business activities | Currency | Bank’s capital | Share of capital and of votes [1] 31.12.2016 | Share of capital and of votes [1] 31.12.2017 |
|---|---|---|---|---|---|
| Lendico Schweiz AG, Zurich, Switzerland | Crowdlending platform | CHF | 100,000 | 24.44% | 100.00% |
| Finform Ltd, Berne, Switzerland | Fintech and regtech | CHF | 100,000 | 50.00% | 50.00% |
| TWINT Ltd, Zurich, Switzerland | Mobile payment | CHF | 10,200,000 | 33.33% | 33.33% |
| TWINT Acquiring Ltd, Zurich, Switzerland | Acquiring for payment transactions | CHF | 100,000 | 33.33% | 33.33% |
| TONI Digital Insurance Solutions AG, Schlieren, Switzerland | Insurance service provider | CHF | 244,333 | – | 30.01% |
| SECB Swiss Euro Clearing Bank GmbH, Frankfurt a.M., Germany | Payment transaction processing in EUR for Swiss financial institutions | EUR | 30,000,000 | 25.00% | 25.00% |
| SIX Interbank Clearing Ltd, Zurich, Switzerland | Payment transaction processing for financial institutions | CHF | 1,000,000 | 25.00% | 25.00% |
| moneymeets community GmbH, Cologne, Germany | Online financial services | EUR | 81,000 | 20.39% | 20.39% |
| moneymeets GmbH, Cologne, Germany | Infrastructure for online financial services | EUR | 81,000 | 20.39% | 20.39% |

1 TWINT Acquiring Ltd is held indirectly via TWINT Ltd. All other participations are directly owned by PostFinance Ltd.

Additional information on the true and fair view statutory single-entity financial statements in accordance with FINMA Circular 2015/1 margin no. 264: the effect of a theoretical application of the equity method with regard to these participations would be to increase total assets by 26 million francs (previous year: reduction of 6 million francs) and to reduce profit for the year by 14 million francs (previous year: 3 million francs).

## 11 | Tangible fixed assets

Presentation of tangible fixed assets

| CHF million | Acquisition cost | Accumulated depreciation | Book value 31.12.2016 | 2017 Reclassi-fications | Additions | Disposals | Depreciation | Reversals | Book value 31.12.2017 |
|---|---|---|---|---|---|---|---|---|---|
| Bank buildings | 194 | –30 | 164 | – | 1 | 0 | –9 | – | 156 |
| Other real estate | 1,002 | –112 | 890 | – | 44 | –9 | –70 | – | 855 |
| Proprietary or separately acquired software | 174 | –7 | 167 | – | 43 | – | –29 | – | 181 |
| Other tangible fixed assets | 83 | –45 | 38 | – | 4 | – | –11 | – | 31 |
| **Total tangible fixed assets** | **1,453** | **–194** | **1,259** | **–** | **92** | **–9** | **–119** | **–** | **1,223** |

Future lease obligations under operating leases

| CHF million | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|
| Future lease payments | 18 | 18 | 1 | 1 | 0 | 0 | 38 |
| of which cancellable within a year | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## 12 | Intangible assets

Presentation of intangible assets

| CHF million | Acquisition cost | Accumulated amortization | Book value 31.12.2016 | 2017 Additions | Disposals | Amortization | Book value 31.12.2017 |
|---|---|---|---|---|---|---|---|
| Goodwill | 2,000 | –800 | 1,200 | – | – | –200 | 1,000 |
| **Total intangible assets** | **2,000** | **–800** | **1,200** | **–** | **–** | **–200** | **1,000** |

## 13 | Other assets and other liabilities

Breakdown of other assets and other liabilities

| CHF million | 31.12.2016 Other assets | 31.12.2017 Other assets | 31.12.2016 Other liabilities | 31.12.2017 Other liabilities |
|---|---|---|---|---|
| Compensation account | 172 | 244 | – | – |
| Indirect taxes | 134 | 122 | 6 | 5 |
| Other assets and liabilities | 4 | 8 | 1 | 1 |
| **Total other assets and other liabilities** | **310** | **374** | **7** | **6** |

## 14 | Pledged or assigned assets and assets under reservation of ownership

Total amount of assets pledged or assigned to secure own commitments and of assets under reservation of ownership [1]

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Book value of assets pledged and assigned as collateral | 50 | 63 |

1 Excluding securities lending and repurchase transactions.

## 15 | Liabilities relating to own pension schemes

### Pension benefit obligations

There is no independent pension scheme for PostFinance staff. Their pension benefits are handled exclusively by the Swiss Post pension fund. The employer may be required to pay restructuring contributions in the event of underfunding of the Swiss Post pension fund.

Additional amounts due for extended disability benefit plans in the form of transitional disability insurance (supplementary disability pensions for men up to the age of 65 and women up to the age of 64) and staff vouchers are taken into account in the annual financial statements.

### Liabilities relating to own pension schemes as per Swiss GAAP ARR 16

All the compulsory ordinary employer contributions associated with the employee benefits plan are accounted for as personnel expenses using the accrual-based accounting principle. An annual assessment is carried out in accordance with Swiss GAAP ARR 16 to determine whether the pension schemes generate an economic benefit or an economic obligation for PostFinance. The assessment is based on information from contracts, the financial statements of the pension schemes and other calculations presenting their financial situation and current overfunding or underfunding – in accordance with Swiss GAAP ARR 26 accounting principles. PostFinance does not however intend to use the economic benefit that may result from overfunding to reduce employer contributions. Consequently, a future economic benefit is not capitalized. An economic obligation is however recognized under liabilities. With 41,435 active insured people and 28,741 pensioners (as at 31 October 2017), the Swiss Post pension fund had total assets of 16,797 million francs as at 31 December 2017 (previous year: 15,837 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 105.8 percent (previous year: 102.2 percent). As the Swiss Post pension fund value fluctuation reserves have not yet reached the set regulatory level, there is no overfunding available. The Foundation Board of the Swiss Post pension fund decided on compensation measures as part of its plan amendment. Employers with an affiliation agreement with the Swiss Post pension fund were obliged to make one-off payments totalling around 500 million francs to the Swiss Post pension fund. The pro-rata margin requirement for PostFinance Ltd stands at 17 million francs, which was paid in the year under review. The payment of 500 million francs was credited to the employer contribution reserves by the Swiss Post pension fund and will be used at the beginning of 2018. The Swiss Post pension fund has employer contribution reserves of 1,051 million francs, of which 550 million francs with a waiver of use (previous year: 561 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 2.25 percent (previous year: 2.25 percent) and the technical basis of BVG 2015 (previous year: BVG 2015) were used to calculate pension cover. It should be noted that all data regarding the Swiss Post pension fund is based on the information available at the time of drawing up the ARR 16 financial statements. Consequently, it may differ from the actual information contained in the annual financial statements for the Swiss Post pension fund. A detailed assessment did not reveal any financial impact on the bank; according to the financial statements for the Swiss Post pension fund drawn up according to Swiss GAAP ARR 26, there were no spare funds or underfunding as at 31 December 2017. There are no employer-sponsored pension schemes.

The economic benefit or obligations and pension expenses can be summarized as follows:

| Presentation of the economic benefit/obligation and the pension expenses | Overfunding/ underfunding | | Economic interest of PostFinance Ltd | Change in economic interest (economic benefit/ obligation) versus previous year | Contributions paid | Pension expenses in personnel expenses | |
|---|---|---|---|---|---|---|---|
| CHF million | 31.12.2017 | 31.12.2016 | 31.12.2017 | 2017 | 2017 | 31.12.2016 | 31.12.2017 |
| Swiss Post pension fund | 9 | 0 | 0 | 0 | 53 | 36 | 53 |
| Staff vouchers | –7 | –7 | –7 | 0 | 0 | 1 | 0 |
| Disability pensions | –1 | 0 | –1 | 1 | 0 | –1 | 1 |
| **Total ARR 16** | **1** | **–7** | **–8** | **1** | **53** | **36** | **54** |

The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance's retirement capital of PostFinance Ltd's entire retirement capital. This gives the following picture:

| Employer contribution reserves (ECR) | Nominal value | Waiver of use | | Net amount | Influence of ECR on personnel expenses | |
|---|---|---|---|---|---|---|
| CHF million | 31.12.2017 | 31.12.2017 | 31.12.2016 | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| Swiss Post pension fund | 64 | –63 | 1 | 1 | 28 | 0 |
| **Total ARR 16** | **64** | **–63** | **1** | **1** | **28** | **0** |

## 16 | Value adjustments and provisions, and reserves for general banking risks

| Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year<br>CHF million | As at 31.12.2016 | Use in conformity with designated purpose[1] | Currency differences | Past due interest, recoveries | New creations charged to income | Releases to income | Balance at 31.12.2017 |
|---|---|---|---|---|---|---|---|
| Provisions for pension benefit obligations | 7 | – | – | – | 1 | – | 8 |
| Provisions for restructuring | 0 | 0 | – | – | 14 | 0 | 14 |
| Other provisions | 12 | –2 | – | – | 14 | –1 | 23 |
| **Total provisions** | **19** | **–2** | **–** | **–** | **29** | **–1** | **45** |
| **Reserves for general banking risks** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Value adjustments for default and country risks** | **216** | **–** | **–** | **–** | **49** | **–59** | **206** |
| of which, value adjustments for default risks in respect of impaired loans/receivables | 70 | – | – | – | 49 | –21 | 98 |
| of which, value adjustments for latent risks | 146 | – | – | – | – | –38 | 108 |

1 There were no changes in purpose.

## 17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

| Presentation of the bank's capital | 31.12.2016 | | | 31.12.2017 | | |
|---|---|---|---|---|---|---|
| CHF million, number in million | Total par value | No. of shares | Capital eligible for dividend | Total par value | No. of shares | Capital eligible for dividend |
| **Bank's capital** | | | | | | |
| Share capital | 2,000 | 2 | 2,000 | 2,000 | 2 | 2,000 |
| of which, paid up | 2,000 | 2 | 2,000 | 2,000 | 2 | 2,000 |
| **Total bank's capital** | **2,000** | **2** | **2,000** | **2,000** | **2** | **2,000** |

## 18 | Amounts due from / to related parties

| Disclosure of amounts due from/to related parties | Amounts due from | | Amounts due to | |
|---|---|---|---|---|
| CHF million | 31.12.2016 | 31.12.2017 | 31.12.2016 | 31.12.2017 |
| Holders of qualified participations | 1,664 | 1,474 | 565 | 711 |
| Group companies | – | – | – | 2 |
| Linked companies | 17 | 19 | 795 | 591 |
| Transactions with members of governing bodies | 0 | 0 | 5 | 7 |

Associated companies and subsidiaries that are under the direct or indirect management of associated companies are regarded as linked companies.

Transactions (such as securities transactions, payment transactions, and interest on deposits) with related parties, with the exception of members of the Executive Board and Senior Management (senior management and individual specialist functions at PostFinance Ltd), were carried out according to the same terms and conditions and lending rates as transactions with third parties.

Industry-standard preferential conditions apply to the Executive Board and members of Senior Management, as is the case for all PostFinance employees.

PostFinance only issues loans and mortgages in cooperation with partners. These are not regarded as transactions with members of governing bodies in the strict sense and are therefore not shown in the Annual Report.

## 19 | Holders of significant participations

| Disclosure of holders of significant participations | 31.12.2016 | | 31.12.2017 | |
|---|---|---|---|---|
| CHF million | Nominal | % of equity | Nominal | % of equity |
| With voting rights: Swiss Post Ltd | 2,000 | 100 | 2,000 | 100 |

## 20 | Maturity structure of financial instruments

Presentation of the maturity structure of financial instruments (assets / financial instruments)

| as at 31.12.2017<br>CHF million | | At sight | Cancellable | Due<br>Within 3 months | Within 3 to 12 months | Within 12 months to 5 years | After 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|---|---|
| Liquid assets | | 38,476 | – | – | – | – | – | – | 38,476 |
| Amounts due from banks | | 716 | – | 55 | 50 | 1,686 | 2,317 | – | 4,823 |
| Amounts due from securities financing transactions | | – | – | 24 | – | – | – | – | 24 |
| Amounts due from customers | | 342 | 4 | 880 | 1,284 | 3,499 | 6,163 | – | 12,172 |
| Mortgage loans | | – | – | 0 | – | – | – | – | 0 |
| Positive replacement values of derivative financial instruments | | 43 | – | – | – | – | – | – | 43 |
| Financial investments | | 1,136 | – | 2,552 | 6,416 | 29,762 | 22,953 | – | 62,819 |
| **Total** | **31.12.2017** | **40,713** | **4** | **3,511** | **7,750** | **34,947** | **31,433** | **–** | **118,358** |
| | 31.12.2016 | 39,709 | 3 | 4,324 | 7,688 | 35,087 | 30,098 | – | 116,910 |

Presentation of the maturity structure of financial instruments (debt capital / financial instruments)

| as at 31.12.2017<br>CHF million | | At sight | Cancellable | Due<br>Within 3 months | Within 3 to 12 months | Within 12 months to 5 years | After 5 years | No maturity | Total |
|---|---|---|---|---|---|---|---|---|---|
| Amounts due to banks | | 543 | – | – | – | – | – | – | 543 |
| Liabilities from securities financing transactions | | – | – | – | – | – | – | – | – |
| Amounts due in respect of customer deposits | | 71,436 | 41,852 | 3 | 2 | – | – | – | 113,292 |
| Negative replacement values of derivative financial instruments | | 728 | – | – | – | – | – | – | 728 |
| Cash bonds | | – | – | 4 | 9 | 73 | 7 | – | 93 |
| **Total** | **31.12.2017** | **72,707** | **41,852** | **6** | **11** | **73** | **7** | **–** | **114,656** |
| | 31.12.2016 | 69,517 | 42,865 | 734 | 11 | 85 | 8 | – | 113,220 |

## 21 | Assets and liabilities by domestic and foreign origin

| Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle | | 31.12.2016 | | 31.12.2017 |
|---|---|---|---|---|
| CHF million | Domestic | Foreign | Domestic | Foreign |
| **Assets** | | | | |
| Liquid assets | 37,441 | 12 | 38,475 | 1 |
| Amounts due from banks | 4,337 | 60 | 4,250 | 573 |
| Amounts due from securities financing transactions | 12 | 72 | 24 | – |
| Amounts due from customers | 13,167 | 2 | 12,164 | 9 |
| Mortgage loans | 0 | – | 0 | – |
| Positive replacement values of derivative financial instruments | 6 | 59 | 9 | 34 |
| Financial investments | 31,042 | 30,700 | 30,865 | 31,954 |
| Accrued income and prepaid expenses | 351 | 247 | 331 | 225 |
| Participations | 69 | 32 | 95 | 27 |
| Tangible fixed assets | 1,259 | – | 1,223 | – |
| Intangible assets | 1,200 | – | 1,000 | – |
| Other assets | 309 | 2 | 374 | 0 |
| **Total assets** | **89,193** | **31,186** | **88,810** | **32,823** |
| **Liabilities** | | | | |
| Amounts due to banks | 2,360 | 46 | 483 | 60 |
| Liabilities from securities financing transactions | 723 | – | – | – |
| Amounts due in respect of customer deposits | 105,846 | 3,863 | 109,518 | 3,774 |
| Negative replacement values of derivative financial instruments | 181 | 87 | 145 | 583 |
| Cash bonds | 113 | 1 | 92 | 1 |
| Accrued expenses and deferred income | 137 | 1 | 108 | 0 |
| Other liabilities | 7 | 1 | 6 | – |
| Provisions | 20 | – | 45 | – |
| Bank's capital | 2,000 | – | 2,000 | – |
| Statutory capital reserve | 4,682 | – | 4,682 | – |
| Profit carried forward | – | – | – | – |
| Profit | 311 | – | 136 | – |
| **Total liabilities** | **116,380** | **3,999** | **117,215** | **4,418** |

## 22 | Assets by country / group of countries

| Breakdown of total assets by country or group of countries (domicile principle) | 31.12.2016 | | 31.12.2017 | |
|---|---|---|---|---|
| CHF million, percent | Absolute | Share as % | Absolute | Share as % |
| **Assets** | | | | |
| Switzerland | 89,193 | 74.09 | 88,810 | 73.01 |
| Europe | 19,690 | 16.36 | 18,100 | 14.88 |
| North America | 6,038 | 5.02 | 7,330 | 6.03 |
| Other countries | 5,458 | 4.53 | 7,393 | 6.08 |
| **Total assets** | **120,379** | **100.00** | **121,633** | **100.00** |

## 23 | Assets by credit rating of country groups

| Breakdown of total assets by credit rating of country groups (risk domicile view) | Net foreign exposure 31.12.2016 | | Net foreign exposure 31.12.2017 | |
|---|---|---|---|---|
| CHF million, percent | Absolute | Share as % | Absolute | Share as % |
| **Rating (Moody's)** | | | | |
| Aaa | 15,947 | 51.40 | 16,166 | 48.91 |
| Aa | 12,273 | 39.55 | 11,400 | 34.49 |
| A | 1,608 | 5.18 | 4,282 | 12.96 |
| Baa | 426 | 1.37 | 377 | 1.14 |
| Ba | 217 | 0.70 | 217 | 0.66 |
| B | 170 | 0.55 | 200 | 0.60 |
| Caa | 269 | 0.87 | 319 | 0.97 |
| No rating | 118 | 0.38 | 91 | 0.27 |
| **Total** | **31,028** | **100.00** | **33,052** | **100.00** |

## 24 | Assets and liabilities by currency

Presentation of assets and liabilities broken down by the most significant currencies for the bank

| as at 31.12.2017<br>CHF million | CHF | EUR | USD | GBP | JPY | Other | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Liquid assets | 38,338 | 138 | – | – | – | – | 38,476 |
| Amounts due from banks | 4,739 | 56 | 12 | 2 | 9 | 5 | 4,823 |
| Amounts due from securities financing transactions | – | – | 24 | – | – | – | 24 |
| Amounts due from customers | 12,148 | 18 | 7 | 0 | 0 | 0 | 12,173 |
| Mortgage loans | 0 | – | – | – | – | – | 0 |
| Positive replacement values of derivative financial instruments | 43 | – | – | – | – | – | 43 |
| Financial investments | 49,096 | 9,932 | 3,713 | – | – | 78 | 62,819 |
| Accrued income and prepaid expenses | 464 | 73 | 18 | 0 | 0 | 1 | 556 |
| Participations | 95 | 9 | 18 | – | – | 0 | 122 |
| Tangible fixed assets | 1,223 | – | – | – | – | – | 1,223 |
| Intangible assets | 1,000 | – | – | – | – | – | 1,000 |
| Other assets | 374 | 0 | 0 | – | – | 0 | 374 |
| **Total assets shown in balance sheet** | **107,520** | **10,226** | **3,792** | **2** | **9** | **84** | **121,633** |
| Delivery entitlements from spot exchange, forward forex and forex options transactions | 10,946 | 268 | 67 | 55 | 0 | 39 | 11,375 |
| **Total assets** | **118,466** | **10,494** | **3,859** | **57** | **9** | **123** | **133,008** |
| **Liabilities** | | | | | | | |
| Amounts due to banks | 533 | 10 | 0 | – | 0 | 0 | 543 |
| Amounts due in respect of customer deposits | 110,227 | 2,529 | 434 | 53 | 9 | 40 | 113,292 |
| Negative replacement values of derivative financial instruments | 728 | – | – | – | – | – | 728 |
| Cash bonds | 91 | 2 | – | – | – | – | 93 |
| Accrued expenses and deferred income | 108 | 0 | 0 | 0 | – | – | 108 |
| Other liabilities | 6 | 0 | 0 | – | – | 0 | 6 |
| Provisions | 45 | – | – | – | – | – | 45 |
| Bank's capital | 2,000 | – | – | – | – | – | 2,000 |
| Statutory capital reserve | 4,682 | – | – | – | – | – | 4,682 |
| Profit | 136 | – | – | – | – | – | 136 |
| **Total liabilities shown in balance sheet** | **118,556** | **2,541** | **434** | **53** | **9** | **40** | **121,633** |
| Delivery obligations from spot exchange, forward forex and forex options transactions | 419 | 7,886 | 3,411 | 4 | – | 81 | 11,801 |
| **Total liabilities** | **118,975** | **10,427** | **3,845** | **57** | **9** | **121** | **133,434** |
| **Net position per currency 31.12.2017** | **–509** | **67** | **14** | **0** | **0** | **2** | **–426** |
| Net position per currency 31.12.2016 | –117 | 64 | 13 | 7 | 1 | 14 | –18 |

# Information on off-balance sheet transactions

## 25 | Irrevocable commitments, contingent liabilities and assets

Breakdown of contingent liabilities and contingent assets

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Guarantees to secure credits and similar | – | 31 |
| Other contingent liabilities | 0 | 2 |
| **Total contingent liabilities** | **0** | **33** |

PostFinance discloses payment obligations for depositor protection in irrevocable commitments. PostFinance Ltd is jointly and severally liable for all amounts due in connection with VAT for the companies belonging to the "Swiss Post" VAT group.

As far as systemic importance is concerned, Swiss Post Ltd has deposited a letter of comfort amounting to 2 billion francs in favour of PostFinance Ltd.

## 26 | Managed assets

Breakdown of managed assets

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **Type of managed assets:** | | |
| Other managed assets | 45,845 | 46,305 |
| **Total managed assets (including double counting)**[1] | **45,845** | **46,305** |
| of which, double counting | – | – |

1 "Managed assets" refers only to assets deposited for investment purposes. Assets in connection with retirement planning products which are managed by third parties and assets deposited for transaction purposes are not included. PostFinance Ltd offers neither collective investment instruments managed by the bank nor asset management. Accordingly, assets for which the customer decides independently how they should be invested are reported under "Other managed assets".

Presentation of the development of managed assets

| CHF million | 31.12.2016 | 31.12.2017 |
|---|---|---|
| **Total managed assets (including double counting) at beginning** | **40,889** | **45,845** |
| +/– net new money inflow or net new money outflow[1] | 197 | –714 |
| +/– price gains/losses, interest, dividends and currency gains/losses | 223 | 1,174 |
| +/– other effects[2] | 4,536 | 0 |
| **Total managed assets (including double counting) at end** | **45,845** | **46,305** |

1 The net new money inflow or the net new money outflow is calculated from the overall change in managed assets minus the price, interest and currency developments as well as dividend distributions and other effects.
2 Other effects includes the migration of customer custody accounts that were transferred from Banque Cantonale Vaudoise to PostFinance Ltd.

# Information on the income statement

## 27 | Result from trading activities and the fair value option

Breakdown by business area

| CHF million | 2016 | 2017 |
|---|---|---|
| Payment transactions and financial investments | 212 | 211 |
| Hedge accounting | –3 | 2 |
| Proprietary trading | 2 | 9 |
| **Total result from trading activities** | **211** | **222** |

Breakdown by risk and based on the use of the fair value option

| CHF million | 2016 | 2017 |
|---|---|---|
| **Result from trading activities from:** | | |
| Interest rate instruments | 0 | –1 |
| Equity securities | 1 | –1 |
| Foreign currencies | 210 | 224 |
| **Total result from trading activities** | **211** | **222** |

## 28 | Material negative interest

PostFinance is affected by the SNB's measures and has paid negative interest on part of its sight deposit balance at the SNB since 22 January 2015. PostFinance has defined individual customer thresholds for major business customers and banks, based on their usual behaviour in relation to payment transactions. The proportion of credit that exceeds this threshold has been subject to a fee since 1 February 2015. Since 1 February 2017, PostFinance has charged a fee on the credit balance of private customers that exceeds the threshold value of one million francs.

Disclosure of material refinancing income in the item interest and discount income as well as material negative interest

| CHF million | 2016 | 2017 |
|---|---|---|
| Interest and discount income | 175 | 171 |
| of which interest expense from financial assets [1] | –24 | –6 |
| Interest and dividend income from financial investments | 790 | 689 |
| **Total interest income** | **965** | **860** |
| **Interest expense** | **–44** | **4** |
| **Gross result from interest operations** | **921** | **864** |

1 Interest expense from financial assets is due to negative interest on financial instruments.

## 29 | Personnel expenses

Breakdown of personnel expenses

| CHF million | 2016 | 2017 |
|---|---|---|
| Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits) | 393 | 388 |
| Social insurance benefits | 75 | 90 |
| Changes in book value for economic benefits and obligations arising from pension schemes | 0 | 0 |
| Other personnel expenses | 20 | 34 |
| **Total personnel expenses** | **488** | **512** |

## 30 | General and administrative expenses

Breakdown of general and administrative expenses

| CHF million | 2016 | 2017 |
|---|---|---|
| Office space expenses | 47 | 42 |
| Expenses for information and communications technology | 178 | 197 |
| Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses | 40 | 27 |
| Fees of audit firm(s) (Art. 961a no. 2 CO) | 1 | 3 |
| of which, for financial and regulatory audits | 1 | 3 |
| of which, for other services | 0 | 0 |
| Other operating expenses | 250 | 285 |
| **Total general and administrative expenses** | **516** | **554** |

## 31 | Extraordinary expenses and income

Extraordinary expenses

| CHF million | 2016 | 2017 |
|---|---|---|
| Losses from disposal of participations | 29 | – |
| **Total extraordinary expenses** | **29** | **0** |

Extraordinary income

| CHF million | 2016 | 2017 |
|---|---|---|
| Reversals of impairment | 2 | 10 |
| Gains from disposal of participations | 72 | 0 |
| **Total extraordinary income** | **74** | **10** |

## 32 | Taxes

Tax expenses for corporate income tax and taxes on capital stood at 41 million francs (previous year: 83 million francs). As in the previous year, a tax rate of 20.5 percent was used for calculating corporate income tax.

Current and deferred taxes

| CHF million | 2016 | 2017 |
|---|---|---|
| Expenses for current capital and income taxes | 83 | 41 |
| **Total taxes** | **83** | **41** |

# Report of the Statutory Auditor to the General Meeting of PostFinance AG, Berne

## Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of PostFinance AG, which comprise the balance sheet, income statement, cash flows statement, statement of changes in equity and notes (pages 176 to 208) for the year ended 31 December 2017.

### Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions governing the preparation of financial statements for Banks, the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law and the company's articles of incorporation.

### Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

**KPMG AG**

| | |
|---|---|
| Ertugrul Tüfekçi<br>Licensed Audit Expert<br>Auditor in Charge | Philipp Bertschinger<br>Licensed Audit Expert |

Zurich, 23 February 2018

## Reporting

### Reporting structure

The Swiss Post annual reporting documents for 2017 consist of:

- Swiss Post Annual Report
- Swiss Post Financial Report (management report, corporate governance, annual financial statements for the Group, Swiss Post Ltd and PostFinance Ltd)
- PostFinance Ltd Annual Report
- GRI report (in accordance with the Global Reporting Initiative guidelines)
- Annual Report key figures

Electronic versions of these documents are available at www.swisspost.ch/annualreport. The Swiss Post Ltd Annual Report and Financial Report and the PostFinance Ltd Annual Report are also available in printed form. The GRI report is available at www.swisspost.ch/gri-report-2017.

### Languages

The Swiss Post Annual Report and Financial Report are available in English, German, French and Italian. The German version is authoritative.

### Ordering

Reports can be ordered online at www.swisspost.ch/annualreport. Swiss Post employees may order copies through the usual channels.

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**Five-year overview of key figures**

| | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| **Result** | | | | | | |
| Operating income | CHF million | 8,575 | 8,371 | 8,224 | 8,188 | 7,987[1] |
| Generated in competition | % of operating income | 85.6 | 85.7 | 85.1 | 85.8 | 85.6 |
| Generated abroad and crossborder | % of operating income | 13.2 | 14.6 | 14.0 | 13.7 | 14.4 |
| Operating profit | CHF million | 911 | 803 | 823 | 704 | 630[1] |
| Generated in competition | % of operating profit | 95.5 | 85.5 | 87.0 | 93.5 | 84.8 |
| Generated abroad and crossborder | % of operating profit | 5.2 | 9.0 | 6.9 | 9.1 | 13.0 |
| Group profit | CHF million | 626 | 638 | 645 | 558 | 420[1] |
| Equity | CHF million | 5,637 | 5,010 | 4,385 | 4,881 | 6,613 |
| **Value generation** | | | | | | |
| Economic value added | CHF million | 125 | 207 | 169 | 122 | 9[1] |
| Added value generated | CHF million | 5,328 | 5,220 | 5,193 | 5,145 | 5,054[1] |
| to employees | CHF million | 4,131 | 4,108 | 4,074 | 4,034 | 3,989 |
| to creditors | CHF million | 93 | 57 | 69 | 64 | 67 |
| to public sector | CHF million | 94 | 79 | 94 | 118 | 74[1] |
| to owner | CHF million | 180 | 200 | 200 | 200 | 200 |
| to company | CHF million | 830 | 776 | 756 | 729 | 724 |
| **Jobs** | | | | | | |
| Headcount (excluding trainees) | Full-time equivalents | 44,105 | 44,681 | 44,131 | 43,485 | 42,316 |
| Trainees in Switzerland | Persons | 2,024 | 2,035 | 2,077 | 2,118 | 2,115 |
| Jobs in peripheral regions | Persons | 19,494 | 19,106 | 18,633 | 18,176 | 17,640 |
| Turnover rate (voluntary departures) | As % of average headcount | 3.6 | 4.1 | 3.8 | 4.0 | 4.8 |
| Notice given by employer for economic reasons | Persons | 180 | 168 | 78 | 84 | 161 |
| **Employment conditions and remuneration** | | | | | | |
| Employment in accordance with Swiss Post CEC | Full-time equivalents as % | 62.8 | 61.1 | 61.5 | 53.8 | 53.2 |
| Swiss Post CEC minimum salary | CHF per annum | 45,047 | 47,620 | 47,620 | 47,620 | 47,620 |
| Average salary for employees | CHF per annum | 82,695 | 83,039 | 83,472 | 82,231 | 83,178 |
| Average remuneration paid to members of Executive Management | CHF per annum | 499,281 | 477,719 | 591,574 | 588,377 | 559,044 |
| Salary bandwidth[2] | Factor | 6.0 | 5.8 | 7.1 | 7.2 | 6.7 |
| **Health management** | | | | | | |
| Occupational accidents | Number per 100 FTEs | 6.6 | 5.9 | 6.1 | 5.9 | 6.5 |
| Days lost to illness and accidents | Days per employee | 11.6 | 11.8 | 12.4 | 12.5 | 12.9 |
| **Diversity** | | | | | | |
| Women | % of employees | 48.5 | 48.7 | 48.4 | 48.1 | 47.5 |
| Nationalities represented | Number | 144 | 142 | 142 | 143 | 140 |
| Women on Board of Directors | % | 22.2 | 33.3 | 33.3 | 33.3 | 33.3 |
| Women in Executive Management | % | 12.5 | 12.5 | 12.1 | 11.1 | 20.5 |
| Women in senior management roles | % | 9.3 | 11.0 | 12.3 | 12.3 | 13.4 |
| Women in middle and lower management roles | % | 23.7 | 23.6 | 23.4 | 24.2 | 23.9 |
| **Demographics** | | | | | | |
| Average age of workforce | Years | 44.8 | 45.1 | 45.3 | 45.6 | 46.0 |
| **Resource consumption** | | | | | | |
| Energy consumption | GWh | 1,461 | 1,456 | 1,458 | 1,491 | 1,453 |
| Energy consumption within Swiss Post | GWh | 891 | 894 | 890 | 905 | 887 |
| Renewable share | % | 19.1 | 20.3 | 20.0 | 19.3 | 19.6 |
| Energy consumption outside Swiss Post | GWh | 570 | 561 | 568 | 586 | 567 |
| **Carbon footprint (scope 1 – 3)**[4] | | | | | | |
| Carbon footprint | t $CO_2$ equivalent | 449,174 | 442,202 | 440,728 | 446,151 | 436,550 |
| $CO_2$ efficiency increase since 2010[3] | % | 10.1 | 12.1 | 13.7 | 16.5 | 19.2 |

1 Normalized figure. See the section "One-off item 2017" on page 35 of the Financial Report.
2 Factor = average remuneration paid to Members of Executive Management vs. average employee salary.
3 The rise in $CO_2$ efficiency is measured as the change in $CO_2$ equivalents per core service in the year under review compared with the base year. Each core service is defined by unit (consignment, transaction, passenger kilometre, kilometre, full-time equivalent etc.).
4 The prior-year figures for $CO_2$ have been adjusted based on updated emission factors.

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