Swiss Post is right here.
For everyone.

Financial Report
2019

About this Financial Report

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.

Annual reporting structure
The Swiss Post annual reporting documents for 2019 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
- Sustainability Report (report in accordance with the Global Reporting Initiative guidelines)
- Annual Report key figures

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.

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
Plan or goal
If the figures shown are not comparable with the more recent figures (e.g. due to a change in method or change in the scope of consolidation), this is shown as follows:
Non-comparable prior-year figure
Non-comparable difference with positive effect on result
Non-comparable difference with negative effect on result

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

Simple yet systematic – Swiss Post.

Reliable, value-enhancing and sustainable.

7,164 million

francs in **operating income,** down 90 million francs year-on-year.

255 million

francs in **Group profit,** down 149 million francs year-on-year.

1,807 million

With a fall of 4.8 percent, the volume of **addressed letters** posted in Switzerland and delivered by PostMail declined again in 2019.

148 million

Thanks to booming online retail, PostLogistics delivered 7.3 percent more **parcels** in Switzerland.

119 billion

francs, up by 0.3 percent, represents the **level of average customer assets** at PostFinance.

167 million

PostBus again transported around 12 million more **passengers** n 2019 due to the continuing trend towards public transport use.

81 points

Customer satisfaction remained at a high level, as in the previous year.

28%

is the **CO_2 efficiency improvement** over 2010 achieved by Swiss Post by the end of 2019.

55,915

employees work for Swiss Post, 2,265 fewer than in the previous year.

81 points

The high index value for **employee commitment,** which rose by one point year-on-year, is a testament to motivated and committed employees.

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Management report

Swiss Post operates in markets that are undergoing rapid change due to intense competition, internationalization, technology deployment and regulations. Driven by digital commerce, the logistics market is facing global competition. The level of digitization in the communication market is rising. Following regulatory changes in the financial market, digital providers have the possibility to gain a foothold in payment transactions. Growing numbers of new 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.

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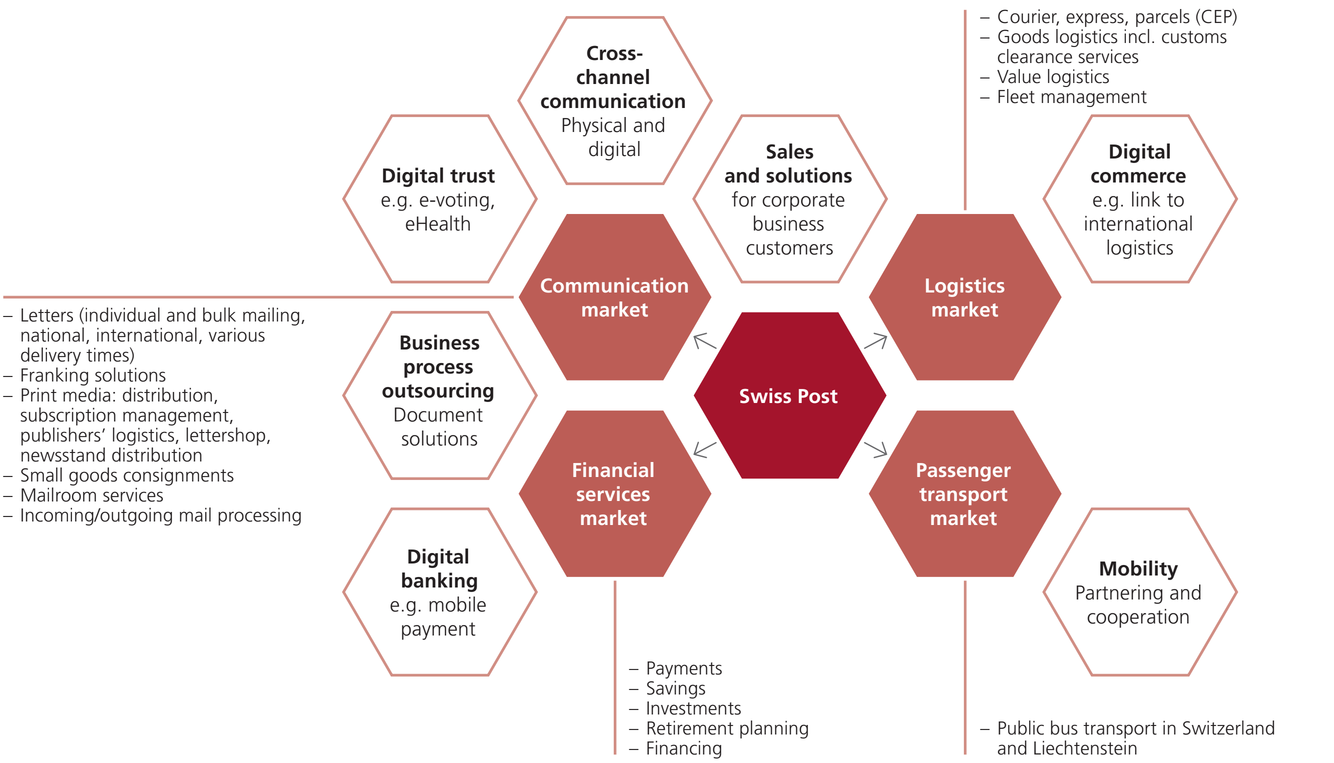
Business activities

Swiss Post offers financial and mobility services in addition to postal products and services. It is also developing cross-market solutions, for instance in digital 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 digital 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 85.4 percent of its revenue in competition. The remaining 14.6 percent is accounted for by the monopoly on letters weighing less than 50 grams, where Swiss Post is in competition with electronic services. Due to the advance of electronic substitution, the share generated by Swiss Post's monopoly is falling. The contribution of the monopoly to the financing of the universal service therefore continues to decline.

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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 more than one hundred thousand companies ranging from small businesses to large multinationals. Most of Swiss Post's income stems from major customers and corporate accounts which are provided with tailored solutions.

Corporate accounts generate more than half of logistics revenue

Communication and logistics market | Business customer segments
2019

Business customer revenue CHF per annum	**Business customer segment**	**Business customers** Number	**Share of business customer revenue** Percent
Over 2,000,000	Corporate accounts and key accounts	**205**	**57%**
100,000 to 2,000,000	Business accounts	**2,464**	
25,000 to 100,000	Retail accounts	**5,457**	**41%**
3,000 to 25,000	Small and medium-sized enterprises	**27,262**	
Up to 3,000	Other	**90,523**	**2%**

Swiss Post offers services to every household in Switzerland and to around 126,000 business customers in the communication and logistics markets. PostBus transported around 167 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 85.2 percent of Group revenue, with 14.8 percent generated abroad or in cross-border business.

Domestic

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

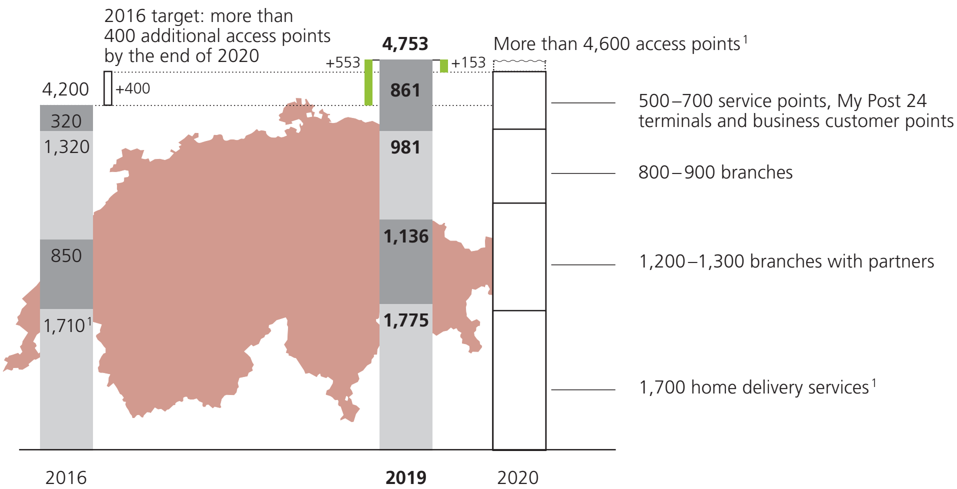
Access points

Customer-oriented sales network for today and tomorrow.

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 the year 2020, Swiss Post will have increased the number and range of services by around 400 additional access points. Its focus is increasingly on the tried-and-tested branches with partners model, developing the home delivery service and opening additional access points such as My Post 24 terminals and business customer points.

Targets for end of 2020 already exceeded in 2019

Number of access points as at 31.12.



1 The term “district” was clearly defined as part of the new ordinance to the Postal Services Act. Due to the new definition, the number of districts with a home delivery service has increased by around 400. As a result, our previous goal of offering more than 4,200 access points by the end of 2020 has increased to 4,600 access points. The 2016 figure has also been adjusted to reflect this.

On the move: branches and additional access points

Present throughout Switzerland.

Every day, thousands of Swiss Post employees and numerous partner staff serve and advise over one million customers in 981 branches and 1,136 branches with partners. A network of 38 PostFinance branches and 56 consulting offices is available for financial services. 110 PostFinance employees advise small and medium-sized business customers directly at their premises. 975 Postomats, 14,495 letter boxes, 301,900 P.O. Boxes and 155 My Post 24 terminals are also available around the clock, as are 572 service points at locations such as Migros branches. To meet the needs of business customers, Swiss Post operates 288 counters for business customers in branches and 134 business customer points in industrial or business districts as well as at letter and parcel processing centers.

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At home: basic and home delivery service

Swiss Post serves over 4 million households, 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 1,775 – predominantly rural – locations, customers can take advantage of the home delivery service ("branch counter" at their front door), where they can for example buy stamps, hand over letters and parcels and take care of payment transactions with delivery staff directly at their front door. In other areas, where a branch with a partner is normally operated at the same time, Swiss Post offers payments and withdrawals from home, allowing customers to easily pay bills or withdraw cash on the doorstep. Swiss Post offers business customers consignment collections from their company address and the secure transport of daily takings and 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 330 call center agents respond to inquiries to the Contact Center via e-mail and telephone from locations in Fribourg, Schaffhausen, Kriens and Visp. Around 6,200 inquiries are dealt with here each day.

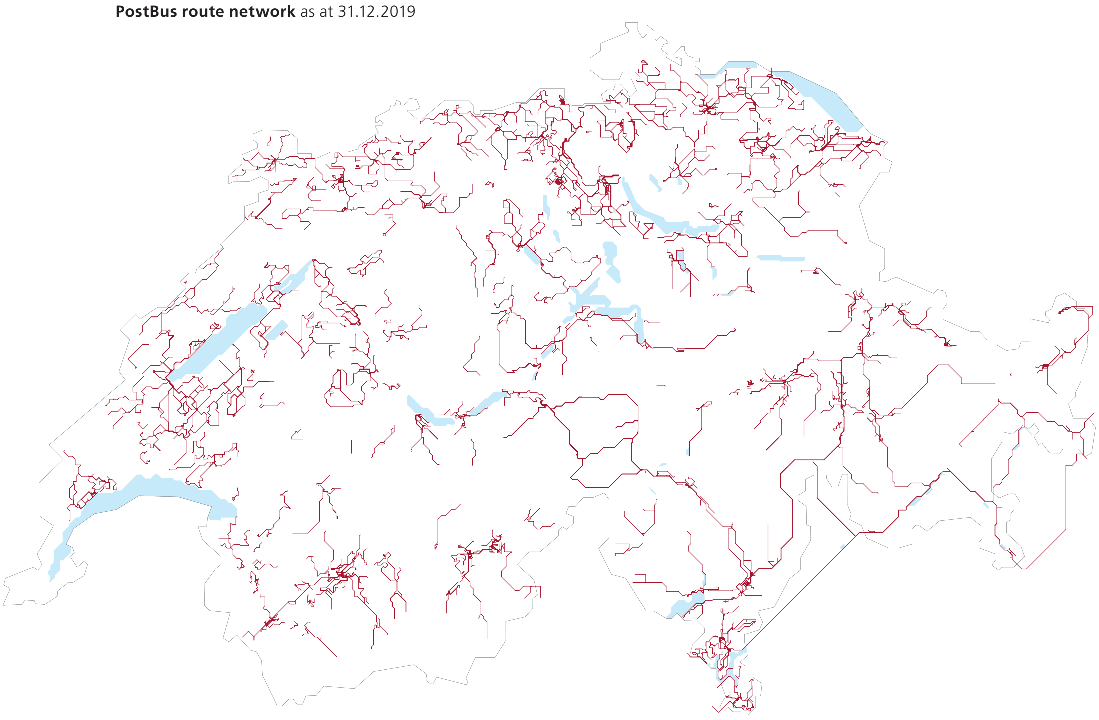
More information on developments in the network and universal service can be found on pages 40 to 43 of the Annual Report.

PostBus routes

In the passenger transport market, PostBus offers 916 PostBus routes in Switzerland, covering a total of 16,055 kilometres and 13,800 stops in the public transport network, as well as tourist routes, school buses and dial-a-ride buses. In the city of Sion, PostBus operates two autonomous shuttles in public spaces. The range of services is completed by 480 stations in the PubliBike bike sharing system, with 4,900 bicycles on offer.

PostBus connects the whole of Switzerland with its route network

PostBus route network as at 31.12.2019



Abroad

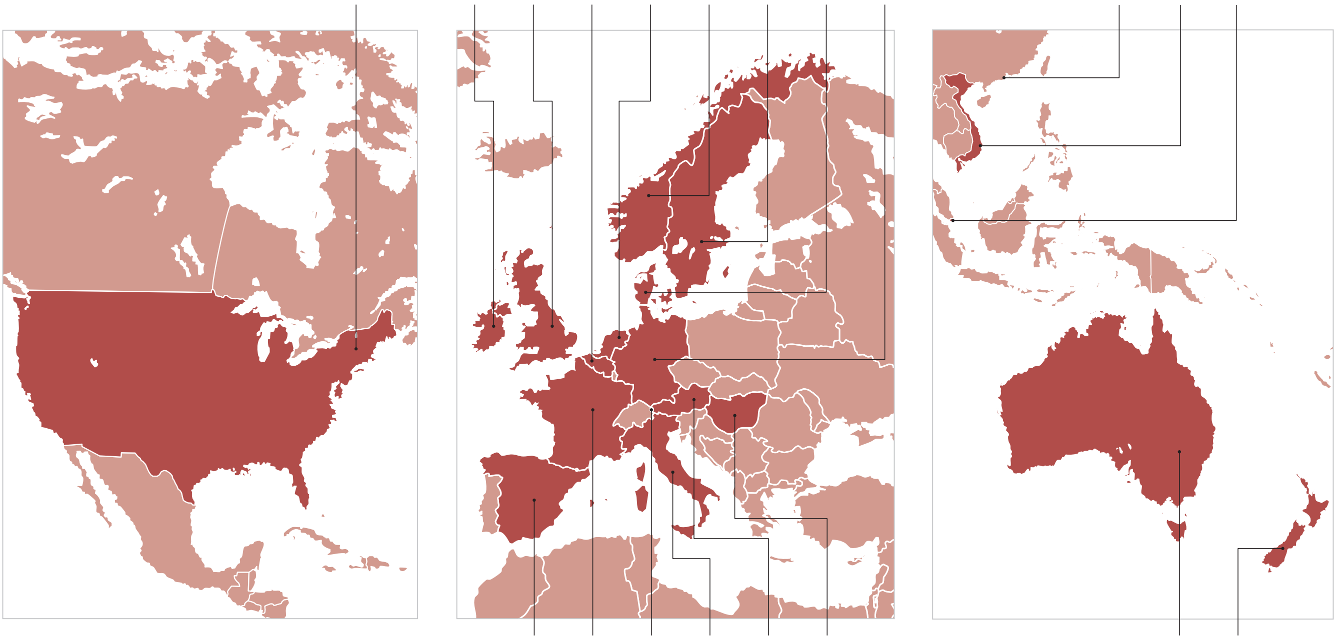
Selective presence abroad.

Swiss Post has its own branches in 21 countries. Post CH Ltd is represented by subsidiaries, franchise or cooperation partners and sales agents in Europe, North America, Asia and Oceania (Australia, New Zealand). Cooperation with partners abroad gives it access to their global logistics networks. A PostBus subsidiary operates the entire regional transport network in Liechtenstein. With the sale of its subsidiary CarPostal France SAS, PostBus has exited the French market.

Swiss Post abroad

2019

	US	IE	UK	BE	NL	NO	SE	DK	DE	HK	VN	SG
Letters	■[1]		■[1]	■[1]	■[1]	■[1]	■[1]	■[1]	■[1]	■[1]		■[1]
Logistics									■			
Passenger transport												
Document solutions BPO[2]	■	■	■		■				■	■	■	■



	ES	FR	LI	IT	AT	HU	AU	NZ
Letters	■[1]	■		■[1]	■[1]		■[1]	■[1]
Logistics		■						
Passenger transport			■					
Document solutions BPO[2]	■	■	■	■	■	■		

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

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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 were again implemented and optimized in day-to-day operations in 2019. The current improvement measures aim to create a customer-oriented experience at all contact points with the Swiss Post core brand and the two flagship brands PostFinance and PostBus. One of the most visible optimizations is the website (www.swisspost.ch), which was enhanced in 2019. Synergy effects are also achieved and the brands are compellingly brought to life across all the points of contact by means of closely coordinated interplay between the many different communication tools in terms of content, form and timing.

Brands and markets

The marketing communication architecture, which was redefined in 2018, was followed up consistently in 2019 as part of an image and product campaign. This integrated communication under the central theme of "Swiss Post is right here. For everyone." was continued in May with a broad, national poster campaign, which was then supplemented by a second wave in autumn and ended in December with a Christmas TV ad. The approach to the product campaigns was to be "always on" throughout the year – primarily on digital channels. The declared goal of further strengthening confidence in the Swiss Post brand was again impressively achieved with the two campaigns in 2019. As the founder of the Museum of Communication, Swiss Post is committed to exploring a central aspect of human coexistence and co-financing a crowd-pulling major attraction in the Swiss museum landscape.

The "Dynamic sponsorship: commitments for Switzerland" pillar of the current sponsorship strategy places a clear emphasis on private customers. The two commitments "Hiking" and "TEDx" strengthen the target positioning. They allow us to demonstrate proximity and accessibility and help ensure a positive Swiss Post experience. Together with the two other main sponsorship pillars (business sponsorship and social sponsorship), they establish Group sponsorship as a brand management tool.

Regular image measurements are carried out on the brand identity. This showed that Swiss Post maintains a leading position in its core business with a supported familiarity score of 97 percent from businesses and 99 percent from the general population. Swiss Post has been the focus of politicians and the media since the discovery of the excess subsidy payments at PostBus in February 2018. However, this had virtually no impact on the way in which the Swiss Post brand is perceived by the population – the results are comparable with the previous year. There is nevertheless a slight, but insignificant decline, in perception by the business target group. 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-digital services.

Organization

A market-oriented structure.

Swiss Post operates six executive business 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, Informatics, Group Audit and Strategy & Transformation units support the management of the Group and the provision of services by the executive business units. In the annual financial statements, the results for these units are included in Other.

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

Organization chart

31.12.2019

Swiss Post Ltd

Board of Directors
Urs Schwaller

Group Audit
Esther Brändli

Executive Management
Roberto Cirillo*

Strategy & Transformation
Michel Franzelli

Finance
Alex Glanzmann*

Human Resources
Valérie Schelker*

Corporate Center
Markus Schumacher**

Communication
Alexander Fleischer**

Development & Innovation
Claudia Pletscher**

Corporate Accounts
Jörg Vollmer*

Real Estate
Thomas Baur*

Informatics
Wolfgang Eger**

Post CH Ltd

PostalNetwork
Thomas Baur*

PostMail
Ulrich Hurni*

PostLogistics
Dieter Bambauer*

Swiss Post Solutions
Jörg Vollmer*

PostBus Ltd
Christian Plüss*

PostFinance Ltd

Board of Directors
Rolf Watter

Executive Board
Hansruedi Köng

* 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 69 to 71.

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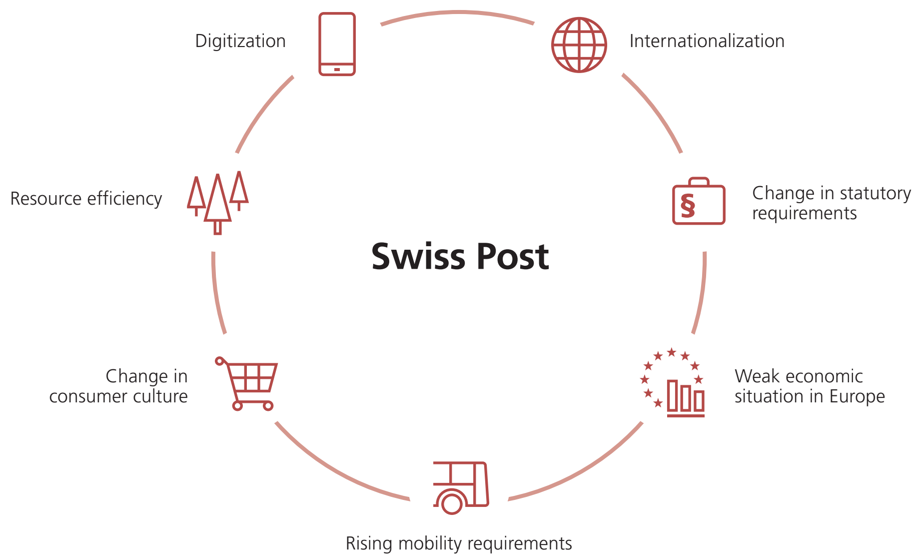
Background

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

2019



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 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 and newspaper business, but its speed is difficult to predict. It therefore represents a risk for Swiss Post. What is certain is that consignment volumes and demand for traditional over-the-counter services will continue to decline. In addition, competitive pressure is increasing in the open letters market outside the monopoly (over 50 grams), causing a loss in Swiss Post's market share. The market for small goods consignments and services over the last mile offer 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 digital 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). The number of orders from international and national customers continues to increase.

Financial services market

The low interest environment is likely to persist in the longer term 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. Accordingly, its income is declining by a figure in the high double-digit millions each year. PostFinance is diversifying its income structure and tapping into new business areas in which non-interest income can be generated. At the same time, the demands of private and business customers on their financial service providers are changing more rapidly and profoundly than ever, and new market participants are heightening the intensity of competition in the Swiss market.

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. 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. Changing customer requirements and new technical possibilities are encouraging the spread of flexible, versatile and combinable mobility services such as on-demand solutions or sharing models in urban areas. Environmentally sustainable mobility is growing in relevance.

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

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Legal and political factors

Legal requirements changing over time.

With the replacement of the head of department, work on the postal legislation, which was initiated by the previous incumbent and had been ongoing for some time under the lead of OFCOM, was temporarily suspended. In the course of the year under review, it was then decided that the revision of the Ordinance on the Postal Services Act would be only partial. Among other things, this revision includes implementation of the Maire and Clottu motions on home delivery throughout Switzerland and the Candinas motion on midday delivery of daily newspapers in areas without early-morning delivery. The latter envisages the introduction of a quality measurement, as in the case for letters and parcels. The partial revision does not include the price ceilings applicable to the monopoly or universal service. This will impose additional financial burdens on Swiss Post.

With respect to network development, Swiss Post suffered a delay of more than eight months, with financial implications, as a result of the partial moratorium imposed by PostCom in connection with the implementation of the new reachability requirements. Following the holistic analysis of PostFinance, the owner mandated a holistic analysis of the situation at Swiss Post. At the end of August, Swiss Post responded by providing the owner with a detailed input report and an additional report. The comprehensive groundwork set out in these reports sets the currently pending political initiatives in a broader strategic context with respect to the future of Swiss Post. The holistic analysis shows the need for regulatory action on the part of the owner and politicians. If the regulatory framework remains unchanged, a continuation of the present business policy will lead Swiss Post into a difficult financial position in the medium term. Any precedent-setting decisions by the owner and politicians concerning the future strategic focus of Swiss Post that would prevent this happening would have to be taken at the beginning of the next strategy period in 2021. Notwithstanding this, political initiatives in parliament and in the cantons have continued to accumulate, and the new demands made of Swiss Post will be ongoing. In the meantime, the holistic analysis of Swiss Post has shown that any failure to adjust the regulatory framework will mean that – before the end of the 2020s – the sustainable financing of the universal postal service is no longer assured.

2020 Swiss Post 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 set by 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 Services 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 Services 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 items 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 may also provide additional services outside the universal service.

The universal service for payment transactions includes opening an account and making transfers, inpayments and outpayments. With effect from 1 January 2019, the requirements for the accessibility of payment transaction services were again made more stringent. These services should now be accessible to 90 percent of the population within 20 minutes on foot or by public transport, rather than 30 minutes as was previously the case.

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Classification of services

2019

	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

Strategic goals set by the Federal Council

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. 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 post
- 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 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 (on a scale of 0 – 100)
- Customer experience: increase customer experience or recommendation rate per unit
- Customer proximity: more than 400 additional access points by the end of 2020

Market
- Swiss Post wants to generate 10 percent of new revenue 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
- Swiss Post aims to secure its financial independence, increase its economic value added and achieve industry-standard returns in its business units.

The challenges in the environment have intensified further, which means that achievement of the goals that have been set until the end of the strategy period is at risk.

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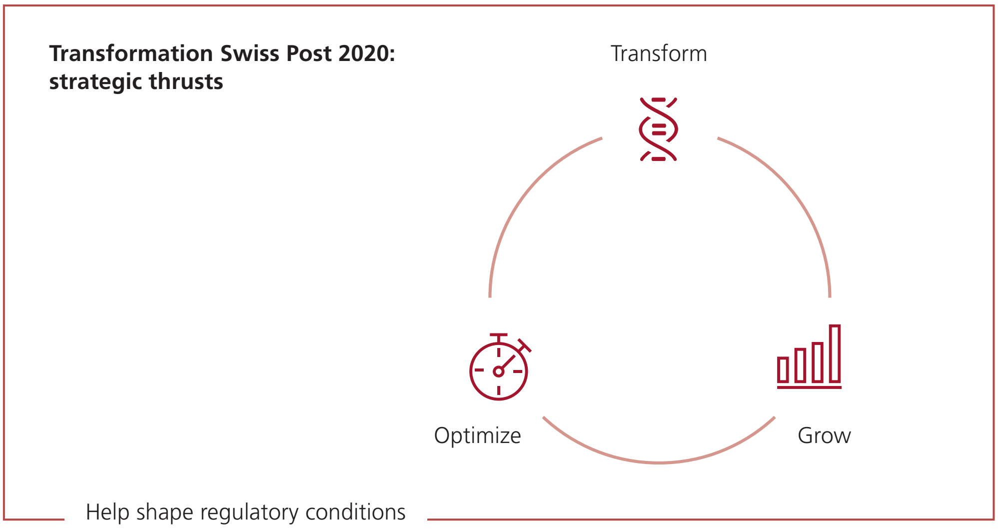
Strategic thrusts

Transform, grow, optimize and help shape regulatory conditions.

In order to meet its goals, Swiss Post is pursuing four strategic thrusts: transform, grow, optimize and help shape regulatory conditions.

Strategic thrusts



Driving forward transformation of the business

Swiss Post is changing by adopting measures in the areas of customer experience management, digitization and employee development. 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 revenue 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. The illustration on page 20 shows which new business models will be developed in each development area.

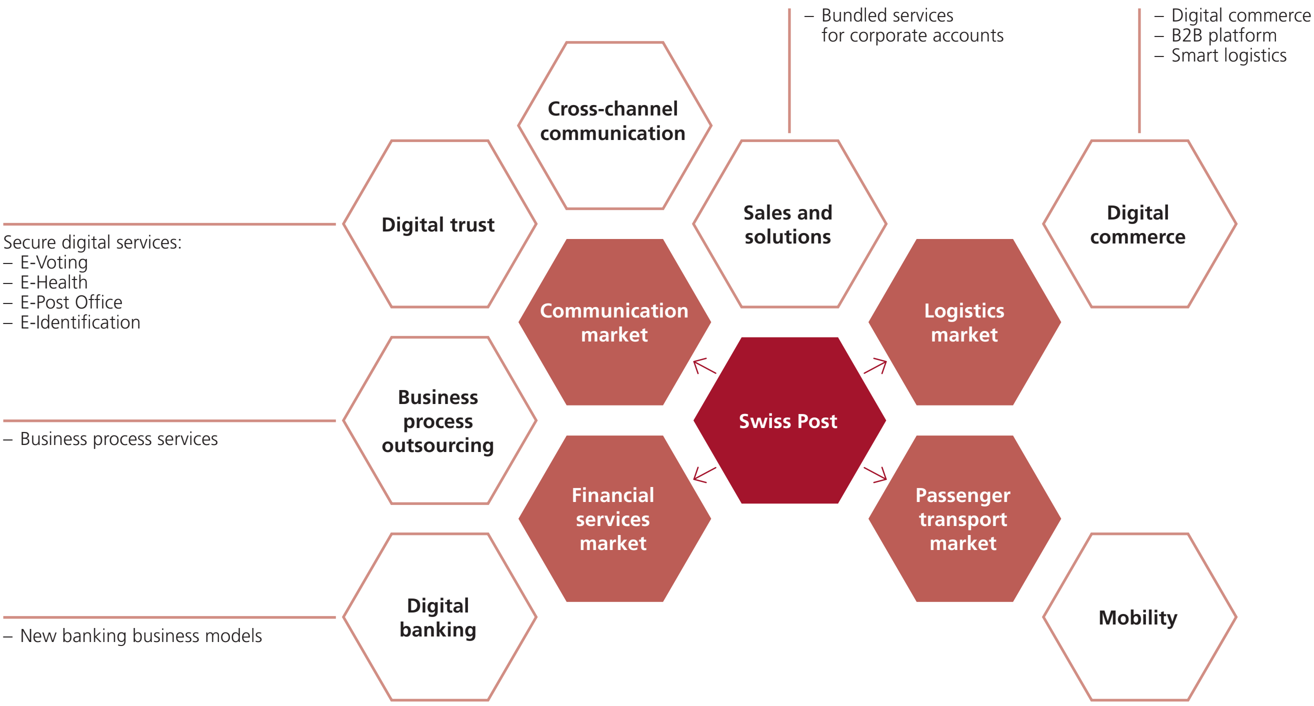
Optimizing and increasing efficiency

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.

Help 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.

Growth and business development areas



Market strategies

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

Communication market

PostMail

Letters enjoy a strong 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 dialogue-oriented communication. Growth opportunities can be found in direct marketing, abroad in Asendia (cooperation with France's La Poste), in the international small goods 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 customers 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 tangible contribution to Swiss Post's new business and to expand its leading international position. Reputed business customers all around the

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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 go, 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 gradually introducing 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

Setting the pace in the logistics market.

Driven by booming online trade and continuing globalization, logistics and, in turn, PostLogistics will continue to expand. The strongest growth drivers will have an impact on the parcel division. Goods logistics are also registering positive growth due to internationalization and increasing requirements in the B2B segment.

A new phase of digital commerce will turn the world into a worldwide warehouse. Trade is shifting from in-store to electronic commerce, and customer-specific omnichannel concepts with integrated customs clearance solutions are becoming a reality. Domestic retailers are coming under increasing pressure due to the wide selection of products, price differences and ever shorter delivery times offered by international competitors, particularly from Asia. Interest groups are being formed in response, and the importance of imports will continue to grow. A significant shift in the speed of delivery is also being observed.

In addition to existing competitors, new rivals, partly from outside the sector, are forcing their way onto the logistics market. Furthermore, due to disruptive technologies, new competitive models can bring about fundamental and lasting change to the market at any time (such as "uberfication"/the platform economy, 3D printing, etc.).

Based on its underlying strategy of quality and cost leadership, PostLogistics is endeavouring to secure and build upon its position as the market leader in the Swiss logistics market. PostLogistics is driven by its ambition to be number one in the Swiss parcel and logistics market and in the cross-border parcel business based on its comprehensive service portfolio, the highest quality of service and the most efficient infrastructure. Further strategic goals are to be perceived as the pacesetter in national and cross-border digital commerce, and as a trendsetter and reference in the creation of positive customer experiences.

The main features which set PostLogistics apart include its comprehensive service portfolio, its high quality of service delivery in the industrialized bulk business and its deep networking with our customers on the sender and recipient side. A high level of technological competence and density of innovation, as well as a systematic presence abroad, ensure growth and market share.

A steadily growing international market presence in neighbouring countries is becoming another important prerequisite for securing its high market share in the domestic parcel business (keyword interlinking). With its reinforced connection to networks, goods logistics can better benefit from international growth impetus.

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 development of additional sources of income from new business models.

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

Focused mobility provider in road passenger transport.

As part of its realignment, PostBus is refocusing on its strengths, affirming its social responsibility and concentrating on its core business, "regional passenger transport", including directly related additional business. With this new identity in mind, PostBus is therefore seeking to enter other business areas in addition to its core business. These should help it to make public transport more customer-friendly and efficient, to optimize the use of operating capacities and to participate in new mobility solutions.

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Corporate responsibility strategy

Swiss Post is aware of its special corporate responsibility as one of the largest employers and as 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 and have anchored it in a set of clear principles. The core values are: "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 be one of the leading postal companies internationally, and to set an example nationally.

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

In the 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 providing jobs in rural areas and making funds available for charitable purposes.

Swiss Post's Group target for the 2017 to 2020 strategy period is to achieve a CO_2 efficiency increase of at least 25 percent by the end of 2020 (base year 2010). It reached and exceeded this target ahead of schedule at the end of 2019, with a reduction of 27.6 percent. 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 degrees Celsius by 2100 compared to pre-industrial levels, as decided by the international community as part of the Paris Climate Agreement.

The focus of the other areas of action within the corporate responsibility strategy 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, responsible employer, circular economy and corporate citizenship are defined as further areas of action with goals and strategic measures.

Responsible procurement

Our ambition

Sustainability criteria play a key role in the entire procurement process.

In terms of sustainability, we want to become one of the leading procurement organizations in the postal industry.

Goals and strategic thrusts

- Incorporate sustainability criteria into service tenders.
- Draw up a risk evaluation for strategic suppliers.
- Integrate the circular economy and carbon-neutral approach consistently into procurement practice.

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. Swiss Post advocates socially acceptable working conditions and environmental measures at its suppliers.

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 extensive procurement processes, life-cycle 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. Growing attention is being paid to the procurement of recyclable products. 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 sixth time in a row, the Foundation designated Swiss Post as a "leader".

Climate and energy

Our ambition

Swiss Post pursues ambitious energy and CO_2 targets.

Swiss Post's climate goal is in line with the objective of stabilizing global warming to well below 2 degrees Celsius by 2100.

Goals and strategic thrusts

– Improve CO_2 efficiency by at least 25 percent by 2020 (base year 2010).
– Promote renewable energy and increase its share.
– Use the best available technologies and expand climate-friendly products.

More information on these measures and on the achievement of these goals can be found on pages 52 to 54 of the Financial Report and in the Sustainability Report, available at www.swisspost.ch/sustainabilityreport.

Responsible employer

Our ambition

Swiss Post develops its employees and organization in order to succeed.

Goals and strategic thrusts

– Employee performance is ensured, even with age.
– The organization is transforming into a varied working environment and is becoming more agile and innovative.
– By 2020 a joint leadership understanding will be developed and appropriate conduct demanded.

Swiss Post ensures that its employees remain agile, innovative and diverse.

Swiss Post is committed to the health of its employees. It seeks to take account of demographic trends and changing requirements by implementing appropriate management and by applying a working model that maintains performance levels throughout every phase of life. Diverse teams help to create an agile, innovative working environment, which is why diversity is consciously encouraged. Management has an important role to play in the successful completion of the current phase in our transformation as a postal service provider. Management training is adapted to changing requirements, for example.

More information on the responsible employer area of action can be found in the human resources section on pages 49 to 52.

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Circular economy

Our ambition

With our products and skills, we support a resource-friendly and circular economy.

Goals and strategic thrusts

- Tap into new logistics potential and create additional social benefits.
- Support circular product use with innovative logistics services.

Swiss Post offers intelligent logistics solutions in the circular economy.

With its services, Swiss Post helps to increase the frequency of use and recycling rate of resources, thereby ensuring that consumption in Switzerland is sustainable. 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. Swiss Post takes back used Nespresso coffee capsules as well as PET bottles and packaging material when exchanging e-food orders, and disposes of this waste correctly. It collects used paper on behalf of municipalities and recovers everyday items and textiles for reuse and recycling in partnership with institutions such as second-hand shops or Texaid. On behalf of Swisscom, Swiss Post collects disused Internet routers and passes them on for reconditioning, allowing them to be reused. In addition, it makes the logistics and data processing skills it has acquired in e-commerce available to sharing or repair platforms. Swiss Post also takes its social responsibility seriously as a consumer: it installs used scooter batteries in stationary energy storage units, turns used Swiss Post clothes into something new, and is increasingly committed to sustainable forms of procurement, for instance in building technology, and to the targeted management of its own daily waste.

Corporate citizenship

Our ambition

We are committed to the common good and make resources available for charitable, social or environmental purposes.

Goals and strategic thrusts

- Contribute to solving social or environmental challenges and create added value for society.
- Encourage employees to publicize and support Swiss Post’s commitment to corporate citizenship.

Swiss Post is strongly committed to creating added value for society.

Swiss Post donates a portion of its resources specifically to support charitable and social concerns such as the Santa Claus campaign. 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 (SRC), and delivering Christmas gifts to people in need. Work clothing that is no longer used is collected and donated to the SRC to be given a new lease of life. Some items of clothing that can no longer be worn are made into bags or laptop covers by the social organization BEWO. Swiss Post also has a cultural commitment, supporting Swiss artists with its own art collection and numerous “architectural art” properties. As the founder of the Museum of Communication, it creates a space for exploring the history of the postal service and the manifold aspects of public and personal communication. 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 special stamps with a surcharge such as Pro Patria or Pro Juventute. The latter make an important contribution to raising funds and conveying messages. Swiss Post also supports the "Climate School" project, which involves schoolchildren installing solar power systems onto the roofs of Swiss schools – the electricity generated as a result is used directly inside the building and the pupils are given a broad education on the subject of climate. In addition, Swiss Post employees can volunteer to help fit solar panels onto roofs.

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 set by 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 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" on page 72), 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 units 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 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 finances, 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 is used as a financial management tool for the 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 year and the following year. The periodicity of the commentary depends on the key figure on which it is based and the variance.

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Business performance

Key figures

Operating profit and Group profit down on previous year.

In 2019 Swiss Post generated a Group profit of 255 million francs, 149 million francs down on the previous year. The major challenges facing Swiss Post are reflected in the operating profit of 450 million francs. The prior-year figure stood at 505 million francs. In the communication market, the fall in volumes as a result of technological developments was not fully offset by efficiency measures. In the logistics market, the positive effects of the development in volumes were cancelled out by a divestiture as well as increased expenses in connection with the robbery incident at SecurePost Ltd. However, the market-induced lower interest income in the financial services market was offset by price measures and cost savings. In the passenger transport market, impairments on fixed assets led to a negative operating result. In addition, higher expenses for information and communication technology arose in the management units.

Group | Key figures

2019 with previous year for comparison		2018	2019
Results			
Operating income [1]	CHF million	7,254	7,164
Generated abroad and crossborder [1, 2]	CHF million	1,061	1,060
	% of operating income	14.6	14.8
Reserved services [3]	CHF million	1,106	1,046
	% of operating income	15.2	14.6
Operating profit [1]	CHF million	505	450
As a share of operating income	%	7.0	6.3
Generated abroad and crossborder [1, 2]	CHF million	91	67
	% of operating profit	18.0	14.9
Group profit [1]	CHF million	404	255
Employees			
Headcount at Swiss Post Group	Full-time equivalents	39,932	39,670
Abroad	Full-time equivalents	6,123	6,272
Financing			
Total assets [1]	CHF million	124,196	132,544
Customer deposits (PostFinance)	CHF million	111,141	108,669
Equity [1]	CHF million	6,759	6,834
Investments			
Investments	CHF million	412	471
Other property, plant and equipment, intangible assets	CHF million	252	321
Operating property	CHF million	63	108
Investment property	CHF million	24	38
Investments	CHF million	73	4
Degree of self-financed investment	%	100	100
Value generation			
Cash flow from operating activities	CHF million	–1,309	10,289
Value added [4]	CHF million	4,613	4,616
Economic value added [1]	CHF million	–24	–17

1 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations).
2 Definition of “abroad” in accordance with the segmentation in the Financial Report (see page 135).
3 Letters up to 50 g.
4 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 238).

Specific reporting points

As part of the reorganization of the business activities of PostBus, Swiss Post decided to sell the CarPostal France Group. As a result, it must be classified as a disposal group held for sale and a discontinued operation. The figures were therefore adjusted accordingly for 2019 and retroactively for 2018 – with the exception of the Group balance sheet items for 2018 and the 2018 and 2019 cash flow statement – to remove contributions from the CarPostal France Group, whose business performance is no longer commented on. Unless otherwise specified, the figures in the Financial Report refer to continuing activities.

Drivers

The economy

According to the Swiss National Bank, international trade tensions and political uncertainties have weighed on the global economy in recent months. Accordingly, economic growth around the world was again slightly below average. Employment in the developed countries increased more slowly in this environment. The economy in the eurozone grew below potential. While the service sector supported growth, industrial activity declined. Economic output in Switzerland expanded moderately, in particular due to the slowdown in international industrial growth. Employment rose slightly. Unemployment remained at a low level.

Customers and sectors

Communication market

The trend of decreasing demand for traditional postal services is continuing.

We deliver around 7 million addressed letters and process over half a million payments at the counter each day, making us the leading postal organization in Switzerland. Our products for private and business customers range from physical, hybrid or electronic letters and goods consignments to value-added services such as cash on delivery, registered letters and promotional mail. We face challenges because demand for physical services is falling. In the communication market the number of addressed letters at the end of 2019 was down 4.8 percent and the number of payments processed declined by 6.3 percent year-on-year. The reliability and quality of these services continue to be guaranteed by the use of the latest technology and a mix of traditional and new access points. At Swiss Post Solutions, income from services provided rose by 2.7 percent year-on-year. The products offered by Swiss Post Solutions to help companies with the outsourcing of business processes and with innovative services in document solutions are meeting with growing demand and were expanded in July of the previous year to include the business process outsourcing HR processes business unit.

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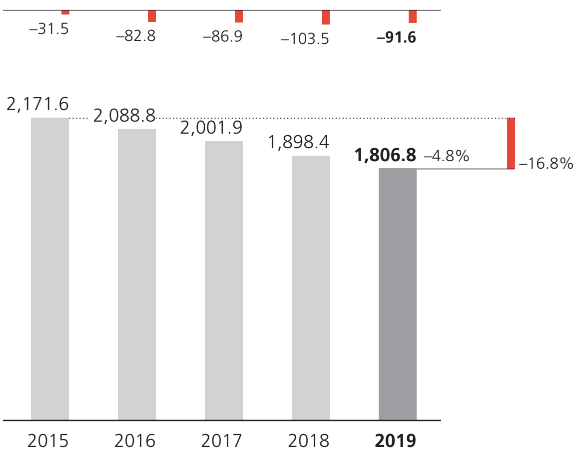
Fall in demand for addressed letters

Communication market | Addressed letters in millions
2015 to 2019
2015 = 100%

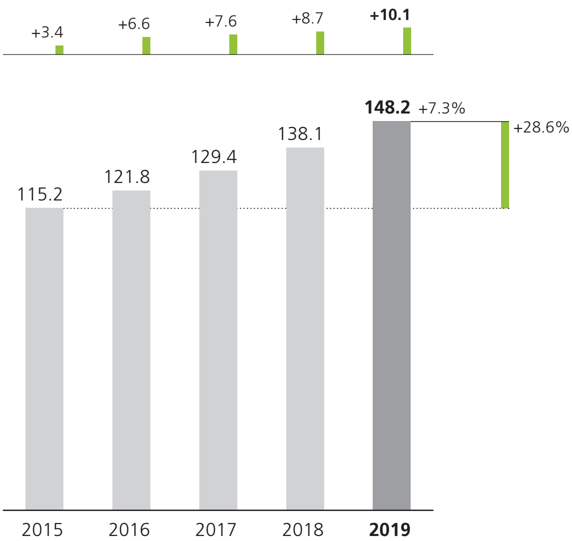


Logistics market

We deliver over 500,000 parcels in Switzerland each working day on average, which makes us number one in the logistics market. Our comprehensive range of services in the national and international parcel business, digital commerce, freight and warehousing, Innight, Courier and Express, fleet management, customs clearance and valuables logistics is experiencing higher demand. We are pleased to meet it by investing in new parcel centers, for example. Domestic parcel volumes carried by PostLogistics increased year-on-year (+ 7.1 percent). Import and export volumes rose by 11.8 percent. The overall increase stood at 7.3 percent.

Digital commerce accelerating rise in parcel volumes

Logistics market | Parcels in millions
2015 to 2019
2015 = 100%



Financial services market

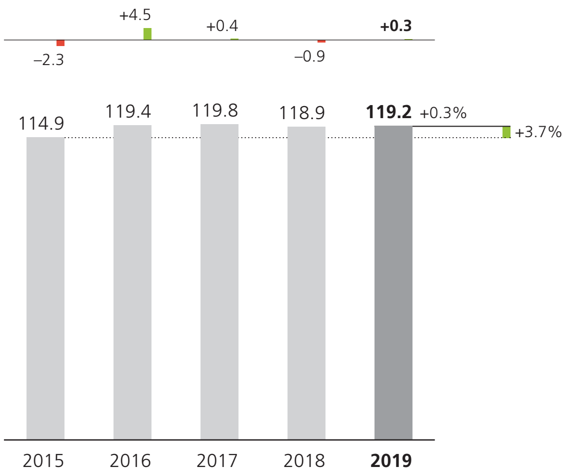
Framework conditions impair future prospects.

We make a significant contribution to the functioning of the Swiss economy with payment transactions from PostFinance. In addition, we have a business relationship with virtually every household and SME in Switzerland. This obliges us to provide top performance, but also represents the basis for our motivation. The banking arm of Swiss Post is taking the current interest rates and changing customer requirements as an opportunity to consistently gear its strategy towards the transformation into a digital powerhouse. The aim is to help our customers manage their money as easily as possible.

No short-term measures can compensate for PostFinance's competitive disadvantage in not being able to issue loans and mortgages itself. In the medium to long term, PostFinance is tapping into new sources of revenue through innovation and the targeted expansion of business activities, particularly in the investment area. Swiss Post is following the debate on the prohibition on issuing loans and mortgages initiated by the Federal Council with great interest, and is prepared to state its case as a directly affected party.

Progress in conversion to digital powerhouse

Financial services market | Customer assets in CHF billion monthly avg.
2015 to 2019
2015 = 100%



The interest differential business is the most important source of income for PostFinance. Special attention needs to be paid to the current low interest rate situation and prevailing operating framework. In autumn 2018 PostFinance announced pricing measures for key services as an appropriate way to respond to the above-mentioned operating framework. Customer confidence remains intact, and customer assets increased by 0.3 billion francs (+0.3 percent) year-on-year despite the pricing measures. An investment crisis continues on the assets side of the balance sheet, as reflected in the very high levels of liquidity at the Swiss National Bank. Interest margins fell by 14 basis points to 47 basis points year-on-year.

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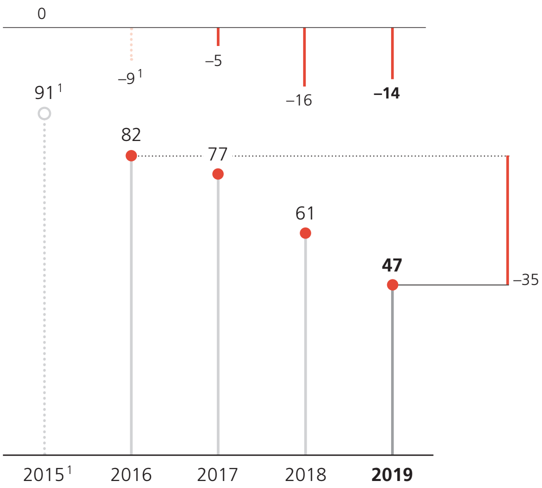
Historically low interest rate level

Financial services market | Interest margin in basis points
2015 to 2019
2016 = 100%



1 The definition of the interest margin was modified for 2016. The figure from 2015 is not comparable.

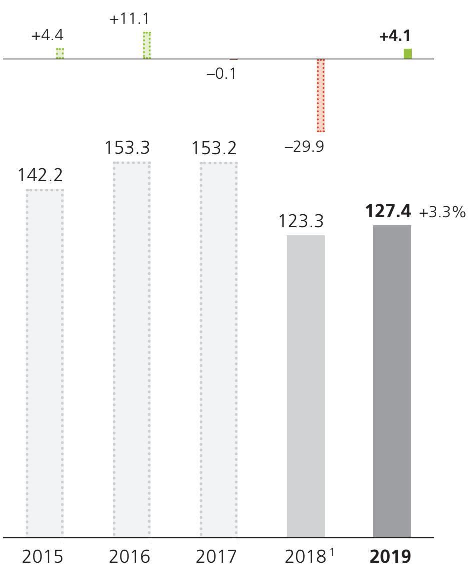
Passenger transport market

Passenger transport is enjoying strong demand.

PostBus is the market leader in public bus transport in Switzerland. It offers high-quality regional passenger transport services, innovative mobility solutions and system services aligned with the changing needs of today's customers. The comprehensive range of public transport services provided by PostBus continues to enjoy growing passenger demand. This is due to additional timetabled services and the resulting increase in the number of kilometres covered. The transport services provided by PostBus experienced growth of 3.3 percent.

Constant increase in timetabled services

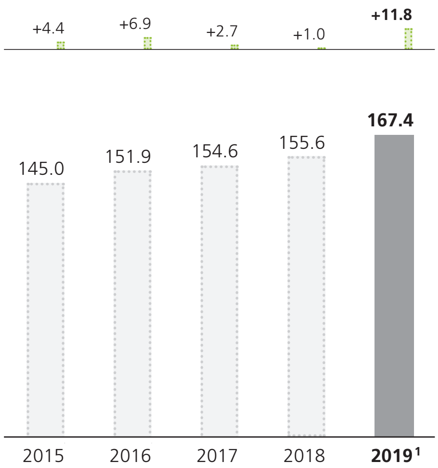
Passenger transport market | Domestic vehicle kilometres in millions of km
2015 to 2019
2018 = 100%



1 The figures for 2018 have been adjusted due to the classification of the CarPostal France Group as a disposal group held for sale and a discontinued operation. The years 2015 to 2017 are not comparable.

Sustained growth in number of passengers

Passenger transport market | Number of passengers in Switzerland in millions
2015 to 2019
2019 = 100%



1 A modified calculation basis and method of calculating was used for the first time in 2019. This means that a comparison with previous years is not possible.

Innovation and sustainability continue to play an important role in the development of the PostBus network. For some time now, PostBus has been making increasing use of vehicles with alternative drives, such as a purely electrically powered vehicle on the Sarnen–Alpnach route. In addition, a new door-to-door shuttle service operating under the name “Kollibri” has been tested in the Brugg region in association with the canton of Aargau, the Federal Office of Transport (FOT) and partners AMAG and SBB. PostBus is thereby contributing to the social, economic and ecological benefits of public transport and the high quality of life in Switzerland.

Profit situation

Economic value added

Framework conditions lead to negative economic value added.

In line with the Federal Council’s financial goals, Swiss Post is expected to maintain and increase the company’s value in the long term. Value added is created when 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 72). When assessing target achievement for economic value added, the owner has the option of also including further aspects – in particular the financial burden of the universal service.

In consultation with the owner, the method for calculating economic value added was modified on 1 January 2019. Thanks to the new method, a greater focus is placed on operating performance. The change is being undertaken on a prospective basis, and comparability with the previous year is limited. The main changes in the method for measuring economic value added apply to the points listed below:

- The PostBus segment is no longer taken into account to determine economic value added, as no profits can be generated in regional passenger transport.
- The cost of capital is determined on the basis of returns expected in the long term. The weighted total cost of capital applied is based on an industry-specific business risk in individual segments and a target capital structure derived from comparable companies.

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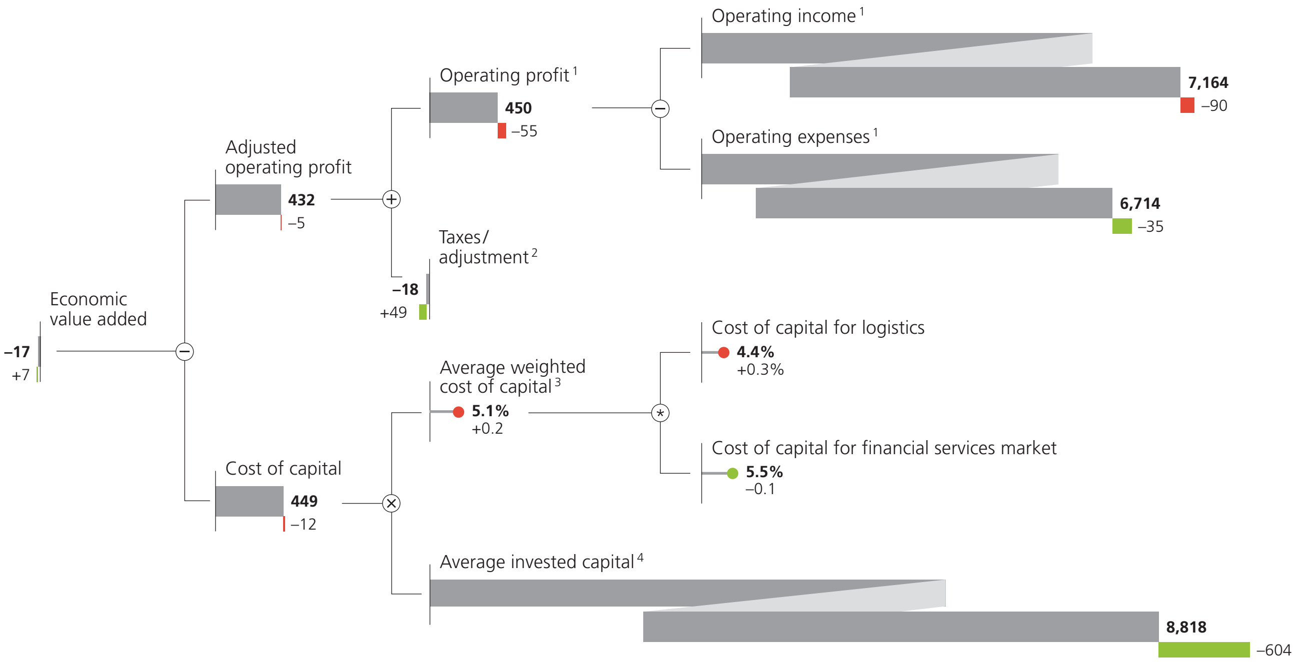
- Employer contributions as per OPA are used instead of employee benefit expenses in accordance with IAS 19 to calculate economic value added.
- Tied equity capital is now taken into account to determine the economic value added produced in all segments.
- Only the liquid assets required for operational purposes are used to determine this.

Economic value added in the logistics unit is calculated from adjusted operating profit (NOPAT) minus capital costs (cost of capital for logistics multiplied by average invested capital, or NOA). In the financial services market, economic value added is calculated from earnings before tax (EBT) in accordance with IFRS minus capital costs (cost of capital in the financial services market multiplied by the relevant average capital amount).

Economic value added amounted to –17 million francs. The negative figure is largely explained by the decline in operating profit. Alongside the structurally related decline in volumes, this is attributable to the prevailing low interest situation and the recognition of provisions.

Capital costs not currently being covered

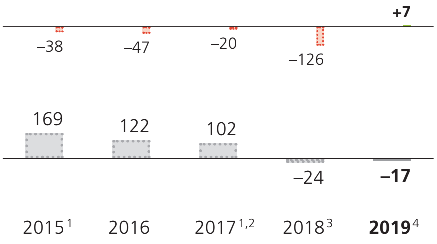
Group | Economic value added in CHF million
2019



⊛ Weighted with the average invested capital in logistics and in the financial services market (PostFinance).
1 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations).
2 Deduction of –24 million francs taken into account in the PostBus operating result.
3 Corresponds to weighted average cost of capital after taxes (WACC) for logistics and cost of equity for the financial services market.
4 At PostFinance corresponds to average equity in accordance with IFRS of 5,506 million francs and in logistics units to the average net operating assets (NOA) of 3,312 million francs.

Declining economic value added

Group | Economic value added in CHF million
2015 to 2019



1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
3 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations).
4 The comparability with the prior-year figures for 2015 to 2018 is limited due to an adjustment in the calculation method. The adjustments are explained on page 34 of the Financial Report 2019.

Income statement

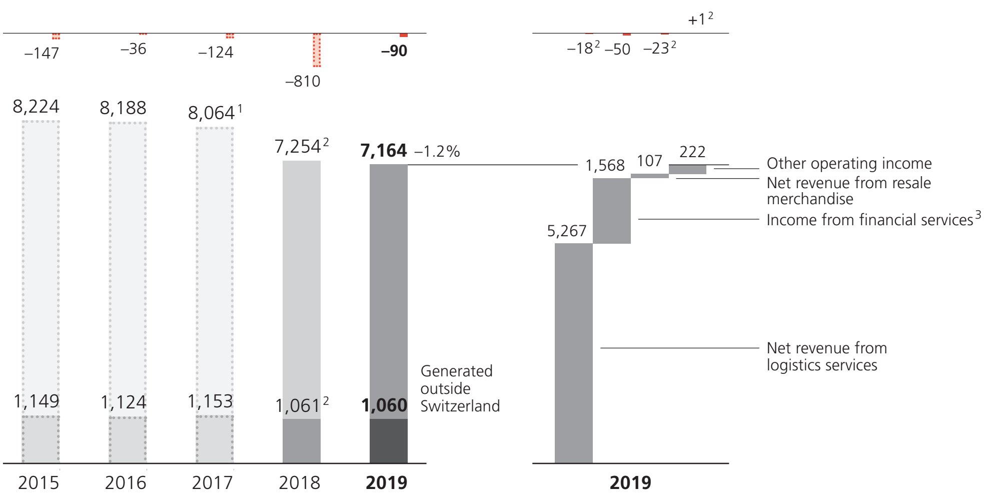
Operating income

Decline in operating income.

In 2019, operating income amounted to 7,164 million francs (previous year: 7,254 million francs). It represents a decline of 90 million francs year-on year. This was mainly due to declining volumes of addressed letters and interest rate-related decreases in revenue.

Declining letter and interest revenue only partially offset

Group | Operating income in CHF million
2015 to 2019
2018 = 100%



1 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
2 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.
3 Including “Other revenue from financial services” of 842 million francs as at 31 December 2019 (as at 31 December 2018: 938 million francs).

Thanks to higher parcel volumes, net revenue from logistics services only decreased slightly by 19 million francs due to lower volumes of addressed letters, while income from financial services fell by 50 million francs year-on-year to 1,567 million francs. It was mainly attributable to a 161 million franc fall in interest income due to the current market situation. This was countered by higher income from commission and services, up 45 million francs, and a 67 million franc increase in income from the market performance of financial investments. Net revenue from resale merchandise dropped by 22 million francs due to modifications to the product range. Other operating income increased by one million francs to 222 million francs.

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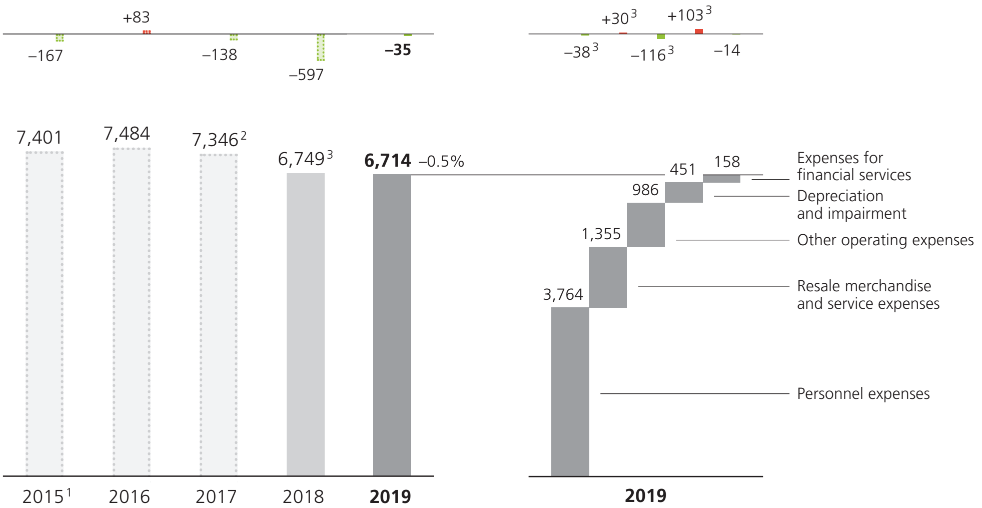
Operating expenses

Reduction in operating expenses.

Operating expenses declined by 35 million francs to 6,714 million francs year-on-year (previous year: 6,749 million francs). Personnel expenses in relation to total operating expenses remained stable and stood at around 56 percent in 2019.

Ongoing efforts to reduce expenses

Group | Operating expenses in CHF million
2015 to 2019
2018 = 100%



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
3 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.

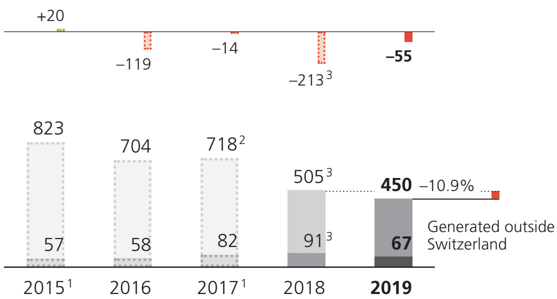
The fall in personnel expenses year-on-year associated with the reduction in headcount was mainly due to lower costs for wages and salaries and a decrease in employee benefit expenses. Resale merchandise and service expenses increased by 30 million francs to 1,355 million francs, due to factors including a rise in expenses for temporary employees, compensation paid to forwarding companies and higher service expenses. Lower negative interest rates on asset transactions of around 12 million francs prompted a decline in expenses for financial services. Other operating expenses decreased by 116 million francs in 2019. The introduction of the new accounting standard IFRS 16 Leases as of 1 January 2019 led to a year-on-year reallocation of expenses between other operating expenses and depreciation. Depreciation and impairment expenses consequently rose by 103 million francs.

Operating profit

Swiss Post generated an operating profit of 450 million francs in 2019. This represents a decrease of 55 million francs in comparison with the prior-year figure. The fall in profit year-on-year is due to declining volumes for structural reasons, the negative interest rate situation and the recognition of provisions.

Falling letter revenue and restructuring projects weigh on operating profit

Group | Operating profit in CHF million
2015 to 2019
2018 = 100%



1 Normalized figures.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).
3 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.

Group profit

Decline in Group profit.

Financial income totalled 43 million francs, with financial expenses standing at 75 million francs. At 3 million francs, net income from associates and joint ventures was down 32 million francs on the previous year. Expenses for income taxes rose by 30 million francs in comparison with the prior-year figure to 137 million francs. Group profit amounted to 255 million francs in 2019.

Segment results

Overview

Three markets contributed to operating profit.

Group | Segment results	Operating income [1]		Operating result [1, 2]		Margin [3]		Headcount [4]	
	CHF million		CHF million		Percent		Full-time equivalents	
1.1. to 31.12.2019 with prior-year period CHF million, percent, full-time equivalents	2018 [5]	2019	2018 [5]	2019	2018 [5]	2019	2018 [6]	2019
PostMail	2,721	2,615	388	370	14.3	14.1	14,404	14,110
Swiss Post Solutions	583	599	31	32	5.3	5.3	6,789	6,909
PostalNetwork	753	693	–94	–132			4,753	4,298
Communication market	**3,798**	**3,667**	**325**	**270**	**8.6**	**7.4**	**25,946**	**25,317**
PostLogistics	1,664	1,708	145	128	8.7	7.5	5,400	5,620
Logistics market	**1,664**	**1,708**	**145**	**128**	**8.7**	**7.5**	**5,400**	**5,620**
PostFinance [7]	1,704	1,660	220	240			3,333	3,248
Financial services market	**1,704**	**1,660**	**220**	**240**			**3,333**	**3,248**
PostBus [8]	823	841	–51	–24			2,229	2,339
Passenger transport market	**823**	**841**	**–51**	**–24**			**2,229**	**2,339**
Other [9]	926	929	–130	–163			3,024	3,146
Consolidation	–1,920	–1,881	–4	–1				
Group	**7,254**	**7,164**	**505**	**450**	**7.0**	**6.3**	**39,932**	**39,670**

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 EBIT margin is reported for PostBus with regard to its business model; no margin is calculated for “Other”; negative margins are not reported.
4 Average expressed in terms of full-time equivalents (excluding trainees).
5 Figures have been adjusted (see Notes to the 2019 Group annual financial statements, Accounting changes and Discontinued operations).
6 In the PostMail segment, the calculation of average FTEs (excluding trainees) was revised for two subsidiaries, resulting in the adjustment of the figure for 2018. In the PostBus segment, figures for 2018 were adjusted due to the classification of CarPostal France Group as a disposal group held for sale and a discontinued operation.
7 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.
8 Within the field of regional public transport, PostBus Ltd is subject to the DETEC ordinance on the accounting of licensed businesses (RKV). There are differences between the RKV and the IFRS results.
9 Includes function units (e.g. Real Estate, Informatics, Human Resources, Finance and Communication).

Communication market

PostMail

PostMail: decline in volumes weighs on operating profit.

PostMail recorded an operating profit of 370 million francs in 2019, falling short of the prior-year figure by 18 million francs.

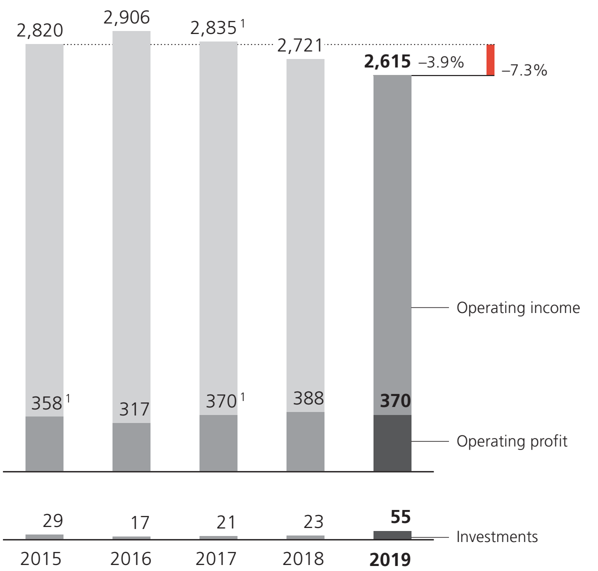
Operating income fell by 106 million francs, with 70 million francs attributable to the decline in addressed letters as a result of the digitization of business processes and cost savings by customers. Newspaper revenue dropped by 23 million francs year-on-year due to a decline in subscriber numbers. The same effects also had a negative impact on cross-border business. The volume of unaddressed items reached its previous year’s figure thanks to the additional volumes in connection with the Swiss elections.

Operating expenses decreased by 88 million francs, due partly to the lower volumes which affected operating income in the same way, and partly to the measures taken in response to these declining volumes. Significant reductions were principally seen in staff requirements as well as in payments for internal Swiss Post services.

Headcount fell by 294 full-time equivalents year-on-year due to lower staff requirements in sorting and delivery associated with declining volumes, as well as to optimization projects relating to operations. Transfers of personnel due to the introduction of functional management and the associated central bundling of management functions also led to a decline.

High level of continuity confirmed

PostMail | Operating income, operating profit and investments in CHF million
2015 to 2019



1 Normalized figures.

Since 2015, PostMail has achieved an operating profit of over 300 million francs each year, making a substantial contribution to the Swiss Post Group result. Declining average annual volumes of addressed letters of around 4 percent, as well as decreases in subscription newspapers, contributed to lower operating income. Thanks to ongoing optimizations in service provision processes, the fall in revenue seen in recent years was at least partially absorbed on the expense side.

Average annual investments of 30 million francs ensured the continuing excellent quality of PostMail services. In recent years, investments have been made in distribution centers and in the optimization and automation of sorting and delivery processes in particular. The increased investments in the year under review were among other things attributable to a new sorting system for small goods consignments at Zurich-Mülligen letter center in order to manage the sharp rise in volumes of small goods consignments from abroad.

Swiss Post Solutions: operating profit and income rise further.

Swiss Post Solutions

Swiss Post Solutions achieved an operating profit of 32 million francs. Operating profit was one million francs higher than the prior-year figure, improving upon the very good result of the previous year.

At 599 million francs, operating income was up 16 million francs. Currency-adjusted growth of 5 percent was recorded. Although efficiency improvements were substantially passed on to customers, this income reduction was more than offset by the acquisition of attractive new customers and the expansion of business relationships with existing customers.

Operating expenses totalled 567 million francs, up 15 million francs on the previous year. Expenses in relation to revenue accordingly remained constant despite significantly higher expenses for innovations and efficiency-enhancing measures.

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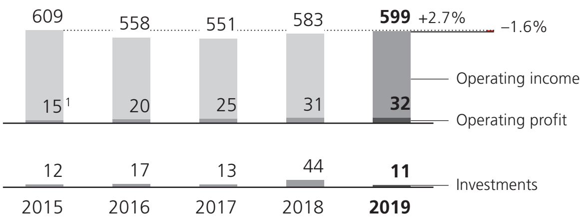
Average headcount rose by 120 in total to 6,909 full-time equivalents year-on-year. The increase in the number of employees is therefore disproportionately low, and efficiency and revenue per employee both rose.

Successful expansion of business activities

Swiss Post Solutions | Operating income, operating profit and investments in CHF million
2015 to 2019



1 Normalized figure.

Swiss Post Solutions has increased its operating profit every year for the past five years.

The constant positive trend in operating profit is the result of the consistent implementation of strategic measures, mainly to take advantage of opportunities for growth in the core business and to develop the service portfolio and industry-specific products. In support of this, the portfolio of solutions and investments has been permanently optimized in the past five years, recently by the acquisition of the Business Process Outsourcing HR Processes business unit (HR BPO) in 2018. The ongoing implementation of projects to improve profitability and save costs in all countries also contributed to the improvement in the operating result.

PostalNetwork: realignment of sales organization leads to decline in operating result.

PostalNetwork

Thanks to network development and the consistent adaptation of resources to meet volume trends, combined with efficiency increases, losses in the core business of letters and inpayments were more than offset. Despite this, PostalNetwork recorded an operating result of –132 million francs in 2019, which corresponds to a decline of 38 million francs. This decline is due to the setting of a new restructuring provision as part of the realignment of the sales organization.

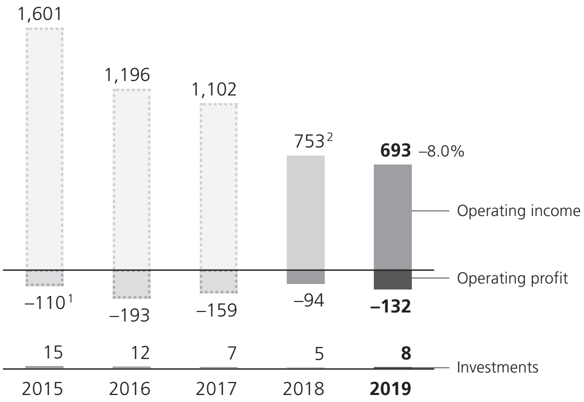
In the first six months of the year, the disclosure of revenue was modified at PostalNetwork without affecting profit or loss. This is explained in the notes to the Group annual financial statements on page 86 and the effects on the comparable figures for 2018 are disclosed. In 2019 PostalNetwork generated operating income of 693 million francs, down 60 million francs year-on year. Net revenue from resale merchandise declined by 19 million francs due to adjustments to the range, a fall in sales and a reduction of the branch network. Income from logistics products dropped by 15 million francs. This was essentially due to declining letter volumes in the network of almost 4 percent, while the number of parcels transported via the network increased by just under 5 percent. The decrease in payment transactions, which has been observed for quite some time, continued due to substitution with e-banking (–6 percent). Declining volumes in payment transactions resulted in a 22 million franc drop in revenue from financial products overall.

At 825 million francs, operating expenses were cut by 22 million francs year-on-year. Personnel expenses declined by 13 million francs, which was offset by the recognition of the above-mentioned provision. Other operating expenses and depreciation fell by a total of 3 million francs.

Headcount of 4,298 employees fell by 455 full-time equivalents year-on-year due to network development and efficiency increases.

Full focus on network development and customer requirements

PostalNetwork | Operating income, operating result and investments in CHF million
2015 to 2019



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.

Responsibility for private customer products was transferred to PostMail and PostLogistics in 2016. The stated disclosure of revenue was modified in 2019 without affecting profit or loss. 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. Further efficiency increases in the network have led to a significant improvement in results from 2017.

Constant investments in recent years have ensured that PostalNetwork meets part of the universal service obligation. Cash has also been injected in the more recent past into the conversion of branches according to a new design.

Logistics market

PostLogistics

PostLogistics: criminal case in value logistics weighs on operating profit.

PostLogistics posted operating profit of 128 million francs in 2019, which was 17 million francs lower than the prior-year figure. The two main reasons for the decline are provisions and expenses in connection with the robbery incident at SecurePost Ltd as well as the divestiture of S.A.T. Group in July 2019. These effects were partially offset by the rise in parcel volumes. Operating income totalled 1,708 million francs, exceeding the previous year’s total by 44 million francs. This rise was due to the acquisition of companies and higher parcel volumes.

Operating expenses increased by 61 million francs year-on-year to 1,580 million francs. The main reasons for the upturn were the aforementioned expenses in connection with the above-mentioned robbery incident as well as higher expenses in the parcels area due to the increased volumes and costs for expanding capacity. There was also a rise in expenses as a result of company acquisitions.

The average headcount increased as a result of the higher parcel volumes and aforementioned acquisitions by 220 to 5,620 full-time equivalents.

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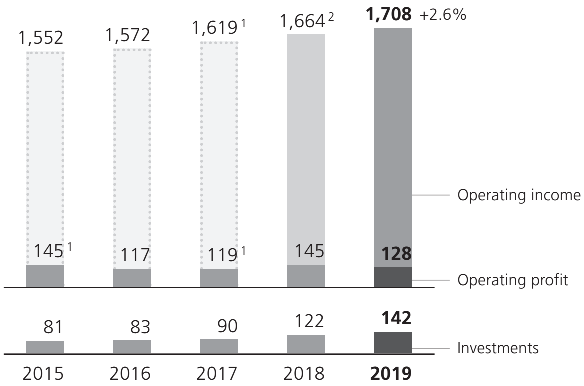
Sustainable growth of parcel business

PostLogistics | Operating income, operating profit and investments in CHF million
2015 to 2019



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.

Operating profit in 2019 was below the average level seen in recent years owing to the expenses arising from the criminal case in value logistics. These were partially offset by the higher parcel volumes and optimizations in goods logistics achieved in recent years. Lower operating profit was generated in 2016 and 2017 in relation to previous years. This was due to the negative profit contribution resulting from the transfer of product responsibility for private customer parcels from PostalNetwork on 1 January 2016.

Operating income reached its highest level in five years in 2019. This was principally due to the continued rise in parcel volumes caused by growth in digital commerce and to the acquisition of companies.

Investments in 2019 were at the highest level seen in recent years. This was attributable among other things to investments in new parcel centers to process increasing volumes.

Financial services market

PostFinance

PostFinance: operating profit stabilized for the time being.

In 2019, PostFinance recorded an operating profit of 240 million francs, representing an increase of 20 million francs year-on-year.

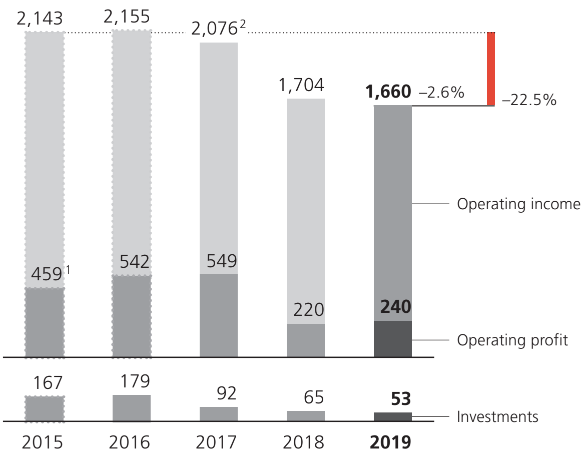
Operating income was down 44 million francs to 1,660 million francs. This was mainly attributable to a 164 million franc decline in interest income due to the market situation. This decrease was partially offset by additional income resulting from market fluctuations in net trading income (67 million francs) and in commission and service income (46 million francs).

Operating expenses totalled 1,420 million francs, down 64 million francs on the previous year’s figure. The fall was mainly due to a 41 million franc decline in personnel expenses.

Average headcount stood at 3,248 full-time equivalents, down 85 full-time equivalents year-on-year. As part of its strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its processes. Vacant positions were therefore only partly filled.

Market development intensifies challenge within the framework conditions

PostFinance | Operating income, operating profit and investments in CHF million
2015 to 2019



1 Normalized figure.
2 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

The interest differential business is the most important source of revenue for PostFinance. However, the ongoing low interest situation has eroded interest margins and had a negative effect on interest income, leading operating income to decline in the last few years.

Non-interest related revenue in net service and commission income and trading activities has had a positive effect on operating income in the past few years.

The business activities of PostFinance were integrated into a private limited company under private law in 2013. As part of its capitalization, PostFinance Ltd acquired a real estate portfolio, which it has continued to invest in ever since. Investments were also made in modernizing the core banking system, which was successfully rolled out at the end of March 2018. It is also constantly investing in the transformation into a digital powerhouse.

Passenger transport market

PostBus

PostBus: impairments weigh on operating result.

PostBus recorded an operating result of –24 million francs. This negative result was largely due to depreciation on fixed assets. The operating result improved by 27 million francs year-on-year. The main reasons for this are in particular the discontinuation of repayments to the orderers of excessive subsidies received for the years 2004–2006 and costs in connection with the FOT proceedings.

Operating income rose by 2 percent year-on-year owing to the expansion of services. Adjusted for the aforementioned effects, operating expenses developed proportionately to operating income due to the expansion of services.

Average headcount rose by 110 to 2,339 full-time equivalents, primarily as a result of the expansion of services and the associated employment of additional drivers. The integration of PostBus operator companies into the management likewise led to an increase in the headcount.

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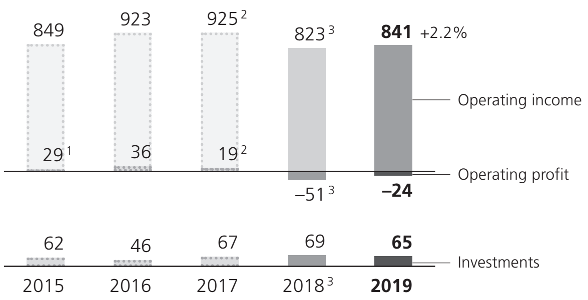
Realignment with a Swiss focus has been successful

PostBus | Operating income, operating profit and investments in CHF million
2015 to 2019



1 Normalized figures.
2 The figures have been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes). The figures from 2015 to 2016 are not comparable with the figures from 2017.
3 The figures have been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations). The years 2015 to 2017 are not comparable with the years 2018 and 2019.

The negative trend in the operating result witnessed over the past two years is primarily due to one-off effects such as the repayment of compensatory payments and impairment losses on fixed assets.

Operating income was increased in the period under review by an average of 2 percent thanks to a continuous expansion of services.

Average investments stood at around 62 million francs in the past five years. These investments mainly concerned replacements and new acquisitions in the vehicle fleet. Investment amounts varied between 2015 and 2019 as a result of vehicle procurement cycles and the expansion of services.

Function units

Function units: decline in operating result.

The function units posted an operating result of –163 million francs in 2019, which was 33 million francs lower than the prior-year figure.

Operating income remained stable at 929 million francs, while operating expenses were 36 million francs in total higher than the previous year, mainly due to increased expenses for temporary employees. The increase in the headcount by 122 to 3,146 full-time equivalents resulted in higher personnel expenses than in the previous year.

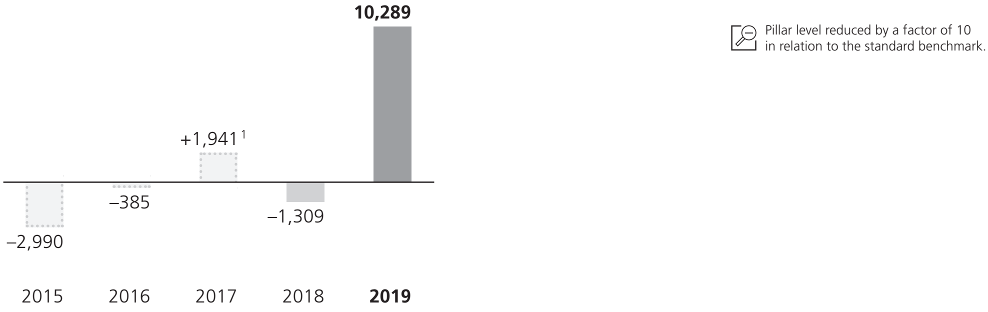
Assets and financial situation

Cash flow and investments

Cash flow from operating activities totalled 10,289 million francs in 2019. Cash flow from operating activities of –1,309 million francs was recorded in the 2018 comparison year. The inflow of funds in 2019 mainly concerned the financial services business. For more information on changes in the consolidated cash flow statement, see page 82.

Short-term financing activities from the bank business lead to cash inflows

Group | Cash flow in CHF million
2015 to 2019

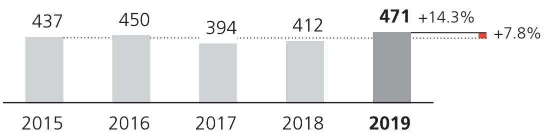


1 The figure has been adjusted (see Notes to the 2018 Group annual financial statements, Basis of accounting, Accounting changes).

Overall, investments in property, plant and equipment (396 million francs, mainly in operating property and vehicles), as well as in investment property (38 million francs), intangible assets (33 million francs) and interests (4 million francs) were up 59 million francs on the previous year. Excluding the effects 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.

Continuous investments in the future

Group | Investments in CHF million
2015 to 2019



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 investments 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 2019.

Consolidated balance sheet

Compared with 31 December 2018, amounts due from banks increased by 9,989 million francs due to short-term borrowing from the financial services business.

Financial assets

In comparison with the end of 2018, financial assets decreased by 1,849 million francs.

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Property, plant and equipment

The carrying amount for property, plant and equipment rose by 35 million francs compared with 31 December 2018. The reason for the upturn lies in the increased investment activity in particular in new processing centers in the logistics market.

Customer deposits

Since the end of the previous year, customer deposits at PostFinance have decreased by 2,472 million francs to 108,669 million francs. As at 31 December 2019, customer deposits accounted for around 82 percent of the Group’s total assets.

Other liabilities (provisions)

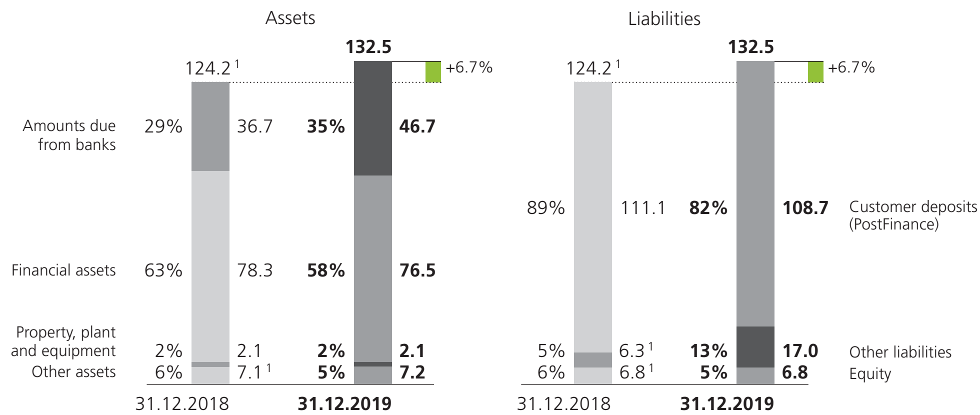
Provisions increased by 34 million francs to 486 million francs. The increase is due, among other things, to the recognition of a restructuring provision in the communication market for the further development of the sales network. Employee benefit obligations increased by 213 million francs year-on-year to 2,824 million francs due to imputed interest.

Equity

Consolidated equity as at 31 December 2019 (6,834 million francs) was calculated net of the appropriation of profit for 2018.

Short-term borrowing expands balance sheet

Group | Balance sheet structure in CHF billion
As at 31.12.2018 and 31.12.2019



1 The figures have been adjusted (see Notes to the 2019 Group annual financial statements, Basis of accounting, Accounting changes and Discontinued operations).

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 189.

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 21 years Swiss Post has commissioned an independent institute to conduct and evaluate annual satisfaction surveys for quality assurance and improvement purposes. 8,000 customers were canvassed for the current survey.

Private and business customers largely give Swiss Post's employees and services good marks: despite fast-changing needs, customers consider the services provided to be of a high standard and award Swiss Post 81 out of 100 possible points in the annual survey. This puts Swiss Post above the target value of the Confederation for the seventh time in succession. This year's survey of more than 8,000 customers with a somewhat altered survey method reveals the following key points:

- As in the previous year, the friendliness, discretion and professionalism of delivery staff score very highly among customers: top scores of 89 to 95 points are the results of the survey here. As in the previous year, customers would like delivery staff to wait somewhat longer at the front door after ringing the bell (85 points). They award the delivery quality of mail carriers a very good 90 out of 100 points.

- The results of the customer survey are an important indicator for shaping the network: at 78 points, overall satisfaction lies at a high level. There are hardly any significant changes to be observed in comparison with the previous year despite the fact that the development of the network and local conversion of post offices are a constant topic among politicians and regional media. Self-operated branches and My Post 24 machines achieve the highest satisfaction ratings of up to 81 points.

- There are also very good ratings for the individual units – both for PostMail (81 points for overall satisfaction) and for PostLogistics (80 points). At 88 points, Swiss Post Solutions achieved the highest satisfaction ratings.

- Another important sentiment indicator is the customer survey at PostBus: despite the events in 2018 within the management of PostBus, the service provided by the employees is viewed positively by customers and rewarded with high scores. At 81 points, it remains stable at the high level of the previous year. There are no significant changes either in terms of regular users in commuter traffic or among leisure travellers.

- The scores for PostFinance have changed: by –2 points among private customers and –4 points among business customers. As is to be expected, customers particularly assess the account management fees considerably more critically than in the previous year, which has exerted a negative impact on overall satisfaction. By further developing its digital products and services, PostFinance is continuously working to improve the perception of its value for money among customers again.

The results of the annual customer survey play a key part in helping Swiss Post to continually monitor and optimize the quality of its services. The goal of the survey is to enhance the customer experience with Swiss Post, as satisfied customers are loyal customers. Swiss Post cannot and does not intend to rest on its laurels. It needs to get moving and wants to set off on this journey. The goal here is

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clear: a relevant, sustainable and modern Swiss Post for the next decade and a public service that continues the long success story of Swiss Post.

Figures above 80 are considered to reflect very high levels of satisfaction, whereas figures below 65 are seen as critical.

Human resources

Employee commitment

Stable scores despite major challenges.

The results of the annual employee survey for 2019 reveal a positive trend. There is good news in terms of the commitment of employees at Group level, which increased to 81 points thanks to higher motivation. This means Swiss Post exceeded the target value of 80 points set by the owner. This positive overall trend is also underscored by employee satisfaction, which rose by one point to 74. The work situation rating remained at a high level of 76 points. Unit fitness remains stably rated at 72 points.

Group | Employee survey
2018 to 2019
Index 100 = maximum

	2018	2019
Commitment	80	81
Identification	78	78
Staff turnover	78	78
Motivation	86	87
Work situation [1]	76	76
Unit fitness [2]	72	72
Customer focus	75	76
Employee satisfaction	73	74

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”.

Changes are a key topic

The strategy as part of unit fitness was rated considerably better than the previous year by employees. The drivers for this positive trend were likely to have been the diverse dialogue events involving Group Executive Management as well as Executive Board members and employees. Unlike the other factors, the strategy rating, however, is at a low level. We need a common approach to current and future changes. Swiss Post’s environment is in flux, more than ever in the digital world. The markets, technologies and customer requirements are determining the speed of change. This is why it is important to incorporate employees in this change process.

After the turbulent times arising from the events at PostBus and decisive reorganizations in various units, employee confidence in Swiss Post management has improved significantly. The high expectations placed on the new management of the Group will also have contributed to this.

The only rating to have declined at Group level is the perception of Swiss Post’s commitment to the environment. Employees rated our environmental commitment at two points lower than the previous year (2018: 75 points). They have even higher expectations of Swiss Post in this area.

Employee satisfaction, defined as both satisfaction at the workplace with the current situation and expectations from Swiss Post as an employer, accordingly improved despite the changes by one point to 74. With significant increases, PostFinance and PostalNetwork strengthened the positive impression in the business units, where the only dampener came from the significantly reduced score at PostLogistics.

Measurement categories unchanged over eleven years

For the survey in May 2019, Swiss Post used the same measurement model for the eleventh year running. Results 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 44,700 employees in 14 countries in seven different languages. The response rate was 77.4 percent (previous year: 76.7 percent).

Investment in staff

Continuous dialogue with employees remains a core issue.

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
An average of 1,894 apprentices received training in 16 professions at Swiss Post in Switzerland in 2019. This represents around 6 percent of its headcount in Switzerland. The range of apprenticeships covers a broad spectrum from the one-year logistics integration pre-apprenticeship to a four-year programme for IT technicians culminating in a Federal VET Diploma.

Seven students for the first time successfully completed the innovative and vocationally integrated "Bachelor of Science in Informatics" in 2019 that has been primarily developed by Swiss Post.

Swiss Post is Switzerland's third largest training company. The success rate in final apprenticeship examinations stood at almost 98 percent in 2019. Four out of five newly-qualified professionals who were eager to stay with Swiss Post have found employment with the company. Furthermore, Swiss Post has enabled 27 university graduates to enter the working world as part of its in-house trainee programme, with 90 percent of this young talent subsequently remaining with the company (retention rate).

A good 750 apprentices commenced their training with Swiss Post in August 2019. Swiss Post filled almost all its apprenticeship vacancies in a challenging environment.

Digital skills
The skills required from staff are changing as a result of the digital transformation. The "FutureSkills" programme supports the skill changes required by this transformation and strengthens the expertise of Swiss Post employees to help them to meet future challenges. It targets three areas: (1) building up expertise in the use of digital tools and media in everyday work, (2) developing forward-looking key skills in the fields of ICT, communication, collaboration and management throughout the digital transformation, (3) establishing and enhancing the agility and learning culture in order to respond flexibly to new requirements. The particularly business-critical functions were identified in the year under review in order to be able to implement specific development measures. The focus is on project managers, product managers and various ICT functions. Upskilling programmes are already underway for a range of functions, e.g. for branch staff.

Employer attractiveness / candidate experience

Since April 2017 Swiss Post has measured the candidate experience during the recruitment process in an online survey. All candidates – whether or not they were granted an interview – can give feedback on the application process. Swiss Post for the second time generally received good scores in the 2019 evaluations. Most candidates find the recruitment process positive and therefore have a positive experience of the Swiss Post brand. At the same time, the evaluations show potential for constant improvement. It was established that job advertisements could stand out even better from the competition, for instance. To remedy this, guidelines are being drawn up and recruiters trained on the theme of advertisements. Measures were also taken to increase the speed of the process as well as to further professionalize HR recruitment. The next candidate experience evaluation is planned for the final quarter of 2020.

Social Counselling Service, Job 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 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. 2,330 people benefited from the advisory services in 2019; 456 managers and employees attended prevention seminars (addiction, bullying, sexual harassment and preparation for retirement etc.), while around 700 apprentices received training at jump-in events on how to handle money. Both the latter and the budget advisory courses for employees are financed by the Swiss Post Personnel Fund. A total of 20 employees attended these courses.

69 calls were received by the crisis helpline, which is manned 24/7. The calls mainly concerned psychological crises and acute problems at the workplace.

The Swiss Post Personnel Fund granted 317 non-repayable support contributions amounting to 772,243 francs and 20 loans totalling 119,674 francs in 2019 in order to provide financial relief to employees and pensioners in social plight on a case-by-case basis.

Swiss Post's Job Center is a point of contact where staff can assess their professional situation and ask questions about their personal advancement. 1,295 career counselling sessions were held and 345 consultations given on professional re-orientation, making the Job Center a vital part of Swiss Post's socially responsible human resources policy.

506 cases were registered with Case Management, and 426 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.

Swiss Post has operated a health and social affairs hotline since 2018. This can be used as a point of contact (telephone, e-mail, Skype) for managers and employees to ask questions about difficulties at work or health. A consultation appointment can be arranged in one of our hubs if appropriate.

Employment conditions

Swiss Post takes responsibility as an employer.

Collective employment contract

The collective employment contracts at Post Real Estate Management and Services Ltd, SecurePost Ltd, Swiss Post Solutions Ltd and PostLogistics Ltd remain in force until the end of 2019. Renegotiation was successfully completed and ratified in 2019. Talks were completed at the end of 2018 to establish a framework CEC for early-morning deliveries, which was implemented in mid-2019. The redundancy plan for the strategically important Post CH Ltd, PostBus Ltd and PostFinance Ltd units that has existed since 2011 was renegotiated in the first half of 2019. In addition, the social partners have initiated a broad prevention programme alongside the redundancy plan. The redundancy plan forms an annex to the "umbrella CEC" agreement that is being renegotiated in 2019 and 2020. Subject to ratification, the new redundancy plan and the new "umbrella CEC" agreement will enter into force on 1 January 2021. Swiss Post continues to rely on a good social partnership and takes responsibility as an employer.

Equal pay

Swiss Post sets great store by 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 received the results of the latest equal pay analysis in 2019. The independent external company entrusted with the analysis awarded Swiss Post a good result with an unaccounted wage gap of 2.2 percent which is well within the tolerance threshold of +/–5 percent applicable to procurement checks by the Confederation. The analysis results are comparable with the public sector, as Swiss Post has for the first time also recorded the highest educational level of employees, thereby fulfilling the Logib requirements.

Diversity at Swiss Post
Swiss Post has anchored the theme of diversity more deeply into its organization. The focus remains on the promotion and management of optimally diverse teams, with the achievement of a good work-life balance remaining an important factor for Swiss Post. Swiss Post creates an attractive operating framework which empowers staff members to combine the different aspects of their lives. This includes flexible working time models and mobile work (at home or while travelling). Around 20,000 employees work part-time and some 8,550 employees have the option to work on a mobile basis, with around 5,400 regularly taking advantage of the opportunity. Swiss Post contributes around 1.5 million francs towards external childcare, helping employees to achieve a good work-life balance.

Stability at the Swiss Post pension fund.

Retirement planning, social security
The Group's own employee benefits institution, the Swiss Post pension fund, with total assets of around 17 billion francs, insures around 40,000 Swiss Post employees in Switzerland and pays 644 million francs in pensions to around 30,100 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 around 270 million francs per year.

The level of cover in accordance with the revised Swiss Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) stood at around 108 percent (including employer contribution reserve with a waiver of use) as at 31 December 2019.

More information on employees can be found in the Annual Report on pages 60 to 67.

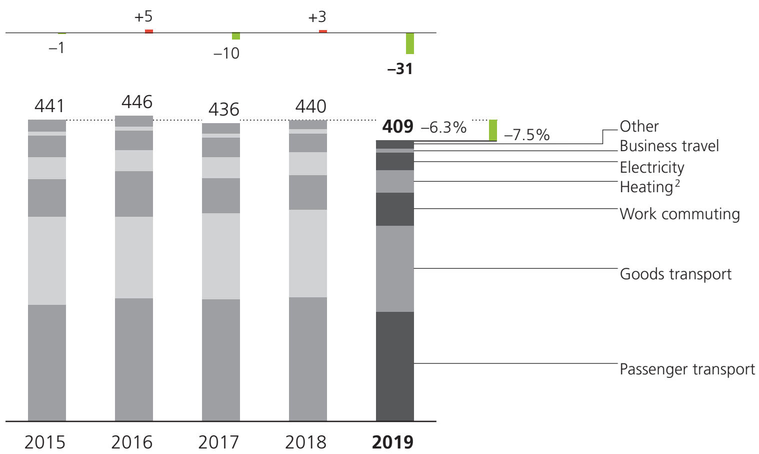
Corporate responsibility: climate and energy area of action

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

Greenhouse gas performance at Swiss Post remains constant, after adjustment for the sale of CarPostal France.

Greenhouse gas performance at Swiss Post declines due to a one-off item

Group | Greenhouse gas emissions by process[1] in 1,000 t of CO_2 equivalents
2015 to 2019
2015 = 100%



1 Within and outside Swiss Post.
2 The increase in greenhouse gas emissions from heating in 2018 compared to previous years is due to a change in measurement method.

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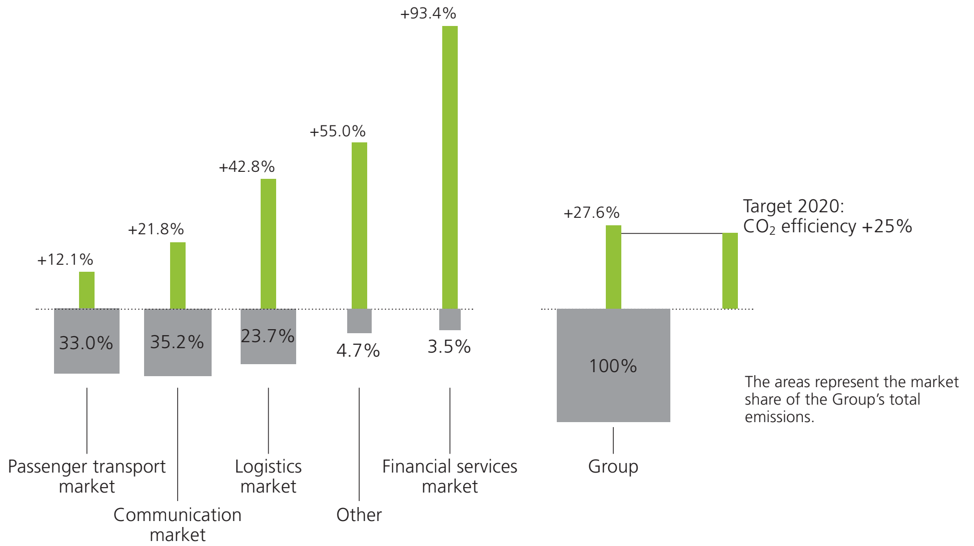
At the end of 2019, Swiss Post had increased CO_2 efficiency by 27.6 percent and significantly exceeded its target to increase CO_2 efficiency by 25 percent by 2020 (base year 2010).

Swiss Post has exceeded its CO_2 efficiency target

Group | CO_2 efficiency and proportion of CO_2 emissions by market
2019
CO_2 efficiency index[1] 2010 = 100%, CO_2 emissions equivalent to 1,000 t CO_2



1 The CO_2 efficiency index is measured as the change in CO_2 equivalents per core service unit in the financial year in comparison with the base year 2010. The core service is defined differently according to unit (item, transaction, passenger kilometre, kilometre, full-time equivalent, etc.).

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 and eco-electricity have already become standard fuels for Swiss Post's vehicle fleet. Approximately half of the energy-efficient vehicle fleet already uses alternative drive systems such as electric or hybrid engines. Swiss Post's fleet of around 6,000 three-wheeled vehicles runs exclusively on electricity and 100 percent "naturemade star" certified eco-electricity. 33 parcel delivery vans now also run on electricity. PostBus operates 56 diesel hybrid buses on Swiss roads and has been gathering experience with electric buses on scheduled services since 2017. Post Company Cars Ltd petrol stations offer diesel containing 7 percent biodiesel made from residues from edible oil production. 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. For new buildings and modernization projects, Swiss Post is committed to the integrated and sustainable DGNB construction standard as adapted for Switzerland. It dispenses with the use of fossil fuels in all new buildings and replacement heat generation systems. In some cases, fossil fuel heaters are replaced before the end of their life for purely environmental reasons.
- 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 power. Swiss Post operates 17 photovoltaic systems on its roofs, producing around 7 gigawatt hours of solar electricity each year.

- The photovoltaic system in Neuchâtel stores surplus electricity in an innovative energy storage unit fitted with used batteries from Swiss Post's 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 energy 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. The same has applied to all unaddressed PromoPost consignments since 2017. Swiss Post's private or business customers can choose to send all other consignments carbon neutrally using "pro clima" services for just a few extra centimes. Swiss Post funded the construction of the first gold standard Swiss Post climate protection project in Switzerland: it consists of 30 biogas plants on 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 Swiss Post locations can recharge their electric vehicles free of charge and the infrastructure is being continuously expanded. Employees at six locations throughout Switzerland had the opportunity during the "Electromobility theme days" to test the suitability for daily use of electric vehicles of renowned manufacturers free of charge for several days. 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 at a reduced rate.

- Raising employees' awareness of sustainability is a recurring theme of internal communication and is explored in depth at workshops and other events. Issues related to corporate responsibility are promoted and discussed in the sustainability ambassador network.

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 fourth time.

More information on the corporate responsibility strategy can be found on pages 23 to 26 of the Financial Report, as well as in the Sustainability Report in accordance with GRI Standards, which is available at www.swisspost.ch/sustainabilityreport.

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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 dangers (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 achievement of corporate goals and quality of decisions and help increase the company's value. It also promotes a company-wide risk culture and risk awareness among all employees across all hierarchical levels.

Risk management system

The Board of Directors sets out the primary guidelines and principles for the risk management system, defines risk policy at Swiss Post Ltd and approves the risk strategy. Risk strategy is derived from the corporate strategy and defines Swiss Post's general attitude towards risk detection, risk-taking and risk management. This makes it an integral part of entrepreneurial activities. It forms the basis for the design and operational implementation of risk management at Swiss Post. The risk strategy comprises the protection objectives and qualitative and quantitative statements about risk appetite as fundamental elements.

The risk management system corresponds to the applicable laws and the Swiss Code of Best Practice for Corporate Governance. It is based on the COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management) and ISO standard 31000.

Risk definition

Swiss Post understands "risk" to mean each possibility of an event occurring and exerting a positive or negative impact on the achievement of corporate goals. Risk is thus the umbrella term for a danger (negative target deviation) or opportunity (positive target deviation).

Successful entrepreneurial action is based on adequately controlling or avoiding material dangers and taking advantage of opportunities that arise in a value-enhancing way. Risk assessment is carried out as part of operational planning for a three-year planning period (2020–2022).

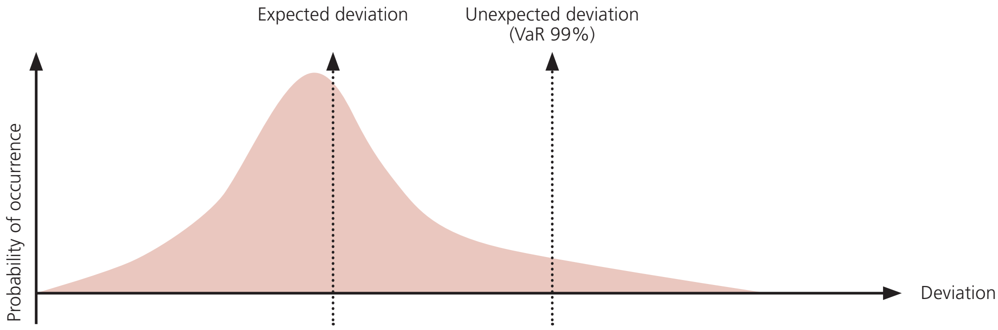
Risk simulation

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 potential range of 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 three years from a risk perspective, while value at risk (99 percent) is used for unexpected cumulative EBIT deviations.

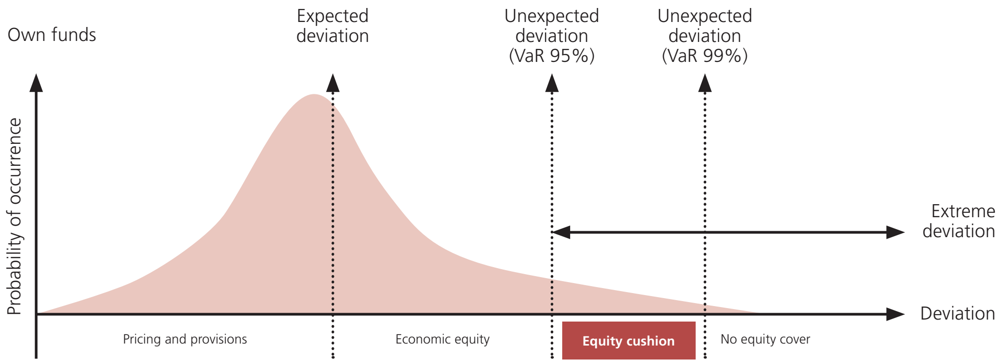
Risk indicators



Risk appetite and risk capacity

Risk appetite and risk capacity are checked using the indicators determined. Risk appetite evaluates whether the expected value from the risk simulation exceeds the planned business results, i.e. whether value added is still generated at Group level. 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



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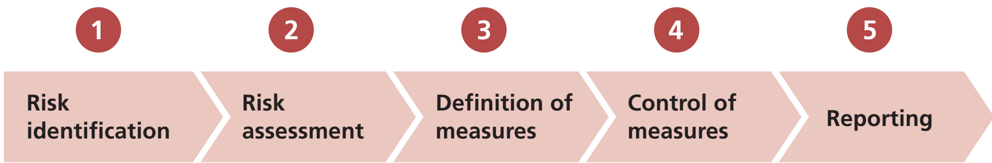
Risk management process

The risk management process is implemented in all business and function units. It is based on the strategy and financial planning processes in which the business objectives are defined. It helps to mitigate dangers that prevent these objectives from being achieved and to implement identified opportunities. Individual units conduct, consolidate and direct the risk evaluations to the next-highest hierarchical level.

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

Risk management process



– Risk identification
  Risk management comprises all the risks associated with the business activity. Alongside financial risks, it also takes reputational, personal, environmental and compliance risks into account. Dangers and opportunities are defined in the quantification as potential deviations from planned business objectives. Group and unit strategies and a company-wide basic catalogue of causes form the basis for risk identification, among other factors.

– Risk assessment
  An individual scoring model is created at Group and unit level that enables the risk probability of occurrence and the scale of impact to be easily qualified by means of clear-cut definitions of different characteristics. In addition to financial impact, consideration is also given to reputational impact, compliance and personal and environmental damage, which is shown in a complete overview.

  The scoring model allows the risk impact to be quantitatively and qualitatively recorded. The scoring model also defines the unit's own risk strategy by setting out the limit from which measures need to be defined for identified risks.

  Every six months, managers and specialists measure the risks that have been identified. This measurement is carried out according to a credible worst-case scenario on the basis of event data, analyses or expert estimates. A management assessment of the Swiss Post risk map is added to this bottom-up process at Group level.

– 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 dangers to third parties.

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

– Reporting
  Reports are submitted twice a year to the Executive Boards, Executive Management, Board of Directors' Audit, Risk & Compliance Committee and Board of Directors. They summarize the dangers and opportunities identified together with the planned and implemented measures and the risk indicators, and outline the actions that need to be taken.

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, Security, Internal Control System and Crisis Management units as well as with Group Audit and Compliance.

Swiss Post's 2nd line of defence functions support one another and since this year have formed an assurance community. The aim is to regularly share information and knowledge with one another and coordinate their activities, terminology, assessment logic, awareness-raising activities and reporting. The assurance community thereby promotes coordination, mutual foundations and the exploitation of integration and synergy potential.

Risk situation

The individual risks 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 810 million francs in relation to the 2020–2022 business period. The unexpected three-year loss potential (VaR 99 percent) for the Group totals 1,600 million francs. The Group's risk capacity is thereby guaranteed. The risk indicators shown cannot be directly compared with the statements in the last Financial Report as the assessment methodology was adjusted this year (new cumulative three-year view instead of a one-year view as previously).

The greatest dangers comprise tightened regulatory framework conditions, service provision outages and the development of the result at PostFinance. Positive effects could occur as a result of business optimization measures, customer acquisitions and the implementation of transformation projects.

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 corporate objectives. 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 102 to 130.

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 traceable manner. 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,

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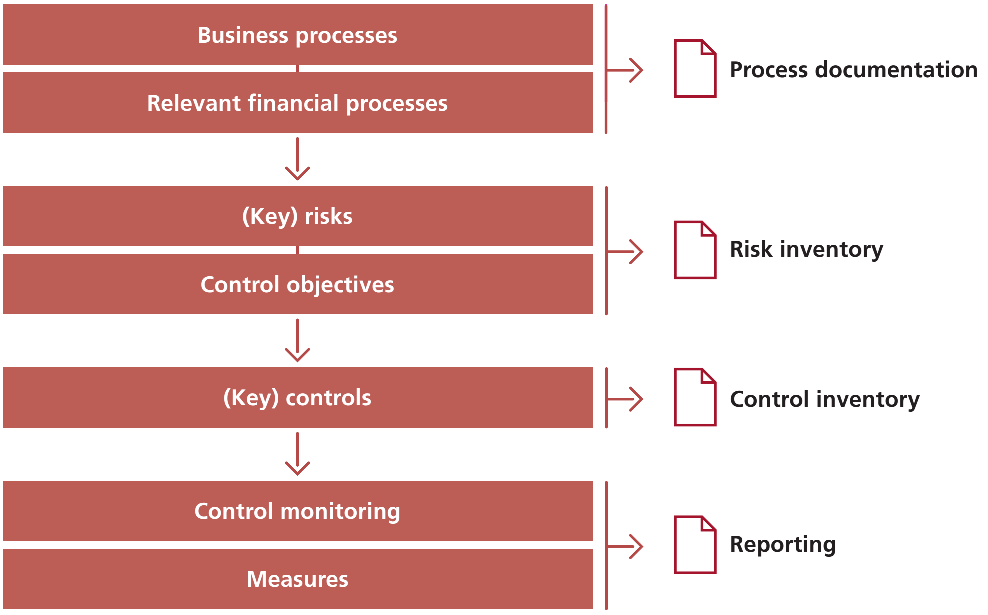
procedures, practices and organizational structures that create a degree of certainty that the control targets can be met and that unwanted events can be prevented or detected and corrected.

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. At the end of the reporting period, an assessment of the maturity level of processes and controls is carried out on the basis of a self-assessment, in which Swiss Post aims to achieve the "standardized" maturity level. 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 2019

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.

Ernst & Young 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 2019.

Outlook

The Swiss National Bank (SNB) expects global economic growth to remain subdued in the short term. The monetary policy easing is likely to contribute to the economy – and thus also inflation – picking up again over the medium term. The primary risks include trade tensions and the possible spread of the prevailing industrial weakness to overall economic activity.

Economic performance in the eurozone is likely to remain subdued in the short term. Expectations in relation to export activity are falling. The subdued sentiment in industry and decreasing capacity utilization are weighing on the investment outlook. However, the favourable situation on the labour market should support consumption.

The outlook for Switzerland – Swiss Post's most important market – remains cautiously positive. There are still no signs of the global industrial cycle and international trade gaining momentum again. Much will depend on the development of exchange rates and therefore the competitiveness of Swiss products. The employment prospects remain positive, which is indicative of a favourable labour market situation.

The environment in which Swiss Post operates has not changed. On the contrary, the challenges are increasingly intensifying. Structural change is continuing. Swiss Post has every confidence that, with its adopted approach and planned strategic thrust in the new strategy period, it will continue to make an important contribution to the public service provided to Swiss society.

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.

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Basic principles

Corporate governance refers to all of the principles, laws and rules under which a company is managed. The goal of corporate governance is to achieve effective and transparent management in order to create sustainable value. It is important to ensure that tasks and responsibilities are set out clearly and consistently.

In the year under review, the Board of Directors adopted the revised Code of Conduct, which provides guidance for employees and specific guidelines for action on selected issues (see page 7 of the Annual Report).

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 "Subsidiaries, associates and joint ventures" section on pages 167 to 175 of the Financial Report outlines the shareholdings.

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 75.

Regulatory accounting and companies under individual supervision

Net costs arising from the universal service obligation

In accordance with article 19, para. 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 Services Ordinance of 29 August 2012 substantiates these requirements and regulates how net costs for the universal service obligation are to be calculated.

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 271 million francs for 2018. The calculation was approved by the regulatory authority PostCom in May 2019. Following the approval of the net costs for 2019 by PostCom in the second quarter of 2020, the figures will be published at www.swisspost.ch/annualreport in a supplement to the Financial Report.

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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 and PostMail.

Each year, the auditing firm 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 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 Ltd

Since 2005, PostBus Ltd has been a private limited company under private law wholly owned by Swiss Post Ltd. The holding company PostBus Switzerland Ltd was dissolved in 2019 due to the restructuring of PostBus. In addition, Swiss Post has sold its subsidiary CarPostal France. 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 Ltd issues annual financial statements in accordance with accounting regulations under commercial law (article 957 et seq. of the Swiss Code of Obligations). The statutory auditor audits the financial statements of PostBus Ltd, which comprise the balance sheet, income statement and notes. The DETEC ordinance on the accounting of licensed businesses (RKV) is also applicable. PostBus Ltd additionally prepares RKV annual financial statements. Due to the adaptation of the supervisory system for subsidies in public transport, the FOT will replace the approval of the annual financial statements with controlling and periodic in-depth audits.

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 5.5 billion francs. External debt amounted to almost 1 billion francs on the reference date.

The General Meeting will be asked to approve a dividend distribution of 50 million francs for the 2019 financial year (resolution in 2018: 200 million francs, distribution in 2019). The remaining amount is retained for the purpose of accumulating equity; on the reference date, this equity stood at 6.8 billion francs (previous year: 6.7 billion).

Board of Directors

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.

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.

Composition as at 31 December 2019

On the reference date (31 December 2019), the Board of Directors had nine members.

Members of the Board of Directors Marco Durrer and Myriam Meyer did not stand for reappointment at the General Meeting in April 2019. The Extraordinary General Meeting held on 2 July 2019 appointed Denise Koopmans and Thomas Bucher to the Board of Directors as their successors.

Education, professional activities and members’ interests

The following section sets out the most important details on the education, professional background and key posts of each of the members of the Board of Directors. Before accepting a new post outside the Group, the members of the Board of Directors are obliged to obtain the approval of the Chairman of the Board. If the Chairman of the Board is affected, the Board of Directors’ Audit, Risk & Compliance Committee must be consulted.

After the Chairman of the Board, the other Board members are listed in alphabetical order below.

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Urs Schwaller

Chairman of the Board of Directors, member since 2016, Switzerland, 1952, Dr iur., lawyer
Committees: Organisation, Nomination & Remuneration; Audit, Risk & Compliance; Investment, Mergers & Acquisitions; ad hoc "PostBus"
Professional background: self-employed lawyer; Council of Europe (permanent member); Council of States for the Canton of Fribourg (President of CVP/EVP); Cantonal Council 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 Holding 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); UCB Farchim SA (Member of the Board of Directors)

Thomas Bucher

Member of the Board of Directors, member since 2019, Switzerland, 1966, lic. oec. University of St. Gallen
Committees: Audit, Risk & Compliance
Professional background: ALPIQ Holding Ltd (CFO, Member of Executive Board), Gategroup (CFO, Member of Executive Management Board), Ciba Specialty Chemicals (Regional CFO, Head of Business Support Center EMEA and Divisional CFO, Head of Business Support Center CEMEA)
Key posts: ALPIQ Holding Ltd (CFO, Member of Executive Board), Tareno Ltd (Member of the Board of Directors)

Michel Gobet

Member of the Board of Directors, Human Resources representative, member since 2010, Switzerland, 1954, lic. phil. hist. † 2020
Committees: Investment, Mergers & Acquisitions; ad hoc "PostBus"
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)

Peter Hug

Member of the Board of Directors, member since 2018, Vice-Chairman, since 2018, Switzerland, 1958, Dr rer. pol.
Committees: Investment, Mergers & Acquisitions (Chair); ad hoc "PostBus" (Chair)
Professional background: F. Hoffmann-La Roche (Head Commercial Operations EEMEA, Head of Pharma Medicines Western Europe, Head Pharma Partnering, Managing Director, Pharma, Spain, Head of Diagnostics, Roche Diagnostics, Germany, General Manager, Pharma & Country President, Uruguay, Pharma Division Director, Roche SA, Greece)
Key posts: ADC Therapeutics SA (Member of the Board of Directors)

Ronny Kaufmann

Member of the Board of Directors, Human Resources representative, member since 2018, Switzerland, 1975, lic. rer. publ. University of St. Gallen
Committees: Organisation, Nomination & Remuneration
Professional background: Swisspower Ltd (CEO), Swiss Post (Head of Public Affairs & Corporate Responsibility), Mediapolis AG für Wirtschaft und Kommunikation (Co-Owner and Partner)
Key posts: Swisspower Ltd (CEO); Nordur Power SNG AG (Member of the Board of Directors)

Bernadette Koch

Member of the Board of Directors, member since 2018, Switzerland, 1968,
Certified public accountant, business economist, Higher School of Economics and Administration

Committees: Audit, Risk & Compliance (Chair)

Professional background: Ernst & Young AG (People Partner, Member of the Management Committee of Assurance Switzerland, Partner/Head of the Public Sector market area; Auditor)

Key posts: PostFinance Ltd (Member of the Board of Directors and Member of the Organization, Nomination & Remuneration Committee); Energie Oberkirch AG (Member of the Board of Directors), Geberit AG (Member of the Board of Directors), Mobimo Holding AG (Member of the Board of Directors); EXPERTsuisse (Member of the Professional Ethics Committee)

Denise Koopmans

Member of the Board of Directors, member since 2019, Netherlands, 1962, Master of Law

Committees: Investment, Mergers & Acquisitions

Professional background: Wolters Kluwer (Managing Director Legal & Regulatory Division), LexisNexis Business Information Solutions (CEO), Altran Group (various management roles)

Key posts: Coöperatie VGZ (Netherlands, Member of the Supervisory Board), Janssen de Jong Groep (Netherlands, Member of the Supervisory Board), Wenk AG (Member of the Board of Directors), Sanoma Corporation (Finland, Member of the Board of Directors), Swiss Data Alliance (Member of the Expert Committee)

Nadja Lang

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

Committees: Organisation, Nomination & Remuneration (Chair); ad hoc "PostBus"

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 360 Grad AG (Member of the Board of Directors); Cooperative of ZFV companies (Chair of the Board of Directors), Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee); Zurich University of Applied Sciences (ZHAW) in Winterthur (Member of the Advisory Board)

Philippe Milliet

Member of the Board of Directors, member since 2010, Vice-Chairman, since 2018, 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 AG (Head of Health Division, Member of the Corporate Executive Committee); Unicible (CEO); Galenica AG (responsible for distribution centers, responsible for operations and CEO of Galexis AG); Pharmatic AG (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: BOBST GROUP (Member of Group Executive Committee, Head of Business Unit Sheet-fed), Banque SYZ SA (Member of the Board of Directors); Financière SYZ SA (Member of the Board of Directors)

Roger Schoch

General Secretary, member since 2018, Switzerland, 1971, Lawyer, Executive M.B.L. HSG

Professional background: Alpiq Holding Ltd (General Secretary), Swiss Federal Railways SBB (Chief Compliance Officer, Deputy Head of the Group Legal Service, Secretary of the Board of Directors)

Key posts: none

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Events after the reporting period

Swiss Post mourns the loss of Michel Gobet, a long-standing member of the Swiss Post Board of Directors and human resources representative for the trade union syndicom. He passed away on 13 February 2020.

Election and term of office

The Federal Council elects the Chairman of the Board of Directors and the other members of the Board of Directors for a period of two years. Re-election is possible. All members of the Board are subject to a twelve-year limit for terms of office and an age limit of 70 years.

In accordance with the Postal Services Organization Act, employees have the right to appropriate representation on the Board of Directors. In 2019, this employee representation was provided by Michel Gobet and Ronny Kaufmann.

Role and internal organization

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 goals. It approves the basic structure of the Group, 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, and mandates the members of the Board of Directors for PostFinance Ltd. 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 ten times. The CEO and Head of Finance attend Board meetings in an advisory capacity.

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.

Board of Directors' Committees

The Board of Directors establishes a standing committee for each of the following areas of responsibility: Audit, Risk & Compliance, Investment, Mergers & Acquisitions and Organisation, Nomination & Remuneration. It may also appoint non-standing committees at any time. In 2019, the PostBus ad hoc committee was established as a non-standing committee. It met twice during the last financial year. The Board of Directors appoints the members of these committees independently. As a rule, the committees consist of three to four members of the Board of Directors who have experience in the relevant areas of responsibility. The role of the committees is to advise the Board of Directors, prepare business for the Board and implement Board resolutions where necessary. To a limited extent, the committees also have decision-making authority.

Board of Directors' Audit, Risk & Compliance Committee

The Board of Directors' Audit, Risk & Compliance Committee assists the Board in, among other things, the supervision of the accounts and financial reporting, and approved the Interim Report. It also supports the Board of Directors in the supervision of risk management and assesses Swiss Post's risk control at regular intervals. The committee is responsible for the creation and development of appropriate internal supervisory structures and ensures compliance with legal provisions (Compliance).

It checks the findings and recommendations of Group Audit and the external audit teams and submits corresponding proposals to the Board as appropriate. Eight meetings were held during the last financial year. The CEO, the Head of Finance and the Head of Group Audit attend the meetings.

Board of Directors' Investment, Mergers & Acquisitions Committee

The Board of Directors' Investment, Mergers & Acquisitions 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 interests. The committee met seven times during the year under review. In 2019, 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.

Board of Directors' Organisation, Nomination & Remuneration Committee

The Board of Directors' Organisation, Nomination & Remuneration Committee met ten times during the last financial year. It has a pre-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 prepares all strategic organizational decisions for the Board of Directors, evaluates the size and composition of the Board of Directors and identifies and nominates new Board members. In addition, the Committee reviews the independence rules for members of the Board of Directors on an annual basis. The CEO and the Head of Human Resources attend the meetings.

Independence

None of the members of the Board of Directors has 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.

There is no contractually agreed reciprocal occupation of seats on boards between Swiss Post and any other commercial company.

Information and supervisory tools

Reporting

The Board of Directors receives monthly reports on 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 Board of Directors' Audit, Risk & Compliance Committee about compliance with planning, strategic financial planning and the Federal Council's strategic goals.

The Board of Directors receives Executive Management meeting minutes. The Board of Directors receives reports from Risk Management (see pages 55 to 59 and 102 to 110), Compliance, Treasury, Communication and Group Audit. At each Board of Directors meeting, the CEO and the Head of Finance provide information on the company's current business situation.

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Risk management

Swiss Post operates a risk management system in line with COSO ERM (Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management) and ISO 31000 (see pages 102 to 110).

Internal control system

As part of its risk management, 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.

Compliance

Swiss Post operates a compliance management system which defines and implements appropriate measures to prevent breaches of standards and ethics. It determines binding requirements for employees, compliance with which is monitored. Swiss Post continually develops compliance as part of an ongoing process.

Group Audit

Group Audit monitors compliance with internal and external directives, the efficiency and effectiveness of risk management, controls and governance and monitoring processes. This also includes IT processes and project management. It submits ongoing reports to the Board of Directors' 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 2019

The CEO and the seven members of Executive Management 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.

Roberto Cirillo took up his position as the CEO of Swiss Post on 1 April 2019. He succeeds Ulrich Hurni, who was interim CEO of Swiss Post after the departure of Susanne Ruoff in June 2018.

Education, professional activities and members’ interests

The following section sets out the most important information on the education, professional background and key posts of each of the members of Executive Management. Before accepting a new post outside the Group, the members of Executive Management are obliged to consult the Chairman of the Board of Directors.

After the CEO, the other members of Executive Management are listed in alphabetical order, followed by the CEO of PostFinance Ltd.

Roberto Cirillo

CEO, member since 2019, Switzerland / Italy, 1971, ETH graduate in mechanical engineering, Advanced Management Program, Columbia Business School, New York, USA
Professional background: Optegra Eye Health Care, United Kingdom (Group CEO); Sodexo Group, France (CEO France), Sodexo Group, France (COO), Sodexo Group, France (various management positions), McKinsey & Company, Zurich and Amsterdam (Associate Principal), ETH, Zurich (researcher and lecturer)
Key posts: Croda International Plc, UK (Board of Directors, Non-Executive Director)

Dieter Bambauer

Head of PostLogistics, member since 2009, Switzerland / Germany, 1958, Dr oec. WWU, JLU
Professional background: Swiss Post Ltd (Head of PostLogistics and Head of Informatics); 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 GmbH (Vice-Chairman of Management); Cargo sous terrain AG (Member of the Board of Directors); Institute of Supply Chain Management, University of St. Gallen (Member of the Executive Committee); the “Weltoffenes Zürich” (“Cosmopolitan Zurich”) committee (Member)

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

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 Area, 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 Risk and Organization, Nomination & Remuneration committees); Swiss Post pension fund (Chairman of the Foundation Board)

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Ulrich Hurni

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

Professional background: Swiss Post Ltd (Interim CEO; PostMail: Deputy Head, 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 GmbH (Managing Director); Swiss Excellence Forum (Member of the Board)

Christian Plüss

Head of PostBus, member since 2018, Switzerland, 1962, Dr. sc. ETH Zurich

Professional background: Alpiq Ltd (Head of Hydro Power Generation); MeteoSchweiz (Director); Erdgas Ostschweiz AG (CEO); SBB AG (Head of Offer Management); Cap Gemini SA (Managing Consultant)

Key posts: Swiss Association of Public Transport, cooperative (APT, Member of the Board of Directors); LITRA (Ligue suisse pour l'organisation rationnelle du trafic, Member of the Management Committee); Alliance Suisse Pass (Member of the Board); Swiss Travel Fund Reka, cooperative (Member of the Board)

Valérie Schelker

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

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); Swiss Employers' Association (Board member)

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

Hansruedi Köng [1]

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

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

Management contracts

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

Remuneration

Policy

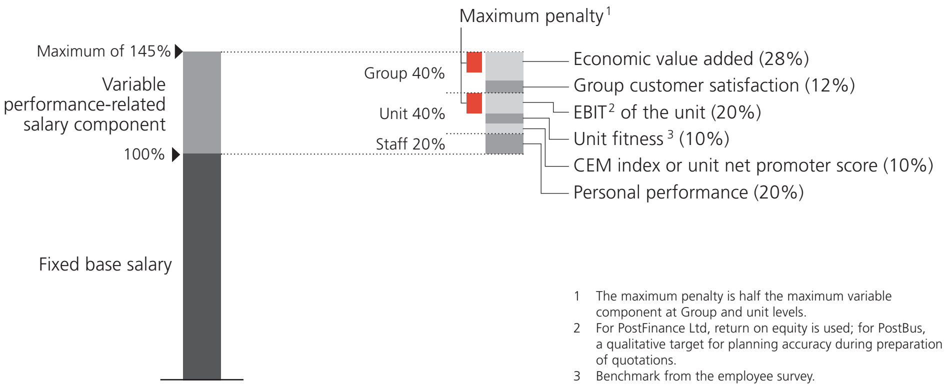
Corporate risk, scope of responsibility and the Confederation's Ordinance on Executive Pay are taken into account by the Board of Directors when determining the remuneration due to members of Executive Management. The Board of Directors has regulated the remuneration and fringe benefits for its members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

Determination

Remuneration for the CEO and 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. At Group level, the variable component is calculated from economic value added (28 percent) and Group customer satisfaction (12 percent). At 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; for PostBus, a qualitative target for planning accuracy during preparation of quotations. If all the goals are achieved, the maximum variable component will be paid. Exceeding the goals will not lead to a higher payout.

The variable salary component is a maximum of 45 percent of the annual base salary

Executive Management | Breakdown of remuneration
2019



1 The maximum penalty is half the maximum variable component at Group and unit levels.
2 For PostFinance Ltd, return on equity is used; for PostBus, a qualitative target for planning accuracy during preparation of quotations.
3 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, unit and individual performance) to determine whether the threshold for the variable component has been reached. The variable component is paid only 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.

Members of Executive Management also receive a first-class GA travelcard or a company car, a mobile phone and a monthly expense account. For the last time, Swiss Post is also paying the insurance premiums for a risk insurance policy (discontinuation by the end of 2019 at the latest). Individual bonuses may be paid to reward special personal contributions.

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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 341,280 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, a notice period of twelve months applies. No agreements exist regarding possible severance payments.

Level of remuneration

Members of the Board of Directors

In 2019, the 11 members of the Board of Directors (including the Chair) received remuneration (fees and fringe benefits) totalling 1,002,635 francs. The fringe benefits totalling 92,370 francs are shown in the total remuneration. In 2019, the Chairman of the Board's fee totalled 225,000 francs. The fringe benefits amounted to 28,470 francs.

The upper fee limit of 1,090,000 francs in total, which was determined by the General Meeting, was respected.

Executive Management

The members of Executive Management who were paid during the year under review and the CEO received remuneration totalling 4,769,144 francs in 2019. The fringe benefits of 234,934 francs are shown in the total remuneration. The remuneration of the interim CEO between 1 January 2019 and 31 March 2019 has been taken into account in the remuneration paid to members of Executive Management. The performance-related component calculated for the members of Executive Management for the period 2019, which is based on attainment of targets in 2018 and 2019, amounts to 1,339,210 francs. A decision regarding the approval (entitlement and calculation) of the performance-related component for the former CEO and former Head of PostBus will not be reached until the investigations into the subsidy law breaches in the regional passenger transport segment have been completed.

The base salary of the CEO totalled 487,500 francs. The additional calculated performance-related component for the period 2019 amounts to 177,147 francs.

The upper limit of 6,100,000 francs for the total remuneration amount (including employee benefits), which was determined by the General Meeting, was respected.

Remuneration

CHF	2019
Chairman of the Board of Directors (1)	
Fees	225,000
Fringe benefits	28,470
Expenses and representation allowances	22,500
First-class GA travelcard	5,970
Total remuneration	**253,470**
Other members of the Board of Directors (10) [1]	
Fees	685,265
Base remuneration	513,740
Remuneration of committees	171,525
Fringe benefits	63,900
Expenses and representation allowances	63,900
Additional fringe benefits	–
Total remuneration	**749,165**
Entire Board of Directors (11)	
Fees	910,265
Fringe benefits	92,370
Total remuneration	**1,002,635**
CEO [2]	
Fixed base salary	487,500
Performance-related component (period of origination: 2019) [3]	177,147
Fringe benefits	28,476
Expenses and representation allowances	22,500
Additional fringe benefits [4]	5,976
Additional payments [5]	–
Total remuneration	**693,123**
Other members of Executive Management (7) [6]	
Fixed base salary	2,707,500
Performance-related component (period of origination: 2019) [3]	1,162,063
Fringe benefits	206,458
Expenses and representation allowances	138,000
Additional fringe benefits [4]	68,458
Additional payments [5]	–
Total remuneration	**4,076,021**
All members of Executive Management (8) [6]	
Fixed base salary and performance-related component [3]	4,534,210
Fringe benefits	234,934
Total remuneration	**4,769,144**

1 Eight active members and two members who stepped down in 2019.
2 Remuneration for the employment relationship beginning on 1 April 2019, and payments for induction work performed between 1 January 2019 and 31 March 2019.
3 Performance-related component: in this period, the performance-related components accrued in the current year under review are reported for the first time. Until the prior-year period, the components effectively paid out in the relevant year under review (including component from the account for variable remuneration) were shown.
4 Additional fringe benefits include: first-class GA travelcard or company car, mobile phone and premiums for risk insurance policies.
5 No agreements exist regarding possible severance payments.
6 Including the remuneration for the interim CEO solution. Due to this change in personnel, the total remuneration is not directly comparable with the prior year.

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Auditor

The statutory auditors are appointed annually by the General Meeting. The statutory auditors changed for the 2019 financial year. Ernst & Young Ltd were selected as new external auditors at the General Meeting on 16 April 2019. Previously – since 1 January 1998 – the auditing mandate had been held by KPMG Ltd, Muri.

The fee agreed upon for the 2019 audit and the fees for services provided in the financial year 2019 total 3 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. Swiss Post additionally 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 Services Organization Act.

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Consolidated income statement

Group | Income statement

CHF million	Notes	2018 [1]	2019
Continuing operations			
Revenue	8	7,033	6,942
of which interest income as per effective interest method		680	510
Other operating income	10	221	222
Total operating income	7, 8	**7,254**	**7,164**
Personnel expenses	11, 12	–3,802	–3,764
Resale merchandise and service expenses	13	–1,325	–1,355
Expenses for financial services	9	–172	–158
Depreciation and impairment	21–23	–348	–451
Other operating expenses	14	–1,102	–986
Total operating expenses		**–6,749**	**–6,714**
Operating profit	7	**505**	**450**
Financial income	15	24	43
Financial expenses	16	–48	–75
Net income from associates and joint ventures	27	35	3
Group profit before tax from continuing operations		**516**	**421**
Income taxes	17	–107	–137
Group profit from continuing operations		**409**	**284**
Discontinued operations			
Group loss from discontinued operations	20	–5	–29
Group profit		**404**	**255**
Group profit attributable to			
Swiss Confederation (owner)		406	255
Non-controlling interests		–2	0

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

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Consolidated statement of comprehensive income

Group | Statement of comprehensive income

CHF million	Notes	2018[1]	2019
Group profit		**404**	**255**
Other comprehensive income			
Revaluation of employee benefit obligations	12	81	–167
Change in unrealized gains/losses from fair value reserves in equity instruments FVTOCI		26	40
Change in share of other comprehensive income from associates and joint ventures		–	0
Change in deferred income taxes	17	–20	–26
Items not reclassifiable in the consolidated income statement, after tax	26	**87**	**–153**
Change in currency translation reserves		–11	14
Change in share of other comprehensive income from associates and joint ventures		1	0
Change in unrealized gains/losses from fair value reserves in debt instruments FVTOCI		–169	257
Gains/losses from fair value reserves in debt instruments FVTOCI reclassified to the income statement		0	–
Unrealized gains/losses from cash flow hedges		287	206
Realized gains/losses from cash flow hedges reclassified to the income statement		–244	–266
Change in deferred income taxes	17	25	–39
Reclassifiable items in consolidated income statement, after tax	26	**–111**	**172**
Total other comprehensive income		**–24**	**19**
Total comprehensive income		**380**	**274**
Total comprehensive income attributable to			
Swiss Confederation (owner)		382	274
Non-controlling interests		–2	0

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

Consolidated balance sheet

Group | Balance sheet

CHF million	Notes	1.1.2018 [1]	31.12.2018 [1]	31.12.2019
Assets				
Cash	18	2,536	2,081	1,938
Amounts due from banks	18	38,379	36,688	46,677
Interest-bearing amounts due from customers	18	360	543	500
Trade accounts receivable	18	736	762	687
Contract assets		254	261	247
Other receivables	18	1,389	1,352	1,131
Inventories	19	67	59	47
Assets held for sale	20	1	25	1
Current income tax assets		10	10	1
Financial assets	18	79,317	78,307	76,458
Investments in associates and joint ventures	27	138	153	132
Property, plant and equipment	21	2,106	2,083	2,118
Investment property	22	290	304	328
Intangible assets and goodwill	23	500	518	484
Right-of-use assets	24	–	–	722
Deferred income tax assets	17	1,150	1,050	1,073
Total assets		**127,233**	**124,196**	**132,544**
Liabilities				
Customer deposits (PostFinance)	18	113,195	111,141	108,669
Other financial liabilities	18	2,144	1,608	12,064
Trade accounts payable	18	301	302	310
Contract liabilities		295	291	274
Other liabilities	18	1,367	897	766
Current income tax liabilities		34	19	7
Provisions	25	537	452	486
Employee benefit obligations	12	2,626	2,611	2,824
Deferred income tax liabilities	17	157	116	310
Total liabilities		**120,656**	**117,437**	**125,710**
Share capital		1,300	1,300	1,300
Capital reserves		2,279	2,279	2,279
Retained earnings		3,573	3,779	3,834
Gains and losses recorded directly in other comprehensive income		−575	−599	−580
Equity attributable to the owner		**6,577**	**6,759**	**6,833**
Non-controlling interests		0	0	1
Total equity	26	**6,577**	**6,759**	**6,834**
Total equity and liabilities		**127,233**	**124,196**	**132,544**

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	Gains and losses recorded directly in other comprehensive income	Equity attributable to the owner	Non-controlling interests	Total
Balance as at 1.1.2018 reported		**1,300**	**2,279**	**3,545**	**–575**	**6,549**	**0**	**6,549**
Adjustment to other long-term employee benefits	2			28		28		28
Balance as at 1.1.2018 adjusted		**1,300**	**2,279**	**3,573**	**–575**	**6,577**	**0**	**6,577**
Group profit				406		406	–2	404
Other comprehensive income	26				–24	–24	0	–24
Total comprehensive income				**406**	**–24**	**382**	**–2**	**380**
Dividends	26			–200		–200	–	–200
Capital increase from non-controlling interests							2	2
Total transactions with the owner				**–200**		**–200**	**2**	**–198**
Balance as at 31.12.2018 adjusted		**1,300**	**2,279**	**3,779**	**–599**	**6,759**	**0**	**6,759**
Balance as at 1.1.2019 reported		**1,300**	**2,279**	**3,752**	**–599**	**6,732**	**0**	**6,732**
Adjustment to other long-term employee benefits	2			27		27		27
Balance as at 1.1.2019 adjusted		**1,300**	**2,279**	**3,779**	**–599**	**6,759**	**0**	**6,759**
Group profit				255		255	0	255
Other comprehensive income	26				19	19	0	19
Total comprehensive income				**255**	**19**	**274**	**0**	**274**
Dividends	26			–200		–200	0	–200
Capital increase from non-controlling interests							1	1
Total transactions with the owner				**–200**		**–200**	**1**	**–199**
Balance as at 31.12.2019		**1,300**	**2,279**	**3,834**	**–580**	**6,833**	**1**	**6,834**

Consolidated cash flow statement

Group | Cash flow statement

CHF million	Notes	2018[1]	2019
Group profit before tax from continuing operations		516	421
Group loss before tax from discontinued operations	20	–7	–27
Interest expense/(income) and dividends		–710	–549
Depreciation and impairment	18, 21–24	365	479
Net income from associates and joint ventures		–35	–2
Net gains on disposal of property, plant and equipment, and interests	10, 14–16, 20	–41	–35
Gains from the disposal of financial assets		–	–11
Net increase in provisions		69	80
Other non-cash expenses		122	191
Change in net current assets:			
(Increase)/Decrease in receivables, inventories and other assets		–29	193
(Decrease) in accounts payable and other liabilities		–564	–59
Items from financial services:			
Change in amounts due from banks (term of more than 3 months)		–	–10
Change in customer deposits (PostFinance)/interest-bearing amounts due from customers		–2,236	–2,430
Change in other financial liabilities, derivatives		–291	9,529
Change in financial assets FVTPL including derivatives		358	1,096
Acquisition of financial assets at amortized cost		–26,775	–23,683
Disposal and reimbursement of financial assets at amortized cost		27,763	24,132
Acquisition of financial assets FVTOCI		–629	–267
Disposal and reimbursement of financial assets FVTOCI		51	588
Interest and dividends received		897	725
Interest paid		–56	–40
Income taxes paid		–77	–32
Cash flow from operating activities		**–1,309**	**10,289**
Acquisition of property, plant and equipment	21	–274	–396
Acquisition of investment property	22	–24	–38
Acquisition of intangible assets (excl. goodwill)	23	–41	–33
Acquisition of subsidiaries, net of cash and cash equivalents acquired	27	–60	–3
Acquisition of associates and joint ventures	27	–13	–1
Acquisition of other financial assets		–48	–277
Proceeds from disposal of property, plant and equipment	21	62	65
Proceeds from disposal of investment property	22	0	0
Proceeds from disposal of intangible assets (excl. goodwill)	23	1	0
Proceeds from disposal of subsidiaries, net of cash proceeds	27	0	–4
Proceeds from disposal of associates and joint ventures	27	–	40
Proceeds from disposal of other financial assets		18	46
Dividends received (excl. financial services)		9	7
Interest received (excl. financial services)		7	8
Cash flow from investing activities		**–363**	**–586**

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Continued

CHF million	Notes	2018[1]	2019
Increase in other financial liabilities		51	352
(Decrease) in other financial liabilities		–311	–258
Interest paid (excl. financial services)		–14	–29
Payment from capital increase of non-controlling interests		2	0
Dividends paid to the owner	26	–200	–200
Cash flow from financing activities		**–472**	**–135**
Foreign exchange losses on cash and cash equivalents		–2	–1
Change in cash and cash equivalents		**–2,146**	**9,567**
Cash and cash equivalents as at 1 January		40,465	38,319
Cash and cash equivalents at the end of the reporting period		**38,319**	**47,886**
Cash and cash equivalents include:			
Cash		2,081	1,938
Amounts due from banks with an original term of less than 3 months		36,238	45,948
Cash and cash equivalents do not include:			
Amounts due from banks with an original term of more than 3 months		450	729

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 7, 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 Services Organization Act (PSOA).

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 FVTOCI 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 9, 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.

Individual report figures are rounded for publication, while calculations are carried out using the non-rounded figures. Rounding differences may therefore occur.

Revised and new International Financial Reporting Standards (IFRSs)

Swiss Post Group has applied IFRS 16 Leases since 1 January 2019. Since 1 January 2019, various amendments to existing International Financial Reporting Standards (IFRSs) and interpretations have also been applied that have no material impact on the result or financial situation of the Group.

The consolidation methods and accounting policies modified as a result of the introduction of IFRS 16 Leases and the associated effects on the consolidated financial reporting are explained below.

IFRS 16 Leases

As a lessee, Swiss Post determines upon conclusion of a contract whether a lease exists in accordance with IFRS 16. If this is the case, a right-of-use asset and lease liability are recognized. As an exception, short-term leases (less than twelve months) and leases for assets with a replacement value of less than 5,000 francs are charged to expenses in the income statement.

Total lease liabilities are calculated according to the present value of future lease payments at the start of the lease agreement. Payments are discounted using the interest rate implicit in the lease contract or – if that rate cannot be readily determined – Swiss Post’s incremental borrowing rate in the relevant market.

Right-of-use assets are initially recognized at amortized cost. Amortized cost is derived mainly from the above-mentioned present value of future lease payments plus any advance payments made, reconversion obligations or initial direct costs, less lease incentives received. Right-of-use assets are depreciated on a linear basis over the useful life or the term of the lease, if shorter, and impairment losses are recognized if necessary.

In the course of the transition to IFRS 16 Leases, assets for right-of-use assets on lease items and lease liabilities of 676 million francs respectively were recognized as at 1 January 2019. The change-over to IFRS 16 was carried out according to the modified retrospective approach. Comparative figures from the previous years were not adjusted. For the application of IFRS 16, Swiss Post Group is taking advantage of authorized exemptions. Accounting rules are not applied to leases whose term comes to an end within twelve months of the date of initial application or to leases of low-value assets, for example. In such cases, the resulting expenses are recognized in operating expenses. Based on operating lease liabilities as at 31 December 2018, reconciliation in the opening balance of lease liabilities as at 1 January 2019 was as follows:

Reconciliation

CHF million	1.1.2019
Operating lease liabilities as at 31.12.2018	**369**
Minimum lease payments (nominal value) from liabilities from financial leases as at 31.12.2018	+25
Simplified application for short-term leases	–3
Simplified application for leases of low-value assets	0
Effect of callable leases	+428
Other effects	+19
Gross lease liabilities as at 1.1.2019	**838**
Discounting of interest	–138
Lease liabilities as at 1.1.2019	**700**
Present value of liabilities from financial leases as at 31.12.2018	–24
Additional lease liabilities due to the initial application of IFRS 16 as at 1.1.2019	**676**

Lease liabilities were discounted using the incremental borrowing rate as at 1 January 2019 on each class of right-of-use asset depending on the remaining term. The interest rates applied were between 1.2 percent and 3.5 percent. The average interest rate stood at 1.97 percent.

The following values were recognized as at 1 January 2019 and 31 December 2019 in the balance sheet and from 1 January to 31 December 2019 in the income statement:

Leases in the balance sheet

CHF million	1.1.2019	31.12.2019
Assets		
Other receivables	1,352	1,131
of which receivables from finance lease	156	150
Right-of-use assets	706	722
of which net right-of-use assets for land	113	111
of which net right-of-use assets for operating property	523	572
of which net right-of-use assets for operating equipment, machinery and IT plant	15	13
of which right-of-use assets on furnishings, vehicles and other assets	55	26
Liabilities		
Other financial liabilities	2,308	11,524
of which lease liabilities	700	728

Right-of-use assets include assets recognized as finance leases in accordance with IAS 17 until 31 December 2018. Hence the lease liabilities also recognize finance leases in accordance with IAS 17 at the balance sheet date.

Leases in the income statement

CHF million	2019
Other operating income	**222**
Rental income	99
Other income	123
of which rental income from other lease contracts	1
Depreciation and impairment	**–451**
of which right-of-use assets	–133
Other operating expenses	**–986**
Expenses from leases	–7
of which short-term leases	–6
of which leases with low-value assets	–1
Financial income	**43**
Other financial income	35
of which interest income from finance leases	4
Financial expenses	**–75**
Other financial expenses	–29
of which interest expense on leases	–15

Accounting changes

Changes in the disclosure of revenue from resale merchandise and resale merchandise expenses

In the second quarter of 2019, PostalNetwork modified the disclosure of net revenue from contracts with customers from resale merchandise and the associated resale merchandise expenses, without affecting profit or loss. As part of the renewal of supplier agreements and the related analysis of revenue recognition, Swiss Post came to the conclusion that for certain contracts, gross recognition is not an appropriate presentation of transactions, and merely disclosing the margin in revenue is correct. For these contracts, net revenue and the associated net resale merchandise expenses are now recognized in net revenue from contracts with customers from resale merchandise. These modifications have no effect on the result.

The effect of the retroactive change on the consolidated income statement from 1 January to 31 December 2018 is shown below.

Discontinued operations

The passenger transport business of PostBus in France was classified as held for sale in the second quarter of 2019. Since then, this operation has been shown separately in the consolidated income statement under discontinued operations and is no longer included in the segment disclosure or in revenue. The previous year was adjusted for the purposes of comparison.

The effect of the retroactive change on the consolidated income statement from 1 January to 31 December 2018 is shown below. For further information, see also Note 20, Non-current assets held for sale, disposal groups and discontinued operations.

Changes in the disclosure of revenue and expenses from logistics services (fleet management)

In the fourth quarter of 2019, Post Company Cars Ltd (PostLogistics segment) modified the disclosure of net revenue from contracts with customers from logistics services (fleet management) and the associated expenses, without affecting profit or loss. As part of the review of Post Company Cars' service range and the related analysis of revenue recognition, Swiss Post came to the conclusion that for certain services, gross recognition is not an appropriate presentation of transactions, and merely disclosing the margin in revenue is correct. For these services, net revenue and the associated expenses are now recognized in net revenue from contracts with customers. These modifications have no effect on the result.

The effect of the retroactive change on the consolidated income statement for the period from January to December 2018 is shown below.

Changes in the disclosure of net interest income

In the fourth quarter of 2019, the disclosure of net interest income from financial instruments was modified at Swiss Post without affecting profit or loss. On verifying the disclosure and related analysis, Swiss Post came to the conclusion that the previous disclosure was not an appropriate presentation of the situation, and that the modified disclosure is correct. The prior-year figures were adjusted as follows:

- In the income statement, interest income calculated in accordance with the effective interest method was adjusted by 39 million francs from 719 to 680 million francs for 2018. Interest effects from derivatives used to hedge bonds at amortized cost were not taken into account in the original disclosure.
- In Note 9, Net income from financial services, interest income from financial instruments at amortized cost incl. effects from hedging transactions was adjusted by 36 million francs from 663 to 699 million francs. This result was generated from financial instruments FVTPL and is now disclosed on a separate line as net interest income from financial instruments FVTPL incl. effects from hedging transactions (–36 million francs).

Change in provision for other long-term employee benefits

In the fourth quarter of 2019, Swiss Post changed the disclosure of other long-term employee benefits. The review of the group of beneficiaries showed that there have no longer been any prospective entitlements since the collective employment contract entered into force from 2016.

The effect of the retroactive change on the consolidated income statement for the period from January to December 2018, on the balance sheet as at 1 January 2018 and 31 December 2018 and on the cash flow statement for the period from January to December 2018 is shown below.

Group | Income statement
1.1. to 31.12.2018

CHF million	Reported		Adjustment	Adjusted
Revenue	7,465	./. Resale merchandise	–292	
		./. Discontinued operations	–126	
		./. Logistics services	–14	7,033
Other operating income	226	./. Discontinued operations	–5	221
Total operating income	**7,691**		**–437**	**7,254**
Personnel expenses	–3,866	+ Discontinued operations	+66	
		./. Other long-term employee benefits	–2	–3,802
Resale merchandise and service expenses	–1,616	+ Resale merchandise	+292	
		./. Logistics services	–1	–1,325
Depreciation and impairment	–360	+ Discontinued operations	+12	–348
Other operating expenses	–1,176	+ Discontinued operations	+59	
		+ Logistics services	+15	–1,102
Total operating expenses	**–7,190**		**+441**	**–6,749**
Operating profit	**501**		**+4**	**505**
Financial expenses	–49	+ Discontinued operations	+1	–48
Group profit before tax from continuing operations	**511**		**+5**	**516**
Income taxes	–106	./. Discontinued operations	–2	
		+ Other long-term employee benefits	+1	–107
Group profit from continuing operations	**405**		**+4**	**409**
Group loss from discontinued operations	–	./. Discontinued operations	–5	–5
Group profit	**405**		**–1**	**404**

Group | Balance sheet
1.1.2018

CHF million	Reported		Adjustment	Adjusted
Deferred income tax assets	1,157	./. Other long-term employee benefits	–7	1,150
Provisions	572	./. Other long-term employee benefits	–35	537
Retained earnings	3,545	+ Other long-term employee benefits	+28	3,573

Group | Balance sheet
31.12.2018

CHF million	Reported		Adjustment	Adjusted
Deferred income tax assets	1,056	./. Other long-term employee benefits	–6	1,050
Provisions	485	./. Other long-term employee benefits	–33	452
Retained earnings	3,752	+ Other long-term employee benefits	+27	3,779

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Group | Cash flow statement
1.1. to 31.12.2018

CHF million	Reported		Adjustment	Adjusted
Group profit before tax from continuing operations	511	./. Other long-term employee benefits	−2	
		+ Discontinued operations	+7	516
Group profit before tax from discontinued operations	–	./. Discontinued operations	−7	−7
Net increase/(decrease) in provisions	67	+ Other long-term employee benefits	+2	69

Outlook

Certain new IFRSs or supplements thereto enter into force for financial years beginning on or after 1 January 2020:

Standard	Title	Valid from
Framework	General revision	1.1.2020
IFRS 3	Definition of a Business	1.1.2020
IAS 1 and IAS 8	Definition of Material	1.1.2020
IFRS 9	Interest Rate Benchmark Reform (Phase I – Hedge Accounting)	1.1.2020
IFRS 17	Insurance Contracts	1.1.2021
IAS 1	Classification of Liabilities	1.1.2022

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. No significant financial effects are expected from the supplements and revisions planned for 1 January 2020.

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.

Investments 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 "Investments 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 of less than 20 percent are presented as financial assets in the FVTPL category or, in the case of strategic long-term interests, as FVTOCI.

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 27, 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 FVTOCI 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 revenue from contracts with customers

Revenue from contracts with customers is realized when control over an item or a service is transferred to the customer. Revenue is measured on the basis of the contractually agreed transaction price, i.e. revenue is recognized which is equal to the consideration Swiss Post can expect to receive in exchange for the transfer of goods or the provision of services (performance obligations assumed).

Performance obligations are met either on a specific date or over a period of time. When performance obligations are met over a period of time, the performance progress and hence the pro rata revenue recognition specific to the contract is determined either on an input basis (recognition of revenue on the basis of the efforts of the company to meet their performance obligations) or on an output basis (recognition of revenue on the basis of the direct determination of value of the products or services transferred so far in relation to the outstanding contractually agreed products or services).

Swiss Post earns revenue from contracts with customers in connection with logistics services, the sale of resale merchandise and financial services and the commission business.

Revenue from logistics services

PostMail
Addressed letters generate the largest proportion of revenue at PostMail. They include priority items, non time-critical individual items and bulk mailings as well as letters with proof of delivery. Customers pay for services when handing over consignments to Swiss Post on the basis of the published list prices. Swiss Post issues periodic invoices to customers who submit consignments regularly. The standard payment term is 30 days. The performance obligation is met when letters are delivered or, if they are undeliverable, when they are returned to the sender. Items are regarded as delivered if Swiss Post has handed them to the recipient or deposited them in the letter box or in another place specified for this purpose. The production time – between the acceptance and the delivery of items – is taken into account on the balance sheet date via accruals/deferrals.

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Swiss Post Solutions

Swiss Post Solutions earns revenue from document solutions and the management of selected document-based business processes. These include mailroom services, document input processing and document output processing. Mailroom services mainly comprise the processing of physical postal items. Customers pay a fixed price per month/hour for basic services and a contractually agreed price for value-added services. In input processing, documents are sorted, scanned and processed in the system. In output processing, documents are printed, folded, packaged and delivered. Customers pay for services on the basis of contractually agreed unit prices. The payment term is usually 30 days. The performance obligation is met with the provision of the service over the performance period.

PostLogistics

National parcels generate the largest proportion of revenue at PostLogistics and include all the services in the national parcel and express business, particularly PostPac Priority and PostPac Economy. Private customers pay for services when handing over parcels on the basis of the published list prices. Services provided for business customers are invoiced monthly according to the contractually agreed parcel prices. The standard payment term is 30 days. The performance obligation is met when the parcels are delivered. Items are regarded as delivered if Swiss Post has notified the recipient, handed them to the recipient or deposited them in the letter box or in another place specified for this purpose. The production time – between the acceptance and the delivery of parcels – is taken into account on the balance sheet date via accruals/deferrals.

PostBus

PostBus is a franchised transport business and provides passenger transport services for the Swiss Confederation, cantons and municipalities. Each concession is issued for ten years and entitles PostBus to offer regular journeys for the commercial transport of passengers. Services are ordered by the public sector every two years and annual tender agreements are drawn up with the company that is awarded the tender for the advertised routes. PostBus undertakes to operate the routes in accordance with the agreement and is allowed to use public sector stops. In exchange for the services provided, PostBus receives a proportion of passenger revenue each month, as well as quarterly compensatory payments from the public sector for uncovered costs in accordance with the agreement. The performance obligation is met on a linear basis over the performance period. The concession is treated in accordance with IFRIC 12 Service Concession Arrangements, and the resulting revenue including compensatory payments is recorded in accordance with IFRS 15 Revenue from Contracts with Customers.

Revenue from resale merchandise

PostalNetwork

Resale merchandise at PostalNetwork consists mainly of lotteries, stickers, mobile phones incl. accessories and gift cards. The products offered can be purchased in branches and in the online shop. If products are sold in a branch, the transaction is processed simultaneously, and both the payment and the fulfilment of the performance obligation take place on conclusion of the transaction. Sales in the online shop are usually paid for immediately on completion of the order. The payment term for payments by invoice is usually 30 days. In the case of purchases in the online shop, the performance obligation is met when the order is delivered to the customer. If PostalNetwork does not supply the product or provide the service itself and thus acts as an agent, only the margin (commission) is recognized as revenue.

Revenue from financial services and the commission business

PostFinance

Revenue from financial services and the commission business at PostFinance includes income from payments, savings, investments, retirement planning and financing services as well as commission income from the securities, investment and lending business. Customers pay for services on the basis of contractually agreed prices. The performance obligation is met either with the provision of the service over the performance period or on the date of the transaction.

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 are measured at amortized cost using the effective interest method, which usually corresponds to the face value. Amounts due from banks are comprised principally of current account balances, money market instruments and reverse repurchase transactions. In amounts due from banks, high cash reserves are held, which are mostly invested at the Swiss National Bank. Interest-bearing amounts due from customers consist of technically overdrawn postal accounts of postal account holders, reverse repurchase transactions with third parties and receivables from recourse factoring and reverse factoring (working capital management products from PostFinance).

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recognized at amortized cost, which usually corresponds to the face value. The future expected default is calculated and impaired using the simplified impairment model in accordance with IFRS 9.

Contract assets and liabilities

A contract asset is recognized if a performance obligation from a contract with a customer has been met, but an unconditional claim to consideration or a receivable does not yet exist. Contract assets equivalent to the expected consideration are recognized and checked for indications of impairment using the simplified impairment model in accordance with IFRS 9.

A contract liability is recognized when a customer meets its contractual obligation by making the payment for the consideration they have been promised before Swiss Post has satisfied the corresponding performance obligation.

Inventories

Inventories comprise resale merchandise, fuel, and operating, working and production materials. They are measured at the lower of weighted average cost or net realizable value. Impairment losses are recognized for inventories that are not easily marketable.

Non-current assets held for sale, disposal groups and discontinued operations

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.

A disposal group is classed as a discontinued operation if it represents a separate major line of business or geographical business unit or if it is part of a single co-ordinated plan to dispose of a separate major line of business or geographical business unit. Discontinued operations are not included in the result from continuing operations and are reported separately in the income statement as profit/loss after tax from discontinued operations. The prior period amounts in the income statement are adjusted for comparison purposes.

Financial assets

Debt instruments

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

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

A debt instrument is initially recognized at fair value plus transaction costs directly attributable to the purchase or the issue, provided that it is not assigned to the FVTPL category. In this case, the transaction costs are recognized in profit or loss. Items are entered based on trade date accounting. Debt instruments in the amortized cost category are therefore measured at amortized cost. Debt instruments in the FVTPL or FVTOCI categories are measured at fair value through profit or loss or in other comprehensive income. Interest income from financial assets in the amortized cost and FVTOCI categories is recorded in the income statement 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. Book gains/losses on debt instruments in the FVTOCI category are transferred from other comprehensive income to the income statement after their repayment or sale.

Business model

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

Swiss Post defines the business models as follows:

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

The following sales are compatible with the business model:

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

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

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

Cash flow conditions

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

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

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

If the contractual cash flows change substantially, there is an indication that previous cash flows will expire. In this case, the previous financial asset will be derecognized and a new financial asset will be recognized at fair value. If the contractual cash flows of an adjusted financial asset have not changed substantially and the instrument was previously assigned to the amortized cost or FVOCI category, the asset is not derecognized. In this case, Swiss Post recalculates the gross carrying amount and enters the difference between the previous and the new carrying amounts as an adjustment gain/loss in the income statement. If the contractual cash flows are adjusted due to financial difficulties experienced by the debtor, the difference identified between the old and new carrying amounts is recorded together with impairment losses.

Netting

Financial assets and financial liabilities are presented on a net basis if Swiss Post is entitled to offset the amounts against each other and has the intention to settle or collect the net amount or to collect the asset and settle the liability at the same time.

Income and expenditure are only shown on a net basis if explicitly permitted by IFRS or in the case of gains and losses arising from a group of similar transactions such as that of Swiss Post's trading activities.

Equity instruments

Equity instruments are assigned either as FVTPL or FVTOCI (FVTOCI option) depending on the business model. As a rule, interests in start-ups are classified as FVTPL, whereas all other interests (particularly companies operating in the area of financial infrastructure) are measured at FVTOCI.

The fair value of infrastructure equipment is verified annually. The carrying amount is adjusted if sufficient information is available to establish a new fair value and if the change is material in nature. If there are no indications of any changes in fair value, the carrying amount is maintained. Changes in the fair value of these investments are recognized in other comprehensive income; there is no reclassification to the income statement on derecognition. At the same time, the fair value reserves accrued are reclassified from the equity item "Gains and losses recorded directly in other comprehensive income" to retained earnings. Dividend income is recorded in the income statement.

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

Financial guarantees

Financial guarantees are contractual agreements that oblige the guarantor to make certain payments in order to compensate the guaranteed party for a loss arising when a certain debtor fails to make the payments due under the terms of a debt security.

Financial guarantees issued are measured at fair value on initial recognition. After that, the higher value of the impairments for expected losses or the original value less remuneration received is recognized.

Derivative financial instruments and hedge accounting

Derivative financial instruments are recognized at fair value as positive or negative replacement values. They 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 on a monthly basis.

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 profit or loss in the income statement in "Result from FVTPL trading portfolio assets and mandatory" and in "Interest income on financial instruments, amortized cost including effects from hedging transactions".

Cash flow hedges are used to hedge anticipated future transactions and variable cash flows. 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 profit or loss in "Result from FVTPL trading portfolio assets and mandatory". As soon as the hedged item has been recognized in profit or loss, the cumulated changes in fair value recorded in other comprehensive income are stated in "Result from FVTPL trading portfolio assets and mandatory" and in "Interest income from financial assets FVTOCI including effects from hedging transactions".

Derivatives which are not accounted for under the hedge accounting rules or which are held for trading purposes are treated as instruments held for trading. Changes in fair value are reported in "Result from FVTPL trading portfolio assets and mandatory" and net interest income in "Net interest income from financial instruments, FVTPL including effects from hedging transactions" or "Interest income on financial instruments – amortized cost including effects from hedging transactions".

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 correspond to the maximum amount the counterparty would lose in the event of default in performance by Swiss Post.

Contract volume

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

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 or interest-bearing amounts due from customers (other). 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.

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 lives of items of property, plant and equipment	
Land	indefinite
Operating property	20–60 years
Operating equipment	3–20 years
Machinery	3–15 years
IT equipment	3–10 years
Furnishings	3–20 years
Railway rolling stock	10–30 years
Other vehicles	3–15 years

Tenant fit-outs and installations in rented premises that are recognized as part of the cost of the assets 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.

Investment property

Investment property comprises land, buildings and/or parts of buildings, held by the owner to earn rentals and/or for capital appreciation. 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 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.

Intangible assets and goodwill

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.

Leases

See also Note 2, Basis of accounting, Revised and new International Financial Reporting Standards (IFRSs), IFRS 16 Leases.

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

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 profit or loss. The recoverable amount of goodwill is reviewed at least annually or if there are indications of impairment. An impairment is applicable where the carrying amount of the cash-generating unit to which the goodwill was assigned exceeds the recoverable amount.

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. Interest expenses are accounted for using the accrual-based accounting principle.

Other financial liabilities

Other financial liabilities comprise amounts due to banks (excluding amounts due to banks in postal and savings 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 liabilities, 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.

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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 a liability or asset corresponds to the present value of the defined employee benefit obligation (actuarial reserves 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 actuarial reserves 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.

Risk sharing characteristics are 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 Services Organization Act (PSOA), 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.

4 | Estimation uncertainty

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 accounting policies for the years 2018 and 2019

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment (carrying amount as at 31 December 2019: 2,118 million francs, carrying amount as at 31 December 2018: 2,083 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 2019: 2,824 million francs, carrying amount as at 31 December 2018: 2,611 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.

Provisions

Provisions (carrying amount as at 31 December 2019: 486 million francs, carrying amount as at 31 December 2018: 452 million francs) are calculated annually using the projected unit credit method for other long-term employee benefits and according to the best estimate principle for the other types of provisions. Under both calculation methods, management makes estimates regarding the probability of occurrence and other considerations. The actual liabilities may differ from the balance sheet values as a result of new findings.

Fair values of financial instruments

Fair values of financial assets (carrying amount as at 31 December 2019: 76,458 million francs, carrying amount as at 31 December 2018: 78,307 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 FVTOCI financial assets. The discounted cash flows are calculated on the basis of Bloomberg yield curves, taking the relevant parameters (rating, maturity, etc.) into account. The discounted cash flow method or venture capital method is used to determine the fair value of unlisted equity instruments.

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Expected credit losses

Expected credit losses (carrying amount as at 31 December 2019: 89 million francs, carrying amount as at 31 December 2018: 82 million francs) depend on several factors. The most important assumptions are:

– the general assessment of future economic development (even taking into account the weighting of various scenarios)
– the prompt recognition of significant changes in credit risks
– evaluations of the model parameters “probability of default” and “loss rates”

Goodwill

The discounted cash flow method is used annually to determine the recoverable amount of goodwill items (carrying amount as at 31 December 2019: 249 million francs, carrying amount as at 31 December 2018: 265 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 five years and a residual value. This includes a growth component at the level of country-specific inflation.

5 | Risk management and risk assessment

Risk management (corporate risk management)

Organization

Swiss Post operates a comprehensive risk management system whose structure is based on ISO 31000:2018. This system was certified by the external auditor SQS in December 2019. According to the SQS report, Swiss Post's risk management system has reached a high maturity level and is appropriate for the complexity of the organization. The risk management process is structured in a meaningful way and supported by valuable tools. The scope covers all business and function units of Swiss Post. Subsidiaries and affiliates are integrated into the risk management processes of the business units to which they are organizationally assigned. The Board of Directors sets out the primary guidelines and principles for the risk management system, defines risk policy at Swiss Post Ltd and approves the risk strategy. The implementation of risk management lies with line management. Executive Board members of the different Group units are responsible for their own risk portfolio in order to identify, assess and control risks by taking appropriate measures.

Group risk management runs the process, develops Group-wide risk management methods and ensures that all detectable risks are identified and recorded in full in the risk analysis and reporting systems and documented in the reporting for Executive Management and the Board of Directors. Group risk management also monitors the necessary measures, controls and limits as well as the potential risks.

Swiss Post aims to take an integral and comprehensive approach to risk management. Risk management is therefore combined with the Strategy, Accounting, Controlling, Security and Crisis Management units as well as with the Compliance department. Swiss Post's 2nd line of defence functions support one another and since this year have formed an assurance community. The aim is to regularly share information and knowledge with one another and coordinate their activities, terminology, assessment logic, awareness-raising activities and reporting. The assurance community promotes coordination, mutual foundations and the exploitation of integration and synergy potential.

Risk situation

Swiss Post understands "risk" to mean the possibility of an event occurring and exerting a positive or negative impact on the achievement of corporate goals. Risk is thus the umbrella term for a danger (negative target deviation) or opportunity (positive target deviation).

Successful entrepreneurial action is based on adequately controlling or avoiding material dangers and taking advantage of opportunities that arise in a value-enhancing way. Risk assessment is carried out as part of operational planning for a three-year planning period (from 2020 to 2022).

Every year, managers and specialists measure the risks that have been identified (dangers and opportunities). This measurement is carried out according to a credible worst-case scenario (dangers) or credible best-case scenario (opportunities) on the basis of event data, analyses or expert estimates. The credible worst-case scenario constitutes the worst-possible case (dangers), and the credible best-case scenario the best-possible case (opportunities) that is still realistic.

The credible worst-case and best-case scenarios are evaluated using the scoring model and an assessment of the following parameters:

- The extent of impact accumulated over the next three years. To evaluate this impact, at least one of the following impact dimensions is assessed: finances, reputation, personal / environmental damage, compliance.
- The likelihood of the identified accumulated impact occurring.

The probability distribution of the Group's overall risk portfolio is calculated using the Monte Carlo simulation process, taking account of the correlation from the probability distributions of the individual risks. The expected loss/gain potential and the maximum loss potential with a confidence interval of 99 percent are derived from this distribution as risk indicators.

Based on the latest calculations, the Group has an expected loss potential of 810 million francs in relation to the 2020 to 2022 business period. The unexpected three-year loss potential (VaR 99 percent) for the Group totals 1,580 million francs. The Group's risk capacity is thereby guaranteed. The risk indicators shown cannot be directly compared with the statements in the last Financial Report as the assessment methodology was adjusted this year (new cumulative three-year view instead of a one-year view as previously).

The greatest dangers comprise tightened regulatory framework conditions, service provision outages and the development of the result at PostFinance. Positive effects could occur as a result of business optimization measures, customer acquisitions and the implementation of transformation projects.

Financial risk management in logistics

Following the introduction of the standard IFRS 9 Financial Instruments, and due to the fundamentally different business models within Swiss Post Group, from 1 January 2018 financial risk management is disclosed in two parts (logistics and PostFinance). The logistics part comprises all Swiss Post's business activities with the exception of the PostFinance segment.

The Swiss Post consolidated balance sheet as at 31 December 2018 and 2019 is broken down between the logistics and PostFinance business models as follows:

Condensed balance sheet, divided according to business model			31.12.2018[1]			31.12.2019
CHF million	PostFinance	Logistics	Group	PostFinance	Logistics	Group
Cash	1,958	123	2,081	1,778	160	1,938
Amounts due from banks	35,677	1,011	36,688	45,439	1,238	46,677
Interest-bearing amounts due from customers	543	–	543	500	–	500
Trade accounts receivable	2	760	762	2	685	687
Contract assets	9	252	261	17	230	247
Other receivables[2]	582	770	1,352	475	656	1,131
Financial assets	78,215	92	78,307	76,388	70	76,458
Amortized cost	68,270	70	68,340	67,591	50	67,641
FVTPL including derivative financial instruments	1,211	12	1,223	333	19	352
FVTOCI equity instruments	137	10	147	185	1	186
FVTOCI debt instruments	8,597	–	8,597	8,279	–	8,279
Other assets[3]	1,199	3,003	4,202	1,117	3,789	4,906
Total assets	**118,185**	**6,011**	**124,196**	**125,716**	**6,828**	**132,544**
Customer deposits (PostFinance)	111,141	–	111,141	108,669	–	108,669
Other financial liabilities	552	1,056	1,608	10,146	1,918	12,064
Trade accounts payable[4]	30	272	302	30	280	310
Other liabilities[2]	97	800	897	86	680	766
Other equity and liabilities[3]	6,365	3,883	10,248	6,785	3,950	10,735
Total equity and liabilities	**118,185**	**6,011**	**124,196**	**125,716**	**6,828**	**132,544**

1 Figures have been adjusted (see Notes, Accounting changes).
2 Includes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities associated with taxes, social insurance schemes and dividends.
3 The other assets and liabilities are not financial instruments. For the purposes of reconciliation with the balance sheet, they are reported here.
4 Incl. advance payments.

Risk management information on PostFinance can be found from page 111 onwards. The following explanations refer to financial risk management in the logistics business model.

Credit risks

Credit risks arising from the provision of logistics services include the default risk on cash holdings, amounts due from banks (current account balances, fixed-term deposits), trade accounts receivable, contract assets and other receivables (financial instruments), as well as on financial assets measured at amortized cost (loans to PostBus operators: 18 million francs, other: 36 million francs). The maximum credit risk corresponds to the amounts reported in the balance sheet.

Impairment losses required for potential future defaults on current account balances, fixed-term deposits and amounts due from banks are calculated taking into account the historical probability of default and an estimation of the probability of default in the future. To calculate expected credit loss in the logistics business model, the same ECL model is applied as in the PostFinance business model.

The creditworthiness of major counterparties is constantly monitored. A limit is set for each counterparty for risk control purposes. The counterparty limit is recalculated at regular intervals. Outstanding amounts due from major counterparties are constantly monitored and documented on a weekly basis.

The trade accounts receivable recognized originate mainly from the invoicing of services to business customers by PostMail and PostLogistics. Long-standing, good business relationships exist with these customers. Around 40 percent of receivables are collected from the customer on the due date automatically by direct debit. The creditworthiness of all new customers and customers experiencing payment difficulties is determined by means of a creditworthiness check. Outstanding receivables are subsequently monitored on a permanent basis by the Finance Service Center. Customer-specific credit limits are set in order to minimize risks. Compliance with these limits is checked automatically on an ongoing basis. In the event of major payment delays, services are provided exclusively upon payment in advance.

The simplified approach permitted in accordance with IFRS 9 is applied to determine expected credit loss on trade accounts receivable, contract assets and other receivables (financial instruments). A historical default rate is calculated each year at accounting unit level for trade accounts receivable, contract assets and other receivables (financial instruments). An additional risk premium is recorded to take into account future changes in debtor solvency. Bandwidths apply when calculating expected defaults on overdue receivables. If a receivable is 1 to 90 days overdue, an impairment loss of a maximum of 10 percent of the receivable amount is recorded (91 to 180 days: up to max. 75 percent, 181 to 360 days: up to max. 100 percent and more than 360 days: up to max. 100 percent). Information from the dunning system (on customer payment behaviour and creditworthiness) and from the sales department (on the sector and the market) is taken into account to determine the impairment loss. The receivable is definitively derecognized once there are firm indications that it is no longer recoverable.

No loans to PostBus operators or other loans to third parties have been defaulted on in the past. In the case of the PostBus operators, the operating materials are to be carried at the nominal value in accordance with the Swiss Federal Office for Transport (FOT), i.e. the loans to PostBus operators are secured by the vehicle being financed. Nominal value corresponds to fair value. Consequently there can be no defaults in the case of loans to PostBus operators. In order to allow for default risks that cannot be perceived at present, from 1 January 2018 a flat-rate impairment loss of 0.1 percent is to be recognized on the nominal amount of loans to PostBus operators and other loans to third parties (principally to associates). Loans, including interest and amortization, are constantly monitored.

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On the reference date the following impairment losses on financial instruments have been recognized in the logistics business model:

Logistics | Impairment losses on financial instruments			31.12.2018			31.12.2019
CHF million	Gross	Impairment	Net	Gross	Impairment	Net
Cash	123	–	123	160	–	160
Amounts due from banks	1,011	0	1,011	1,238	0	1,238
Trade accounts receivable	769	–9	760	694	–9	685
Contract assets	252	–	252	230	–	230
Other receivables [1]	156	–2	154	151	–2	149
Financial assets						
Amortized cost	72	–2	70	55	–5	50
Total financial instruments	**2,383**	**–13**	**2,370**	**2,528**	**–16**	**2,512**

1 Excludes accruals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

The following receivables are overdue on the reference date:

Logistics | Overdue receivables				31.12.2018				31.12.2019
CHF million	1–90 days	91–180 days	181–365 days	> 1 year	1–90 days	91–180 days	181–365 days	> 1 year
Amounts due from banks	0	–	–	–	–	–	–	–
Trade accounts receivable	59	8	6	5	64	9	2	6
Total receivables	**59**	**8**	**6**	**5**	**64**	**9**	**2**	**6**

Impairment losses on trade accounts receivable, other receivables (financial instruments) and financial assets at amortized cost are broken down as follows between levels 1 to 3 as at 31 December 2018 and 31 December 2019:

Logistics | Impairment losses on financial instruments				31.12.2018				31.12.2019
CHF million	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
ECL on amounts due from banks	0	0	–	–	0	–	0	–
ECL on financial assets at amortized cost	–2	0	–	–2	–5	0	–	–5
The following impairments were calculated based on the simplified approach								
ECL on trade accounts receivable [1]	–9				–9			
ECL on other receivables [1]	–2				–2			

1 In each case, the figure matches the expected loss over the remaining term to maturity.

Liquidity risks

Liquidity risk refers to the risk that current and future payment obligations cannot be met on time in full. Liquidity management ensures that Swiss Post has sufficient liquidity available at all times to meet its payment obligations, even in stress situations, without losses or reputational damage.

Liquidity is monitored daily by Group Treasury and reported each month to the decision-makers at Group level. A Group cash flow plan is drawn up each quarter. The minimum level of liquidity (minimum liquidity/cash burn rate) is defined as cash expenses for the current month and the subsequent two months. The short-term cash flow planning is constantly updated and monitored. The following due dates exist for financial instruments in the logistics business model:

Logistics | Due dates of financial instruments

31.12.2018 CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years	None	Total
Financial assets						
Cash holdings	123	–	–	–	–	123
Amounts due from banks	661	200	150	–	–	1,011
Trade accounts receivable	753	5	2	0	–	760
Other receivables [1]	–	–	–	154	–	154
Financial assets						
Amortized cost	0	14	55	1	–	70
FVTPL incl. derivative financial instruments	2	0	–	2	8	12
FVTOCI equity instruments	–	–	–	–	10	10
Total financial assets	**1,539**	**219**	**207**	**157**	**18**	**2,140**
Financial liabilities						
Trade accounts payable	272	0	0	–	–	272
Other financial liabilities						
Liabilities relating to banks	52	–	–	–	–	52
Finance leases	5	2	8	9	–	24
Derivative financial instruments	–	1	0	–	–	1
Bonds [2]	–	125	205	640	–	970
Other	9	–	–	–	–	9
Other liabilities [1, 3]	0	–	–	–	–	0
Total financial liabilities	**338**	**128**	**213**	**649**	**–**	**1,328**

1 Excludes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 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 this private placement is 0.83 percent.
3 Includes liabilities from refund claims.

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Logistics | Due dates of financial instruments

31.12.2019 CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years	None	Total
Financial assets						
Cash holdings	160	–	–	–	–	160
Amounts due from banks	718	260	260	–	–	1,238
Trade accounts receivable	679	5	1	–	–	685
Other receivables [1]	6	16	79	48	–	149
Financial assets						
Amortized cost	18	0	32	–	–	50
FVTPL incl. derivative financial instruments	1	0	–	–	18	19
FVTOCI equity instruments	–	–	–	–	1	1
Total financial assets	**1,582**	**281**	**372**	**48**	**19**	**2,302**
Financial liabilities						
Trade accounts payable [2]	263	0	–	–	–	263
Other financial liabilities						
Liabilities relating to banks	301	100	–	–	–	401
Finance leases	4	108	307	244	–	663
Derivative financial instruments	–	–	3	–	–	3
Bonds [3]	–	135	70	640	–	845
Other	5	0	1	–	–	6
Other liabilities [1, 4]	1	0	0	–	–	1
Total financial liabilities	**574**	**343**	**381**	**884**	**–**	**2,182**

1 Excludes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 Excludes advance payments.
2 Swiss Post Ltd has several outstanding private placements totalling 845 million francs. Nine tranches overall, expiring between 2020 and 2032, are outstanding on the capital market from major, predominantly domestic, private and institutional investors. The average interest rate applicable to these private placements is 1.08 percent, and the average remaining maturity of the outstanding tranches as at the end of 2019 is almost eight years.
4 Includes liabilities from refund claims.

Logistics | Present value of the commitments from finance leases

	31.12.2018			31.12.2019		
CHF million	Nominal	Discount	Present value	Nominal	Discount	Present value
Due within 1 year	5	0	5	123	–11	112
Due within 1 to 5 years	11	0	11	336	–31	305
Due date longer than 5 years	8	0	8	311	–65	246
Total	**24**	**0**	**24**	**770**	**–107**	**663**

The other financial liabilities in cash flow from financing activities (Group perspective) are as follows:

Group | Other financial liabilities in cash flow from financing activities

CHF million	Due to banks	Derivative financial instruments	Leases	Repurchase transactions	Bonds	Other	Total
As at 1.1.2018	**120**	**729**	**15**	**–**	**1,270**	**10**	**2,144**
Cash flow from operating and investment activities	115	729	–	–	–	–	844
Cash flow from financing activities as at 1.1.2018	**5**	**–**	**15**	**–**	**1,270**	**10**	**1,300**
Cash changes	46	–	–6	–	–300	–	–260
Changes to scope of consolidation	1	–	4	–	–	1	6
Currency translation differences	0	–	–1	–	–	0	–1
Other non-cash changes	–	–	12	–	–	–1	11
Cash flow from financing activities as at 31.12.2018	**52**	**–**	**24**	**–**	**970**	**10**	**1,056**
Cash flow from operating and investment activities	74	480	–	–	–	–2	552
As at 31.12.2018	**126**	**480**	**24**	**–**	**970**	**8**	**1,608**
As at 1.1.2019	**126**	**480**	**24**	**–**	**970**	**8**	**1,608**
Cash flow from operating and investment activities	74	478	–	–	–	–	552
Cash flow from financing activities as at 1.1.2019	**52**	**2**	**24**	**–**	**970**	**8**	**1,056**
Cash changes	352	–	–145	–	–125	–3	79
Changes to scope of consolidation	–2	–	–28	–	–	–35	–65
Currency translation differences	0	–	0	–	–	0	0
Other non-cash changes	0	1	876	–	–	37	914
Cash flow from financing activities as at 31.12.2019	**402**	**3**	**727**	**–**	**845**	**7**	**1,984**
Cash flow from operating and investment activities	75	339	–	9,125	–	1	9,540
As at 31.12.2019	**477**	**342**	**727**	**9,125**	**845**	**8**	**11,524**

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

Foreign currency risks

Foreign currency risk is monitored by Group Treasury on an ongoing basis. Foreign currency risk is constantly reduced via cash transactions or foreign exchange forward contracts. Foreign currency is only held to settle current liabilities in foreign currencies. Monitoring takes place electronically; daily on the basis of balances transferred in real time. Subsidiaries with no electronic connection immediately transfer excess liquidity in all currencies to the Group.

The following currency balances show foreign currency exposure as at 31 December 2018 and 31 December 2019:

Logistics | Financial instruments by currency	Functional currency	Foreign currencies					
31.12.2018 CHF million		CHF	EUR	USD	GBP	Other	Total
Assets							
Cash	97	0	25	1	0	0	123
Amounts due from banks	1,000	1	8	2	0	0	1,011
Trade accounts receivable	717	–	34	0	0	9	760
Other receivables [1]	154	–	–	–	–	–	154
Financial assets							
Amortized cost	35	–	2	33	–	–	70
FVTPL incl. derivative financial instruments	4	–	4	4	0	0	12
Liabilities							
Other financial liabilities							
Derivative financial instruments	–	–	1	–	–	0	1
Other	1,055	–	–	–	–	–	1,055
Trade accounts payable	250	0	10	1	0	11	272
Other liabilities [1, 2]	0	–	–	–	–	–	0

1 Excludes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 Includes liabilities from refund claims.

Logistics | Financial instruments by currency	Functional currency	Foreign currencies					
31.12.2019 CHF million		CHF	EUR	USD	GBP	Other	Total
Assets							
Cash	143	0	16	1	0	0	160
Amounts due from banks	1,230	0	7	1	0	0	1,238
Trade accounts receivable	635	–	37	0	1	12	685
Other receivables [1]	148	–	–	1	–	–	149
Financial assets							
Amortized cost	19	–	0	31	–	–	50
FVTPL incl. derivative financial instruments	10	–	2	7	–	–	19
Liabilities							
Other financial liabilities							
Derivative financial instruments	2	–	–	–	–	–	2
Other	1,916	–	–	–	–	–	1,916
Trade accounts payable	238	0	15	1	1	8	263
Other liabilities [1, 2]	1	–	–	–	–	–	1

1 Excludes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 Includes liabilities from refund claims.

Interest rate risks

All financing and refinancing is monitored daily. Variable interest-bearing items are replicated. Net present value, duration and change in present value are calculated with a parallel shift in the yield curve of one basis point (DV01) for monthly treasury reporting. Interest rate risk is kept as low as possible.

Goods price risks

Goods price risks that are relevant to the Group are identified, evaluated and controlled via appropriate measures by risk management. Significant goods price risks include pressure on parcel margins at PostLogistics due to rising competition and the increase in fuel prices at PostBus.

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Risk management at PostFinance

Business model and risk profile

PostFinance operates mainly in the fields of payment transaction services, the receipt of customer deposits, account services 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 they materialize. 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 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 income statement and OCI reserves
Strategic risks [2]	Losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. 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). 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.

The PostFinance Board of Directors assesses the company’s overall risk situation on a quarterly basis. 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 in accordance with FINMA Circular 2017/01 Corporate Governance – Banks 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. The Board of Directors limits the maximum risks that can be entered into by defining the quantitative risk appetite. The quantitative risk appetite comprises requirements for the total amount of capital that is available to cover risks, regulations on the allocation of capital to individual risk categories and the definition of minimum liquidity and leverage ratio requirements. The qualitative risk appetite consists of regulations that trigger a discussion of the content of individual risks or aggregated risk positions as well as the strategies for managing such risks within the Executive Board or 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 throughout the institution 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 Chief Risk Officer is a member of the Executive Board and is responsible for ensuring that Risk Control and all other subordinated control entities perform the tasks entrusted to them.

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 committees mandated for this purpose, 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. At PostFinance Ltd, these are Risk Control, Compliance and Governance. As an independent control entity, the Risk Control department defines appropriate instruments to identify, measure, evaluate and control the financial, strategic and operational risks entered into by PostFinance. It independently monitors compliance with limits set by the Board of Directors and the Executive Board as well as the established risk profile across all risk categories. Risk control performs the 2nd line function for all risks except for compliance risks which are covered by the Compliance and Governance departments. As a central function of the 2nd line of defence, it coordinates the work of all 2nd line-of-defence functions and ensures PostFinance's integrated risk reporting.

The Compliance and Governance departments provide support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations. Compliance and Governance perform the 2nd line-of-defence function for compliance risks. They are responsible for assessing the compliance risk and report significant information to the Board of Directors and Executive Board on a regular basis.

The 2nd line-of-defence units 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. Matters of major importance are reported to PostFinance's Board of Directors promptly and on an ad-hoc basis.

As part of the 3rd line of defence, Internal Auditing 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.

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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 Fluctuating net interest income over time	Absolute and relative sensitivity limits for equity Implementation of multi-period dynamic revenue analyses
– Liquidity risks	Insolvency	Compliance with the minimum regulatory requirements for the liquidity coverage ratio (LCR) Holding of cash reserves to cover liquidity requirements in stress situations
– Credit risks	Losses due to the default of counterparties	Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level. Quantification of the economic concentration risks in the credit portfolio and definition of diversification requirements.
– Market risks	Losses in fair value to be charged to the income statement and OCI reserves	Value-at-risk limits for fair value effects on the income statement and equity
Strategic risks	Losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.	Quantification of gross risk by evaluating the expected 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 through the definition of warning levels for strategic top risks. Level-appropriate addressing of risks through the definition of approval 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). The estimated residual risks represent the potential losses from operational risks.	Quantification of gross risk by evaluating the expected 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 warning levels for individual risks and operational top risks. Level-appropriate addressing of risks by defining approval limits for individual 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 stochastic models to determine value-at-risk or expected shortfall risk indicators (e.g. to measure fair value risks resulting from open foreign currency items or to quantify economic concentration risks in the credit portfolio). 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 quantitative and qualitative dimensions. 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. 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

An overview of the breakdown of the financial instruments reported in the Swiss Post consolidated balance sheet as at 31 December 2018 and 2019 between the PostFinance and the logistics business model (other companies) is given on page 103.

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, as well as the possible effect on the result from interest operations in the income statement, resulting mainly from maturity mismatches. 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 of equity, 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 sensitivity covers the net effect of an adverse 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 shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other.

Absolute change in the present value of equity

CHF million	31.12.2018	31.12.2019
Standard parallel-up shock in accordance with FINMA Circular 2019/2 [1]	–	–160
Shift of –100 basis points in the yield curve	–76	–

1 In order to determine the present value sensitivity of equity, the six standard shocks in accordance with FINMA Circular 2019/2 "Interest rate risks – banks" have been applied since 1.1.2019. The interest rate shocks are currency-dependent and amount to 150 basis points for CHF and 200 basis points for EUR and USD.

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future interest income. In addition, dynamic income simulations are carried out for a broad set of deterministic scenarios over the course of the year. 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.

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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 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.

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 2019, this sight deposit balance stood at 45,167 million francs (previous year: 35,239 million francs).

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 capital 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.

The directives for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems, with ESG (environmental, social and governance) criteria also being taken into account. 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, taking into account the current portfolio. 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 or ESG criteria 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 economic concentration risks in the credit portfolio are taken into consideration in defining the portfolio and counterparty limits. To measure them, PostFinance uses a credit portfolio model that quantifies the credit risks within the credit portfolio while taking into account correlation effects. On the basis of the modelled risk indicators (expected shortfall and the relevant risk contributions of sub-portfolios), limits can be defined in such a way that they increase portfolio efficiency and/or limit concentration risks.

The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the counterparties. An overview of three largest counterparties as at 31 December 2018 and 31 December 2019 is given below:

Breakdown of the largest counterparties [1]

CHF million	31.12.2018	31.12.2019
Pfandbriefbank schweizerischer Hypothekarinstitute AG, Zurich	9,763	10,605
Pfandbriefzentrale der schweizerischen Kantonalbanken AG, Zurich	7,748	7,774
Swiss Confederation, Berne	2,464	2,222

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 2018 and 31 December 2019 is given below:

Summary of main country exposures [1]

CHF million	31.12.2018	31.12.2019
Switzerland	46,799	47,101
USA	5,639	5,720
France	3,709	2,755

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 the 2nd LoD and the 3rd LoD.

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.

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. Concentrations of securities delivered (with the exception of cash collateral) are measured, monitored and reported to the Executive Board on a monthly basis. In addition, collateral from securities lending transactions is subject to stress testing.

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.

Impairment and analysis of loan quality

On the reference date the following impairment losses on financial instruments were recognized in the PostFinance business model:

PostFinance | Value adjustments on financial instruments			31.12.2018			31.12.2019
CHF million	Gross	Impairment	Net	Gross	Impairment	Net
Cash	1,958	0	1,958	1,778	–	1,778
Amounts due from banks	35,724	−47	35,677	45,485	−46	45,439
Interest-bearing amounts due from customers	551	−8	543	508	−8	500
Trade accounts receivable	2	–	2	2	–	2
Contract assets	9	–	9	17	–	17
Other receivables [1]	406	0	406	319	0	319
Financial assets						
Amortized cost	68,281	−11	68,270	67,606	−15	67,591
FVTOCI debt instruments	8,597	−3 [2]	8,597	8,279	−3 [2]	8,279
Total financial instruments	**115,528**	**−69**	**115,462**	**123,994**	**−72**	**123,925**

1 Excludes accruals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.
2 The impairment loss is reported and carried forward in other comprehensive income.

Since the introduction of IFRS 9 on 1 January 2018, impairment has been calculated using an expected credit loss model. The approach is forward looking in accordance with the relevant paragraphs of the IFRS 9 standard and takes into account expectations regarding future trends in the business cycle.

As explained above with regard to the logistics business model, the simplified approach permitted in accordance with IFRS 9 is applied to determine expected credit loss on trade accounts receivable, contract assets and other receivables. Overall, these impairments are not material in nature in the PostFinance business model.

As at 31 December 2018 and 31 December 2019 ECL levels are broken down as follows within amounts due from banks, interest-bearing receivables, financial assets and financial guarantees:

PostFinance | Analysis of credit liquidity				31.12.2018				31.12.2019
CHF million	12-month expected credit losses (level 1)	Expected credit losses over remaining term to maturity (level 2)	Expected credit losses over remaining term to maturity (level 3)	Total	12-month expected credit losses (level 1)	Expected credit losses over remaining term to maturity (level 2)	Expected credit losses over remaining term to maturity (level 3)	Total
Amortized cost								
Amounts due from banks	35,677	–	47	35,724	45,439	–	46	45,485
Value adjustments	0	–	–47	–47	0	–	–46	–46
Carrying amount	**35,677**	**–**	**–**	**35,677**	**45,439**	**–**	**–**	**45,439**
Interest-bearing amounts due from customers	540	4	7	551	496	5	7	508
Value adjustments	–2	–2	–4	–8	–2	–2	–4	–8
Carrying amount	**538**	**2**	**3**	**543**	**494**	**3**	**3**	**500**
Bonds and loans								
AAA to AA-	50,556	–	–	50,556	48,212	–	–	48,212
A+ to A-	12,428	–	–	12,428	13,567	–	–	13,567
BBB+ to BBB-	4,708	–	–	4,708	5,162	–	–	5,162
BB+ to B-	153	–	–	153	153	–	–	153
Unrated	432	–	4	436	505	–	7	512
Total	**68,277**	**–**	**4**	**68,281**	**67,599**	**–**	**7**	**67,606**
Value adjustments	–7	–	–4	–11	–8	0	–7	–15
Carrying amount	**68,270**	**–**	**0**	**68,270**	**67,591**	**0**	**0**	**67,591**
FVTOCI								
Debt instruments								
AAA to AA-	1,570	–	–	1,570	1,314	–	–	1,314
A+ to A-	4,161	–	–	4,161	4,390	–	–	4,390
BBB+ to BBB-	2,866	–	–	2,866	2,575	–	–	2,575
Total	**8,597**	**–**	**–**	**8,597**	**8,279**	**–**	**–**	**8,279**
Value adjustments	–3	–	–	–3	–3	–	–	–3
Financial guarantees	**87**	**–**	**–**	**87**	**52**	**–**	**–**	**52**

Impairment losses on financial guarantees issued are included in other provisions and were immaterial in nature as at 31 December 2018 and 31 December 2019.

In the 2018 and 2019 reporting periods there were no material changes in ECL on financial assets at amortized cost and FVTOCI. Reclassifications within the three levels were immaterial in nature.

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 2018 or 31 December 2019. Both the Swiss Framework Contract 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 framework contract applicable to securities lending transactions, as well as agreements for Triparty Collateral Management (TCM) between SIX Ltd, third parties and PostFinance.

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2018, 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 replacement values	102	–	102	–	–15	87
Reverse repurchase transactions	21	–	21	–	–22	–

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2018, 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 replacement values	479	–	479	–	–370	109
Securities lending and similar agreements	4,532	–	4,532	–	–4,903	–

Financial assets subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2019, 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 replacement values	163	–	163	–	–25	138
Reverse repurchase transactions	22	–	22	–	–24	–

Financial liabilities subject to offsetting agreements, enforceable global offsetting or similar agreements 31.12.2019, 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 replacement values	342	–	342	–	–194	148
Repurchase transactions	9,125	–	9,125	–	–9,125	–
Securities lending and similar agreements	4,419	–	4,419	–	–4,781	–

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	31.12.2018	31.12.2019
Receivables		
Receivables from cash collateral in reverse repurchase transactions		
of which recognized in amounts due from banks	21	22
of which recognized in interest-bearing amounts due from customers	–	–
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	–	9,125
of which recognized in financial liabilities – other financial liabilities	–	9,125
Securities cover		
Own lent securities or securities provided as collateral for borrowed securities in repurchase transactions	4,532	13,544
of which securities for which an unrestricted right to dispose of or pledge was granted	4,532	4,419
of which recognized in financial assets – amortized cost	4,453	4,360
of which recognized in financial assets – FVTOCI debt instruments	79	59
Borrowed securities or securities received as collateral for lent securities as part of securities lending and reverse repurchase transactions	4,925	4,806

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.

Liquidity in the short term

CHF million	31.12.2018	31.12.2019
Liquidity Coverage Ratio (LCR)	176%	190%

The 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.

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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 maturities remaining as per the balance sheet date.

PostFinance | Maturities

31.12.2018 CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years	Total
Financial assets					
Cash holdings	1,958	–	–	–	1,958
Amounts due from banks	35,703	–	–	–	35,703
Interest-bearing amounts due from customers	551	–	–	–	551
Financial assets (without derivatives)					
Amortized cost	2,324	7,494	30,886	27,446	68,150
FVTOCI debt instruments	–	315	4,832	3,432	8,579
Total non-derivative financial assets	**40,536**	**7,809**	**35,718**	**30,878**	**114,941**
Derivative financial instruments for trading purposes					
Outflow	–1,955	–525	–59	–	–2,539
Inflow	1,972	532	59	–	2,563
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–652	–29	–114	–26	–821
Inflow	658	7	30	6	701
Total derivative financial assets	**23**	**–15**	**–84**	**–20**	**–96**
Financial liabilities					
Postal accounts	71,923	–	–	–	71,923
Savings and investment accounts	39,129	–	–	–	39,129
Cash bonds for customers	2	6	68	3	79
Money market investments for customers	10	–	–	–	10
Total customer deposits	**111,064**	**6**	**68**	**3**	**111,141**
Liabilities relating to banks	74	–	–	–	74
Total other financial liabilities (excluding derivatives)	**74**	**–**	**–**	**–**	**74**
Issued financial guarantee contracts	0	28	59	–	87
Irrevocable credit commitments [1]	8	–	–	–	8
Total off-balance-sheet positions	**8**	**28**	**59**	**–**	**95**
Total non-derivative financial liabilities	**111,146**	**34**	**127**	**3**	**111,310**
Derivative financial instruments for trading purposes					
Outflow	–640	–178	–62	–	–880
Inflow	635	175	62	–	872
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–742	–396	–1,437	–1,495	–4,070
Inflow	698	324	1,085	1,268	3,375
Total derivative financial liabilities	**–49**	**–75**	**–352**	**–227**	**–703**

1 Figure adjusted; item has no maturity.

PostFinance | Maturities

31.12.2019 CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years	Total
Financial assets					
Cash holdings	1,778	–	–	–	1,778
Amounts due from banks	45,464	–	–	–	45,464
Interest-bearing amounts due from customers	508	–	–	–	508
Financial assets (without derivatives)					
Amortized cost	3,605	6,406	31,013	26,440	67,464
FVTOCI debt instruments	54	205	5,567	2,173	7,999
Total non-derivative financial assets	**51,409**	**6,611**	**36,580**	**28,613**	**123,213**
Derivative financial instruments for trading purposes					
Outflow	–3,461	–815	–21	–	–4,297
Inflow	3,503	826	21	–	4,350
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–173	–31	–100	–13	–317
Inflow	173	7	26	3	209
Total derivative financial assets	**42**	**–13**	**–74**	**–10**	**–55**
Financial liabilities					
Postal accounts	69,588	–	–	–	69,588
Savings and investment accounts	37,282	–	–	–	37,282
Cash bonds for customers	4	56	12	0	72
Money market investments for customers	1,727	–	–	–	1,727
Total customer deposits	**108,601**	**56**	**12**	**0**	**108,669**
Liabilities relating to banks	615	–	–	–	615
Other financial liabilities	1	11	28	27	67
Repurchase transactions	9,125	–	–	–	9,125
Total other financial liabilities (excluding derivatives)	**9,741**	**11**	**28**	**27**	**9,807**
Issued financial guarantee contracts	4	10	38	–	52
Irrevocable credit commitments	–	–	2	–	2
Total off-balance sheet positions	**4**	**10**	**40**	**–**	**54**
Total non-derivative financial liabilities	**118,346**	**77**	**80**	**27**	**118,530**
Derivative financial instruments for trading purposes					
Outflow	–770	–169	–22	–	–961
Inflow	764	166	21	–	951
Derivative financial instruments for hedging purposes (risk management)					
Outflow	–298	–113	–1,085	–1,434	–2,930
Inflow	261	47	792	1,255	2,355
Total derivative financial liabilities	**–43**	**–69**	**–294**	**–179**	**–585**

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PostFinance | Present value of commitments from finance leases

CHF million	Nominal	Discount	Present value
			31.12.2019
Due within 1 year	11	– 1	10
Due within 1 to 5 years	31	– 3	28
Due date longer than 5 years	45	– 18	27
Total	**87**	**– 22**	**65**

Market risks

PostFinance does not keep a trading book, and uses the market risk, standardized approach in accordance with art. 86 CAO to determine its minimum capital requirement 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 capital 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 hedging 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 by the Board of Directors. 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 and the IFRS income statement 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. The Risk Management department measures market risks on a weekly basis. It informs the Executive Board of the extent to which limits are used and submits risk control proposals.

The following table shows the breakdown of market risks determined as at 31 December 2018 and 31 December 2019 respectively.

Value at risk from market risks

CHF million	31.12.2018	31.12.2019
Income statement value at risk, aggregated	**63**	**11**
Income statement value at risk from foreign currency risks	4	6
Income statement value at risk from equity price risks	–	–
Income statement value at risk from credit spread risks	43	5
Income statement value at risk from interest rate risks	16	0
OCI value at risk, aggregated	**370**	**289**
OCI value at risk from foreign currency risks	0	– 1
OCI value at risk from equity price risks	– 8	– 5
OCI value at risk from credit spread risks	140	110
OCI value at risk from interest rate risks	238	185

The following table shows the foreign currency exposure of the PostFinance business model as at 31 December 2018 and 31 December 2019:

PostFinance | Financial instruments by currency
31.12.2018
CHF million

	Functional currency	Foreign currencies				
		EUR	USD	GBP	Other	Total
Assets						
Cash	1,839	119	–	–	–	1,958
Amounts due from banks	35,604	34	4	22	13	35,677
Interest-bearing amounts due from customers	532	8	3	0	0	543
Trade accounts receivable	2	–	–	–	–	2
Other receivables [1]	304	70	29	0	3	406
Financial assets						
Amortized cost	62,938	3,725	1,368	–	239	68,270
FVTOCI debt instruments	–	6,950	1,592	–	55	8,597
Liabilities						
Customer deposits (PostFinance)	108,159	2,490	398	46	48	111,141
Other financial liabilities excluding derivatives	70	4	–	–	–	74
Trade accounts payable	27	3	0	–	–	30
Other liabilities [1]	10	0	0	0	0	10

1 Excludes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

PostFinance | Financial instruments by currency
31.12.2019
CHF million

	Functional currency	Foreign currencies				
		EUR	USD	GBP	Other	Total
Assets						
Cash	1,662	116	–	–	–	1,778
Amounts due from banks	45,366	52	15	1	5	45,439
Interest-bearing amounts due from customers	486	6	8	0	0	500
Trade accounts receivable	2	–	–	–	–	2
Other receivables [1]	226	61	29	–	3	319
Financial assets						
Amortized cost	60,886	4,445	1,932	–	328	67,591
FVTOCI debt instruments	–	6,645	1,581	–	53	8,279
Liabilities						
Customer deposits (PostFinance)	105,657	2,491	432	42	47	108,669
Other financial liabilities excluding derivatives	9,802	5	–	–	0	9,807
Trade accounts payable	28	1	0	0	–	29
Other liabilities [1]	8	0	0	0	–	8

1 Excludes accruals and deferrals (tax, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

Operational and strategic risks

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. Strategic risks comprise losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. The Board of Directors sets out the principles for managing operational and strategic risks in the framework for risk management throughout the institution.

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 and strategic risk management system that is controlled centrally by the 2nd LoD Risk Control unit. 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 department 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: Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Derivative financial instruments and hedge accounting (Group)

Swiss Post acquires derivative financial instruments predominantly for hedging purposes. PostFinance holds derivative financial instruments to manage current or future interest rate risks and to manage foreign currency risks. The derivatives held comprise interest rate swaps, cross-currency interest rate swaps and FX forwards. In the logistics business model, individual derivatives are held to hedge foreign currency and commodities price risks.

Hedge accounting and micro-hedges are applied at PostFinance only. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in replacement value or cash flows attributable to the hedged items.

Use of derivative financial instruments at PostFinance

PostFinance uses derivative financial instruments exclusively to hedge interest and currency risks.

The bond market in Swiss francs is not sufficient to cover PostFinance’s investment requirements. It therefore invests in foreign currency bonds. As a general rule, two methods are used to hedge the foreign currency risks taken. A proportion of the foreign currency bonds refinanced in Swiss francs are hedged by means of cross-currency interest rate swaps (CCIRS). PostFinance uses hedge accounting here. The advantage of this method is that the amounts of all future cash flows (coupons, nominal value repayment) are already known in Swiss francs on the date of conclusion of the transaction. However, the above-mentioned method rules out the diversification benefits associated with the varying amounts and performance of term spreads of different foreign currency yield curves. The second method is used to take advantage of 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 economically by means of a currency overlay of rolling short-term foreign exchange forward contracts (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. As a rule, interest rate swaps (micro-hedges) are used to control the maturity transformation strategy in the overall balance sheet.

The foreign currency risks arising from fund investments are hedged on a rolling basis using FX forwards.

Economic relationship between hedged items and hedging transactions

PostFinance records the relationship between the hedging instrument and the hedged item as soon as 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 upon its initial recognition (on a prospective basis via the critical terms match 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.

Ineffectiveness

Any ineffective parts of the hedging relationship between the hedging instrument and the hedged item are recorded in the income statement on an accrual basis. Swiss Post analyses the fair value of the hedged item to determine the ineffectiveness using the hypothetical derivative method. The terms of the hypothetical derivative match the decisive terms of the hedged item, and there is a fair value of zero at the beginning of the hedging relationship.

Derivatives entered into on behalf of customers of PostFinance are disclosed in the following overview as derivatives held for trading.

Group | Overview of derivative financial instruments

	31.12.2018		31.12.2019	
CHF million	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Cash flow hedges				
Currency				
Cross-currency interest rate swaps	68	366	106	171
Other				
Completed non-fulfilled transactions	0	–	0	–
Fair value hedges				
Interest rate and currency risk				
Interest rate swaps	–	102	–	160
Derivatives for hedging, excluding application of hedge accounting				
Currency risk				
Foreign exchange forward contracts	30	6	53	4
Other				
Commodity swaps	–	–	0	1
Derivatives for trading purposes				
Currency risk				
Foreign exchange forward contracts	4	5	4	6
Total derivative financial instruments	**102**	**479**	**163**	**342**

Cash flow hedges

PostFinance uses cash flow hedge accounting to hedge the volatility of cash flows from interest-bearing instruments that can be predicted with a high degree of probability. Cash flow hedge accounting is used in particular to hedge fixed income instruments in foreign currencies via cross-currency interest rate swaps (in EUR, USD and SEK).

PostFinance | Contract volumes for cash flow hedges

		Term to maturity			
CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018					
Currency risk					
Cross-currency interest rate swaps	8,413	–	303	4,743	3,367
Other					
Completed non-fulfilled transactions	13	13	–	–	–
31.12.2019					
Currency risk					
Cross-currency interest rate swaps	8,121	53	200	5,674	2,194
Other					
Completed non-fulfilled transactions	219	219	–	–	–

Positive replacement values are reported on the balance sheet in financial assets, while negative replacement values are recognized in other financial liabilities.

The following amounts were recognized from designated hedging instruments in the consolidated balance sheet and income statement:

PostFinance | Change in hedging instruments CHF million	Positive replacement values	Negative replacement values	Change in fair value in the year under review which was used for disclosure of ineffectiveness	Change in fair value of the hedging instrument, recorded in other comprehensive income	Ineffectiveness recorded in income statement	Net amount reclassified from other comprehensive income to income statement
31.12.2018						
Currency risk						
Cross-currency interest rate swaps	68	366	287	287	–	–244
Other						
Completed non-fulfilled transactions	0	–	0	0	–	–
31.12.2019						
Currency risk						
Cross-currency interest rate swaps	106	171	206	206	–	–266
Other						
Completed non-fulfilled transactions	0	–	0	0	–	–

In the course of the reporting periods, the following effects arose from designated hedged items (item in the balance sheet: financial assets):

PostFinance | Effects of hedged items in cash flow hedging CHF million	Change in fair value which was used for disclosure of ineffectiveness	Hedging reserves
31.12.2018		
Currency risk		
FVTOCI		
Bonds	–287	–123
31.12.2019		
Currency risk		
FVTOCI		
Bonds	–206	–182

The hedging reserves in other comprehensive income underwent the following change in the reporting periods:

PostFinance | Hedging reserves CHF million	2018	2019
Balance as at 1 January	**–131**	**–97**
Change in fair value of hedging instruments		
Currency risk	287	206
Other	0	0
Net amount reclassified from cash flow hedging reserve to income statement		
Currency risk	–244	–266
of which from discontinued hedging relationships [1]	–	26
of which from changes in foreign currency basis spreads	–1	1
Change in deferred income taxes	–9	9
Balance as at 31 December	**–97**	**–148**

1 The hedging relationships were also discontinued as a result of the early sale of three hedged items during the year under review.

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

PostFinance | Cash flows (not discounted)

CHF million	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121
31.12.2019				
Cash inflows	11	28	116	20
Cash outflows	–38	–97	–389	–66

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in the value of interest-sensitive assets and assets exposed to foreign currency risks. Fair value hedge accounting is used in particular to hedge fixed income instruments via interest rate swaps.

PostFinance | Contract volumes for fair value hedges

CHF million	Total	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018					
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238
31.12.2019					
Interest rate and currency risk					
Interest rate swaps	2,209	246	25	700	1,238

Positive replacement values are reported on the balance sheet in financial assets, while negative replacement values are recognized in other financial liabilities.

The following amounts were recognized from designated hedging instruments in the consolidated balance sheet and income statement:

PostFinance | Change in fair value hedges

CHF million	Positive replacement values	Negative replacement values	Change in fair value in year under review which was used for disclosure of ineffectiveness	Ineffectiveness recorded in income statement
31.12.2018				
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–
31.12.2019				
Interest rate and currency risk				
Interest rate swaps	–	160	–60	–

In the course of the reporting periods, the following amounts arose from designated hedged items (item in the balance sheet: financial assets):

PostFinance | Effects of hedged items Fair value hedging CHF million	Carrying amount of hedged item	Accumulated expenses or income from fair value hedge adjustments that were recorded in the carrying amount of the hedged item	Change in fair value which was used for disclosure of ineffectiveness
31.12.2018			
Interest rate and currency risk			
Amortized cost			
Bonds	1,494	36	11
Loans	1,160	50	–4
31.12.2019			
Interest rate and currency risk			
Amortized cost			
Bonds	1,298	92	56
Loans	1,064	54	4

Capital management at Swiss Post and PostFinance Ltd

Swiss Post endeavours to achieve a solid equity base (fully paid-in share capital and reserves), taking into account the objectives set by the owner. It also considers constraints such as observing a set level of maximum net debt and increasing the company's value. The continued existence of the company should be ensured at all times, and the resources implemented should result in appropriate income.

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 845 million francs (31 December 2018: 970 million francs), Swiss Post meets this objective and gives the company financial leeway. Customer deposits and financial investments 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.

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 195.

6 | 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 real estate held as financial investments are as follows on 31 December 2018 and 31 December 2019:

Fair values and carrying amounts of financial instruments and other assets		31.12.2018		31.12.2019
CHF million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value				
Financial assets				
FVTOCI				
Shares	147	147	186	186
Bonds	8,597	8,597	8,279	8,279
FVTPL mandatory				
Shares	9	9	20	20
Bonds	5	5	5	5
Funds	1,107	1,107	164	164
Positive replacement values	102	102	163	163
Financial assets not measured at fair value				
Financial assets				
Amortized cost				
Bonds	52,935	53,680	52,369	53,549
Loans	15,405	15,624	15,272	15,715
Financial liabilities measured at fair value				
Other financial liabilities				
Negative replacement values	479	479	342	342
Deferred purchase price payments (earn out)	4	4	3	3
Financial liabilities not measured at fair value				
Other financial liabilities				
Private placements	970	1,014	845	941
Other assets not measured at fair value				
Investment property	304	483	328	546

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.

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

Level 2 Valuation method based on observable model inputs: positions that are not traded on an active market but whose fair values are measured on the basis of similar assets and liabilities traded on active markets or using valuation techniques are classified as level 2. As a rule, recognized measurement 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 not based on observable model inputs: fair value is determined using valuation techniques and significant inputs specific to the company that are not observable in the market.

Fair values are determined as follows:

Fair value of financial instruments	31.12.2018				31.12.2019			
CHF million	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
FVTOCI								
Shares [1]	147	69	–	78	186	85	–	101
Bonds	8,597	7,997	600	–	8,279	7,670	609	–
FVTPL mandatory								
Shares [1]	9	–	–	9	20	0	–	20
Bonds	5	–	1	4	5	–	–	5
Funds	1,107	–	1,107	–	164	–	164	–
Positive replacement values	102	0	102	–	163	0	163	–
Amortized cost								
Bonds	53,680	44,095	9,585	–	53,549	44,930	8,619	–
Loans [2]	15,624	–	15,579	45	15,715	–	15,671	44
Negative replacement values	479	1	478	–	342	2	340	–
Deferred purchase price payments (earn out)	4	–	–	4	3	–	–	3
Private placements	1,014	–	1,014	–	941	–	941	–

1 The prior-year figures of 68 million francs for FVTOCI shares and 1 million francs for FVTPL shares were modified to level 3. Discretionary estimates or input factors not observable on the market are applied for the measurement of shares using the discounted cashflow method or the venture capital approach.

2 In the case of the loans to PostBus companies (level 2: 18 million francs, 31.12.2018: 30 million francs) and “Other” (level 3: 44 million francs, 31.12.2018: 45 million francs), the above fair values on the balance sheet date correspond approximately to the carrying amounts given in the balance sheet.

The equity instruments disclosed as shares FVTOCI in level 3 are strategic long-term investments. The fair value of these interests is determined on the basis of the DCF valuation method. If the financial information needed for a DCF valuation is not available, fair value is determined using the capitalized earnings method. In a few cases (minor interests), acquisition costs less impairment losses are used as a reasonable estimate of fair value for simplification purposes.

Level 3 financial assets with mandatory FVTPL classification and level 3 financial assets at FVTOCI underwent the following changes in 2018 and 2019:

Fair value hierarchy: changes in level 3 [1]

CHF million	FVTPL mandatory	FVTOCI	Amortized cost loans
as at 1 January 2018	**8**	**53**	**11**
Gains/losses recorded in the income statement	–5	–	0
Gains/losses recorded in other comprehensive income	–	16	–
Additions	11	9	34
Disposals	–1	–	0
as at 31 December 2018	**13**	**78**	**45**

1 The previous year's figures for financial assets FVTPL mandatory and FVTOCI were amended (also see footnote 1 in "Fair value of financial instruments" table).

Fair value hierarchy: changes in level 3

CHF million	FVTPL mandatory	FVTOCI	Amortized cost loans
as at 1 January 2019	**13**	**78**	**45**
Gains/losses recorded in the income statement	0	–	0
Gains/losses recorded in other comprehensive income	–	23	–
Additions	12	0	4
Disposals	–1	–	–5
Reclassifications to level 3	1	–	–
as at 31 December 2019	**25**	**101**	**44**

Gains and losses from financial assets FVTPL are recorded under net financial income in the logistics business model and under the result from FVTPL trading portfolio assets and mandatory (income from financial services) in the PostFinance business model.

No reclassifications were carried out within the different levels as at 31 December 2018 and 31 December 2019 apart from those stated above. 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.

Investment property

Text, in percent, CHF million	Measurement method	Discount rate	Fair value
31.12.2018			
Bellinzona, Viale Stefano Franscini 30	Capitalized earnings	6.4	11
Berne PostParc, Schanzenstrasse 4/5	DCF	3.6	348
Dübendorf [1], Wilstrasse 13 + 15	DCF	3.2	19
Frauenfeld Cupola [1], Rheinstrasse 1	DCF	3.9	29
Interlaken, Marktgasse 1	DCF	3.9	18
Zurich [1], Franklinstrasse 27	DCF	4.2	42
Zurich, Molkenstrasse 8	DCF	3.1	16
31.12.2019			
Bellinzona, Viale Stefano Franscini 30	Capitalized earnings	6.2	11
Berne PostParc, Schanzenstrasse 4/5	DCF	3.2	357
Delsberg [1], Postplatz	DCF	3.7	23
Dübendorf [1], Wilstrasse 13 + 15	DCF	3.0	21
Frauenfeld Cupola [1], Rheinstrasse 1	DCF	3.5	34
Interlaken, Marktgasse 1	DCF	3.6	19
Zurich [1], Franklinstrasse 27	DCF	4.0	50
Zurich, Molkenstrasse 8	DCF	2.5	31

1 Property under construction.

The rental income taken into account in the measurements reflects the current status of letting and reflects the local market situation of the individual properties.

The operating and maintenance costs are based primarily on past experience from the property accounts of the last few years and on benchmarks.

7 | Segment information

Basic principles

The operating segments were determined based on the organizational units for which information is reported to the management (the main decision-making body is Executive 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 27, Subsidiaries, associates and joint ventures, shows the segments to which Swiss Post and its subsidiaries have been assigned.

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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	Digital commerce, national/international parcels, freight and warehousing, customs clearance, the transport of valuables, Innight/Express/Courier/SameDay in Switzerland and cross-border
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, Informatics, 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 compensation of 199 million francs from the Swiss Confederation (previous year: 202 million francs), 194 million francs from cantons (previous year: 194 million francs) and 7 million francs from municipalities (previous year: 5 million francs) for providing legally required public passenger transport services. This compensation is included in net revenue from logistics services.

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 financial assets and deferred income tax assets) and non-operational liabilities (mainly other financial liabilities and deferred tax liabilities).

Changes in segment assets and liabilities

In comparison with 31 December 2018, the segment assets of PostFinance rose by 7,638 million francs to 125,512 million francs, particularly with regard to amounts due from banks, reduced by a decrease in financial assets. PostFinance’s segment liabilities increased by 7,240 million francs compared with 31 December 2018 to 119,767 million francs – primarily in other financial liabilities, reduced by a decline in customer deposits. PostBus’s segment assets fell by 234 million francs compared with 31 December 2018 to 550 million francs and segment liabilities decreased by 127 million francs to 491 million francs. The decrease is mainly attributable to the disposal of the passenger transport business in France. Assets in the “Other” segment were up 861 million francs to 4,365 million francs compared with 31 December 2018. The increase is mainly due to higher amounts due from banks and the recognition of right-of-use assets for leased assets resulting from the transition to the new accounting standard IFRS 16 Leases.

More information

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

Results by business segment and region

Result by business segment

Up to or as at 31.12.2018 CHF million	Notes	PostMail	Swiss Post Solutions	Postal-Network	Post-Logistics	Post-Finance [1]	PostBus [2]	Other [3]	Consoli-dation	Group
Revenue										
from customers		2,585	544	107	1,355	1,617	789	36		7,033
from other segments		134	31	644	249	10	3	450	–1,521	–
Other operating income		2	8	2	60	77	31	440	–399	221
Total operating income [4, 5]		**2,721**	**583**	**753**	**1,664**	**1,704**	**823**	**926**	**–1,920**	**7,254**
Operating profit [4, 5]		**388**	**31**	**–94**	**145**	**220**	**–51**	**–130**	**–4**	**505**
Net financial income	15, 16									–24
Net income from associates and joint ventures	27	20	–	–	16	–1	0	0		35
Income taxes	17									–107
Group profit from continuing operations [5]										**409**
Segment assets		745	329	511	722	117,874	784	3,504	–1,567	122,902
Associates and joint ventures	27	102	–	–	21	24	3	3		153
Unallocated assets [5,6]										1,141
Total assets [5]										**124,196**
Segment liabilities [5]		686	222	533	620	112,527	618	2,626	–1,567	116,265
Unallocated liabilities [6]										1,172
Total liabilities [5]										**117,437**
Investment in property, plant and equipment, intangible assets, right-of-use assets and investment property	21–24	23	9	5	94	55	68	85		339
Depreciation and amortization [5]	21–24	40	15	7	71	69	37	85		324
Impairment	5, 21–24	–	2	2	2	3	20	–		29
Reversal of impairment	5, 21–24	–	–	–	–	1	–	–		1
Other non-cash (expenses)/income [5]		–3	–12	–2	–8	–63	–73	–292		–453
Headcount [7, 8]		14,404	6,789	4,753	5,400	3,333	2,229	3,024		39,932

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 (from 1.1.2019: PostBus 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. The unallocated assets comprise financial assets (excluding PostFinance) of 91 million francs and deferred income tax assets of 1,050 million francs. The unallocated liabilities comprise other financial liabilities (excluding PostFinance) of 1,056 million francs and deferred income tax liabilities of 116 million francs. The unallocated assets and liabilities are eliminated via internal Group transactions.
7 The average is expressed in terms of full-time equivalents (excluding trainees).
8 In the PostMail segment, the calculation of average FTEs (excluding trainees) was revised for two subsidiaries, resulting in the adjustment of the prior-year figure. In the PostBus segment, figures for 2018 were adjusted due to the classification of CarPostal France Group as a discontinued operation.

Result by region

		According to location of the revenue-generating subsidiary					According to location at which the revenue is generated			
Up to or as at 31.12.2018 CHF million	Notes	Europe	Americas	Asia	Consoli-dation	Group	Switzer-land	Interna-tional and cross-border	Consoli-dation	Group
Revenue from customers [2]		6,939	94	0		7,033	5,996	1,037		7,033
Operating profit [1, 2]		503	1	1		505	416	89		505
Segment assets		122,849	58	4	–9	122,902	122,237	737	–72	122,902
Investment in property, plant and equipment, intangible assets, right-of-use assets and investment property	21–24	339	0	0		339	328	11		339

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 31.12.2019 CHF million	Notes	PostMail	Swiss Post Solutions	Postal-Network	Post-Logistics	Post-Finance[1]	PostBus[2]	Other[3]	Consoli-dation	Group
Revenue										
from customers		2,483	561	87	1,398	1,568	802	43		6,942
from other segments		128	32	604	246	6	2	473	–1,491	–
Other operating income		4	6	2	64	86	37	413	–390	222
Total operating income[4]		**2,615**	**599**	**693**	**1,708**	**1,660**	**841**	**929**	**–1,881**	**7,164**
Operating profit[4]		**370**	**32**	**–132**	**128**	**240**	**–24**	**–163**	**–1**	**450**
Net financial income	15, 16									–32
Net income from associates and joint ventures	27	6	–	–	2	–6	0	1		3
Income taxes	17									–137
Group profit from continuing operations										**284**
Segment assets		681	340	492	744	125,512	550	4,365	–1,416	131,268
Associates and joint ventures	27	102	–	–	19	5	2	4		132
Unallocated assets[5]										1,144
Total assets										**132,544**
Segment liabilities		616	238	551	611	119,767	491	2,828	–1,416	123,686
Unallocated liabilities[5]										2,024
Total liabilities										**125,710**
Investment in property, plant and equipment, intangible assets, right-of-use assets and investment property	21–24	54	11	8	140	53	65	136		467
Depreciation and amortization	21–24	26	23	7	72	92	40	173		433
Impairment	5, 21–24	–	–	–	2	5	16	3		26
Reversal of impairment	5, 21–24	–	–	–	–	0	–	–		0
Other non-cash (expenses)/income		–11	–18	–42	–15	–38	–44	–266		–434
Headcount[6]		14,110	6,909	4,298	5,620	3,248	2,339	3,146		39,670

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 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 rather than to operating profit and are therefore not assigned to segment assets or segment liabilities. The unallocated assets comprise financial assets (excluding PostFinance) of 71 million francs and deferred income tax assets of 1,073 million francs. The unallocated liabilities comprise other financial liabilities (excluding PostFinance) of 1,714 million francs and deferred income tax liabilities of 310 million francs. 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

		According to location of the revenue-generating subsidiary					According to location at which the revenue is generated			
Up to or as at 31.12.2019 CHF million	Notes	Europe	Americas	Asia	Consoli-dation	Group	Switzer-land	Interna-tional and cross-border	Consoli-dation	Group
Revenue from customers		6,832	110	0		6,942	5,903	1,039		6,942
Operating profit[1]		445	4	1		450	383	67		450
Segment assets		131,229	65	3	–29	131,268	130,698	664	–94	131,268
Investment in property, plant and equipment, intangible assets, right-of-use assets and investment property	21–24	466	1	0		467	448	19		467

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

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8 | Revenue

Breakdown of net revenue from contracts with customers

Up to or as at 31.12.2018 CHF million	PostMail	Swiss Post Solutions	Postal-Network	PostLogistics	PostFinance	PostBus	Other	Consoli-dation	Group
Net revenue from contracts with customers									
of which logistics services	2,719	575	643	1,579	–	790	486	–1,507	5,285
of which resale merchandise	–	–	108	25	–	2	–	–5	130
of which financial services and commission business	–	–	–	–	686	–	–	–6	680
Total net revenue from contracts with customers [1]	**2,719**	**575**	**751**	**1,604**	**686**	**792**	**486**	**–1,518**	**6,095**
Other revenue from financial services [2]									938
Total revenue [1]									**7,033**
Other operating income [1]									221
Total operating income [1]									**7,254**

Up to or as at 31.12.2019 CHF million	PostMail	Swiss Post Solutions	Postal-Network	PostLogistics	PostFinance	PostBus	Other	Consoli-dation	Group
Net revenue from contracts with customers									
of which logistics services	2,611	593	603	1,621	–	803	516	–1,480	5,267
of which resale merchandise	–	–	88	23	–	1	–	–5	107
of which financial services and commission business	–	–	–	–	731	–	–	–5	726
Total net revenue from contracts with customers	**2,611**	**593**	**691**	**1,644**	**731**	**804**	**516**	**–1,490**	**6,100**
Other revenue from financial services [2]									842
Total revenue									**6,942**
Other operating income									222
Total operating income									**7,164**

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 Other revenue from financial services mainly comprises income from financial assets, interest income and net income from foreign exchange trading at PostFinance.

Future revenue from remaining performance obligations

The total transaction price amount arising from performance obligations that exist as at 31 December 2019 and have not yet been met stands at 1,156 million francs (prior year: 635 million francs). 518 million francs of this amount is expected to be recorded as revenue in the next year, 488 million francs within two to three years and 150 million francs in more than three years. It includes contracts whose original term was expected to last more than one year. It does not include future revenue from performance obligations for which Swiss Post is entitled to receive consideration from a customer which corresponds directly to the value of the service already provided to the customer by Swiss Post.

Revenue recorded from contract balances

Revenue declined by one million francs during the reporting period (prior year: less than –0.5 million francs) due to performance obligations met in prior periods (e.g. due to changes in the transaction price or a reassessment of the performance obligation fulfilled). An additional 252 million francs (prior year: 268 million francs) of revenue was recorded during the reporting period which had been included in the balance of contract liabilities at the beginning of the period.

9 | 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	2018	2019
Interest income on financial instruments – amortized cost, incl. effects from hedging transactions [1]	699	550
Interest income on financial assets FVTOCI, incl. effects from hedging transactions	47	45
Net interest income from financial instruments FVTPL incl. effects from hedging transactions [1]	–36	–14
Dividend income on financial assets	60	27
Interest and dividend income	**770**	**608**
Interest expense on financial instruments – amortized cost	–53	–38
Interest expense	**–53**	**–38**
Net interest and dividend income	**717**	**570**
Impairment / reversal of impairment on amounts due from banks, interest-bearing amounts due from customers and financial assets	–3	–4
Net interest and dividend income, net of impairment / reversal of impairment	**714**	**566**
Commission income on lending business	18	19
Commission income on securities and investment business	59	65
Commission income on other services	78	84
Commission expenses	–49	–52
Net income from services	468	503
Net services and commission income	**574**	**619**
Net trading income FVTPL and mandatory	177	233
Net income from the sale of financial assets FVTOCI	–	11
Net income from the disposal of financial assets – amortized cost	–	0
Losses on payment transactions	–11	–10
Other fees and duties	–8	–9
Net income from financial services	**1,446**	**1,410**
Reported in Note 8 Revenue and in the consolidated income statement:		
Net revenue from contracts with customers, financial services and commission business	680	726
Other revenue from financial services	938	842
Expenses for financial services	–172	–158

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

In 2019 interest income from the deposit-taking business of 64 million francs (prior year: 43 million francs) was generated. Interest expense from financial assets stands at 5 million francs (prior year: 16 million francs).

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10 | Other operating income

Other operating income

CHF million	2018[1]	2019
Rental income	86	99
Rental income from subleases	–	1
Gains on the sale of property, plant and equipment	45	41
Other income	90	81
Total other operating income	**221**	**222**

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

Most of the rentals accrued as income were generated in Switzerland. The rental arrangements are in line with market practices. 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.

11 | Personnel expenses

Composition

Breakdown

CHF million	Notes	2018[1]	2019
Wages and salaries		3,036	3,011
Social security benefits		325	326
Employee benefit expenses	12	347	335
Other personnel expenses		94	92
Total personnel expenses		**3,802**	**3,764**

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

Headcount

Headcount

Number of employees[1]	2018[2]	2019
Employees at Swiss Post Group (excluding trainees)	39,932	39,670
Trainees at Swiss Post Group	2,018	1,918

1 Average expressed in terms of full-time equivalents.
2 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).

12 | 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 (40,058 active contributors and 37,249 pensioners as at 31 December 2019). 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 (OPA) and its regulations on 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 2019, the rate is 1.00 percent (previous year: 1.00 percent).

Due to plan arrangements and the legal provisions of the OPA, 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 5.10 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.

Swiss Post Group believes there to be a strong likelihood that the Swiss Post pension fund will need to implement further stabilization measures in the future. Assumptions were therefore made on the level of future financial contribution shares of the employer and employees to funding gaps in the Swiss Post pension fund (risk sharing).

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. As a rule, 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.

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Actuarial assumptions

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

Actuarial assumptions made in calculating annual employee benefit expenses

Percent	2018	2019
Discount rate	0.50	0.75

Actuarial assumptions made in calculating employee benefit expenses as at 31 December

Percent	2018	2019
Discount rate	0.75	0.25
Expected change in salaries	1.00	1.00
Pension indexation	0.00	0.00
Interest on retirement assets	1.00	1.00
Staff turnover	3.40	3.40
Lump-sum capital withdrawal ratio	25.00	25.00
Employee share of funding gap	25.00	25.00
Years		
Current average life expectancy for a man/woman aged 65	23/25	23/25

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 funding 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; 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 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.

Other long-term employee benefits are shown and described under Note 25, Provisions and contingent liabilities.

Employee benefit expenses

Employee benefit expenses

CHF million	2018	2019
Current service cost[1]	340	303
Service cost to be recognized	0	–
Administrative costs	9	9
Additional employee benefits	3	2
Other plans, reclassifications, other expenses	–5	21
Total employee benefit expenses recognized in personnel expenses	**347**	**335**
Interest expense arising from employee benefit obligations	100	136
Interest income on assets	–88	–119
Total net interest expense recognized in financial expenses	**12**	**17**
Total employee benefit expenses recognized in the income statement	**359**	**352**

1 Figure has been adjusted (current service cost is disclosed on a net basis from 2019).

Revaluation elements recorded in the statement of comprehensive income

CHF million	2018	2019
Actuarial losses		
due to the adjustment of demographic assumptions	0	–
due to the adjustment of economic assumptions	–528	1,079
due to experience adjustments	113	333
Income from plan assets (excluding interest income)	330	–1,246
Other	4	1
Total revaluation gains recorded in other comprehensive income (OCI)	**–81**	**167**
Total employee benefit expenses	**278**	**519**

For 2019, employee benefit expenses fell by 41 million francs (previous year: 47 million francs) and employee benefit obligations declined by 915 million francs (previous year: 756 million francs) as at 31 December 2019 due to the application of risk sharing characteristics.

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

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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	31.12.2018	31.12.2019
Present value of employee benefit obligations including assets set aside	18,710	19,875
Benefit plan assets at fair value	–16,113	–17,062
Shortfall	**2,597**	**2,813**
Employee benefit obligations excluding assets set aside	5	5
Total recognized employee benefit obligations arising from defined benefit plans	**2,602**	**2,818**
Employee benefit obligations arising from other benefit plans	9	6
Total recognized employee benefit obligations	**2,611**	**2,824**

Performance of recognized employee benefit obligations from defined benefit plans

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

CHF million	2018	2019
Balance as at 1 January	**2,625**	**2,602**
Employee benefit expenses arising from defined benefit plans	363	332
Revaluation gains recognized in other comprehensive income	–85	167
Employer contributions	–300	–285
Pension payments by the employer	–1	–1
Translation differences	0	0
Company acquisitions, disposals or transfers	–	3
Balance as at 31 December	**2,602**	**2,818**
of which:		
current, i.e. payments falling due within the next twelve months	295	284
non-current	2,307	2,534

Change in employee benefit obligations

Change in employee benefit obligations

CHF million	2018	2019
Balance as at 1 January	**19,439**	**18,715**
Current service cost	340	303
Employee contributions [1]	218	216
Interest expense arising from employee benefit obligations	100	137
Actuarial (gains)/losses	−415	1,412
Company acquisitions, disposals or transfers	–	14
Additional employee benefits	3	2
Benefits paid from plan assets	−969	−919
Pension payments by the employer	−1	−1
Plan amendments	0	–
Translation differences	–	1
Balance as at 31 December	**18,715**	**19,880**
Employee benefit obligations including assets set aside	18,710	19,875
Employee benefit obligations excluding assets set aside	5	5
Total employee benefit obligations	**18,715**	**19,880**

1 Figure has been adjusted (from 2019, employee contributions are disclosed regardless of the current service cost).

Change in plan assets

Change in fair value of plan assets

CHF million	2018	2019
Balance as at 1 January	**16,814**	**16,113**
Interest income on assets	88	119
Income from plan assets (excluding interest income)	−330	1,246
Employee contributions	218	216
Employer contributions	300	285
Benefits paid from plan assets	−969	−919
Administrative costs	−9	−9
Company acquisitions, disposals or transfers	–	11
Translation differences	1	–
Balance as at 31 December	**16,113**	**17,062**

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Asset categories

Asset allocation	31.12.2018			31.12.2019		
CHF million	Listed	Unlisted	Total	Listed	Unlisted	Total
Bonds	5,398	1,876	7,274	5,127	2,107	7,234
Shares	3,752	–	3,752	4,995	–	4,995
Real estate	9	2,017	2,026	7	2,173	2,180
Alternative investments	341	1,460	1,801	340	1,610	1,950
Qualified insurance paper	–	–	–	–	14	14
Other financial assets	–	–	–	–	12	12
Cash and cash equivalents	–	1,260	1,260	–	677	677
Total	**9,500**	**6,613**	**16,113**	**10,469**	**6,593**	**17,062**

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. OPA 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.

Sensitivities

The effect of a rise or fall in the underlying material actuarial assumptions on the present value of pension obligations as at 31 December 2018 and 2019:

Sensitivity of pension obligations to changes in actuarial assumptions		Resulting change in present value			Resulting change in present value	
CHF million	Deviation	31.12.2018	31.12.2019	Deviation	31.12.2018	31.12.2019
Discount rate	+0.25 percentage point	−486	−553	−0.25 percentage point	521	593
Expected change in salaries	+0.25 percentage point	60	46	−0.25 percentage point	−59	−45
Interest on retirement assets	+0.25 percentage point	104	67	−0.25 percentage point	−102	−65
Pension indexation	+0.25 percentage point	359	402	−0.25 percentage point	–	–
Employee share of funding gap	+10.00 percentage point	−239	−293	−10.00 percentage point	239	293
Life expectancy at age 65	+1 year	676	870	−1 year	−678	−871

Information on employer contributions

The following table shows the employer contributions for the previous financial year, as well as the expected contributions for 2020.

Employer contributions CHF million	Effective	Expected
2019	285	295
2020		284

Maturity profile of the defined employee benefit obligation

The weighted average term of the defined employee benefit obligation is 15.9 years as at 31 December 2019 (previous year: 15.3 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 CHF million	Nominal payment of benefits (estimation)
2020	986
2021	983
2022	976
2023	961
2024	951
2025 – 2029	4,574

13 | Resale merchandise and service expenses

Resale merchandise and service expenses CHF million	2018[1]	2019
Working materials, semi-finished and finished goods	38	34
Resale merchandise expenses	64	54
Service expenses	215	241
Compensation paid to PostBus operators	336	333
Compensation paid to forwarding companies	350	372
Compensation paid for international postal traffic	135	117
Temporary employees	187	204
Total resale merchandise and service expenses	**1,325**	**1,355**

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

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14 | Other operating expenses

Other operating expenses

CHF million	2018[1]	2019
Premises	196	62
Maintenance and repairs of property, plant and equipment	223	120
Energy and fuel	53	52
Operating materials	59	47
Consulting, office and administrative expenses	272	394
Marketing and communications	93	87
Loss on disposal of property, plant and equipment	3	4
Other expenses	203	220
Total other operating expenses	**1,102**	**986**

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

15 | Financial income

Financial income

CHF million	Notes	2018	2019
Interest income on financial assets at amortized cost	5	8	4
Interest income on financial lease		–	4
Foreign currency gains		14	18
Other financial income		2	17
Total financial income		**24**	**43**

Income from the financial services business is recorded as revenue in the consolidated income statement.

16 | Financial expenses

Financial expenses

CHF million	Notes	2018[1]	2019
Interest expense on financial liabilities at amortized cost		13	14
Interest expense for employee benefit obligations	12	12	17
Interest charges on finance leases	5	0	15
Foreign currency losses		18	21
Other financial expenses		5	8
Total financial expenses		**48**	**75**

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

Expenses arising from the financial services business are recorded as “Expenses for financial services” in the consolidated income statement.

17 | Income taxes

Income taxes recognized in the income statement

CHF million	2018 [1]	2019
(Expense) for current income taxes	–42	–32
(Expense) for deferred income taxes	–65	–105
Total (expense) for income taxes recognized in the income statement	**–107**	**–137**

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

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

Income taxes recorded in other comprehensive income

CHF million	2018	2019
Revaluation of employee benefit obligations	–15	–17
Fair value reserves of equity instruments FVTOCI	–5	–9
Fair value reserves of debt instruments FVTOCI	34	–48
Hedging reserves	–9	9
Total income taxes recorded in other comprehensive income	**5**	**–65**

Deferred taxes relating to balance sheet items

Deferred taxes relating to balance sheet items	31.12.2018 [1]			31.12.2019		
CHF million	Deferred tax assets	Deferred tax liabilities	Net assets/(liabilities)	Deferred tax assets	Deferred tax liabilities	Net assets/(liabilities)
Financial assets	25	–21	4	35	–83	–48
Investments in subsidiaries, associates and joint ventures	2	–81	–79	2	–81	–79
Property, plant and equipment	213	–3	210	191	–1	190
Intangible assets	207	–1	206	115	0	115
Right-of-use assets	–	–	–	–	–126	–126
Lease liabilities	–	–	–	127	–	127
Other liabilities	2	0	2	1	0	1
Provisions	41	–4	37	38	–3	35
Employee benefit obligations	513	–	513	473	–	473
Other balance sheet items	2	–6	–4	1	–16	–15
Deferred taxes arising from temporary differences	**1,005**	**–116**	**889**	**983**	**–310**	**673**
Tax assets recognized for loss carryforwards	45		45	90		90
Deferred tax assets/liabilities, gross	**1,050**	**–116**	**934**	**1,073**	**–310**	**763**
Deferred tax assets/liabilities, prior year	–1,150	192	–958	–1,050	116	–934
Changeover effect from the first application of IFRS 9:						
Deferred taxes recorded in retained earnings	–	3	3	–	–	–
Deferred taxes recorded in gains and losses recorded directly in other comprehensive income	–	–37	–37	–	–	–
Deferred taxes recorded in other comprehensive income	24	–29	–5	8	57	65
Changes in the composition of the Group	2	–4	–2	–3	4	1
Deferred taxes recognized in the income statement	**–74**	**9**	**–65**	**28**	**–133**	**–105**

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

Deferred tax assets of 1,073 million francs (previous year: 1,050 million francs) are comprised mainly of temporary differences on financial assets, property, plant and equipment and intangible assets, lease liabilities, 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 310 million francs (previous year: 116 million francs) are mainly the result of temporary differences between the valuations of Group assets and the tax base of financial assets, interests and right-of-use assets as well as temporary differences arising on provisions.

As at 31 December 2019, temporary differences in relation to interests amounted to 205 million francs (previous year: 285 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			31.12.2018			31.12.2019
CHF million	Recognized	Not recognized	Total	Recognized	Not recognized	Total
Maturing within 1 year	14	0	14	0	–	0
Maturing in 2 to 6 years	100	20	120	15	80	95
Maturing in more than 6 years	75	37	112	433	643	1,076
Total unused loss carryforwards	**189**	**57**	**246**	**448**	**723**	**1,171**

The increase in capitalized unused loss carryforwards is mainly due to the loss registered at PostFinance Ltd in accordance with ARB for 2019. The loss was mainly attributable to a value adjustment on intangible assets in the financial statements under commercial law.

Tax loss carryforwards of 723 million francs (previous year: 57 million francs) were not capitalized within Swiss Post Group, as it seems uncertain that they will be utilized in the future. The increase year-on-year is mainly due to the losses registered at Swiss Post Ltd in accordance with the Swiss Code of Obligations and PostFinance Ltd in accordance with ARB for 2019.

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 13.5 percent (previous year: 16.3 percent). The 2.8 percent decrease in the Group tax rate is due to a change in the composition of positive and negative contributions to the results by the individual subsidiaries.

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

CHF million	2018 [1]	2019
Group profit before tax	516	421
Weighted average tax rate	16.3%	13.5%
Tax expense at weighted average tax rate	**84**	**57**
Reconciliation with expenses for income taxes accounted for:		
Effect of change in tax status/tax rates	0	–3
Effect of interests/impairment of goodwill	27	–78
Effect of back taxes and tax refunds from previous years	2	–5
Effect of change in impairment for deferred income tax assets	5	7
Effect of fiscally non-relevant income/expenses	–8	–14
Effect of loss carryforwards	8	80
Other effects	–11	93 [2]
Expenses for income taxes accounted for	**107**	**137**

1 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).
2 The other effects are mainly due to differing tax rates for the measurement of deferred taxes.

18 | Financial assets and liabilities

Carrying amounts

31.12.2018 CHF million	FVTPL, incl. derivatives	FVTOCI, debt instruments	FVTOCI, equity instruments	Amortized cost	Total
Cash holdings				2,081	2,081
Amounts due from banks				36,688	36,688
Interest-bearing amounts due from customers				543	543
Trade accounts receivable				762	762
Other receivables [1]				1,352	1,352
of which receivables from finance lease				155	155
Financial assets	1,223	8,597	147	68,340	78,307
Derivatives	102				102
Bonds	5	8,597		52,935	61,537
Shares	9		147		156
Funds	1,107				1,107
Loans				15,405	15,405
Total financial assets	**1,223**	**8,597**	**147**	**109,766**	**119,733**
Customer deposits (PostFinance)				111,141	111,141
Other financial liabilities	480			1,128	1,608
Derivatives	480				480
Finance leases				24	24
Private placements				970	970
Other				134	134
Trade accounts payable				302	302
Other liabilities [1]				897	897
Total financial liabilities	**480**	**–**	**–**	**113,468**	**113,948**

1 Includes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

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Carrying amounts

31.12.2019 CHF million	FVTPL, incl. derivatives	FVTOCI, debt instruments	FVTOCI, equity instruments	Amortized cost	Total
Cash holdings				1,938	1,938
Amounts due from banks				46,677	46,677
Interest-bearing amounts due from customers				500	500
Trade accounts receivable				687	687
Other receivables [1]				1,131	1,131
of which receivables from finance lease				150	150
Financial assets	352	8,279	186	67,641	76,458
Derivatives	163				163
Bonds	5	8,279		52,369	60,653
Shares	20		186		206
Funds	164				164
Loans				15,272	15,272
Total financial assets	**352**	**8,279**	**186**	**118,574**	**127,391**
Customer deposits (PostFinance)				108,669	108,669
Other financial liabilities	342			11,722	12,064
Derivatives	342				342
Finance leases				728	728
Private placements				845	845
Other				10,149	10,149
Trade accounts payable				310	310
Other liabilities [1]				766	766
Total financial liabilities	**342**	**–**	**–**	**121,467**	**121,809**

1 Includes accruals and deferrals (taxes, other), downpayments for trade accounts receivable, receivables and liabilities relating to taxes, social insurance or dividends.

Receivables from PostFinance's working capital management services (factoring) are reported in interest-bearing amounts due from customers (as at 31 December 2019: 64 million francs, as at 31 December 2018: 32 million francs) and other receivables (as at 31 December 2019: 11 million francs, as at 31 December 2018: 1 million francs).

PostFinance's interests in connection with the processing of payments and securities transactions and long-term strategic interests in other segments are disclosed in FVTOCI, equity instruments. As these equity instruments were not acquired in order to generate short-term gains, they are reported in equity through other comprehensive income (FVTOCI option). Dividend income from these interests amounts to around 9 million francs in the current year (previous year: less than one million francs).

A minor interest from the FVTOCI category (PostFinance) was sold in 2018. The cumulative gain (less than one million francs) was reclassified from other comprehensive income to retained earnings within equity.

19 | Inventories

Inventories

CHF million	31.12.2018	31.12.2019
Resale merchandise	26	19
Fuel and operating materials	19	17
Production materials	13	11
Work in progress and finished goods	1	0
Impairment loss for inventories which are not easily marketable	0	0
Total inventories	**59**	**47**

20 | Non-current assets held for sale, disposal groups and discontinued operations

Non-current assets held for sale

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

Non-current assets held for sale

CHF million	Notes	Investments in associates	Property, plant and equipment	Total
As at 1.1.2018		**–**	**1**	**1**
Additions arising from reclassifications in accordance with IFRS 5	27	24	16	40
Disposals	21	–	–16	–16
As at 31.12.2018		**24**	**1**	**25**
As at 1.1.2019		**24**	**1**	**25**
Additions arising from reclassifications in accordance with IFRS 5		–	17	17
Disposals	27	–24	–17	–41
As at 31.12.2019		**–**	**1**	**1**

Information on fair values can be found in Note 6, Fair value disclosures.

Disposal groups sold

Post CH Ltd, based in Berne, decided to sell Swiss Post SAT Holding Ltd, based in Berne, (PostLogistics segment), for strategic reasons. Swiss Post SAT Holding AG holds 100 percent of the shares in Société d'Affrètement et de Transit S.A.T. SAS, Société de Transports Internationaux S.T.I. SARL and SCI S.A.T., all of which are based in Bartenheim (France), Trans-Euro GmbH, based in Weil am Rhein (Germany), and Société d'Affrètement et de Transit S.A.T. SA, based in Brussels (Belgium). Due to the status of negotiations, the SAT Group was classed as a disposal group held for sale in the first half of 2019. The sale took place on 9 July 2019.

SAT Group | Balance sheet

CHF million	9.7.2019
Assets	
Amounts due from banks	47
Trade accounts receivable	13
Other receivables	2
Property, plant and equipment and intangible assets, incl. goodwill	15
Total disposed assets of disposal group	**77**
Liabilities	
Other financial liabilities	2
Trade accounts payable	2
Other liabilities	49
Income tax liabilities	1
Total liabilities associated with assets held for sale of disposal group	**54**
Net assets from the disposal group	**23**

Information on the assets and liabilities of disposals can be found under Note 27, Subsidiaries, associates and joint ventures.

Discontinued operations

On 11 June 2018 Swiss Post announced its intention to review an orderly exit from the passenger transport business in France. In the second quarter of 2019 the Board of Directors decided to sell CarPostal France SAS, based in Saint-Priest (France), together with its subsidiaries. The CarPostal France Group was subsequently classed as a disposal group and a discontinued operation from the second quarter of 2019. Since then, the group has no longer been included in the segment disclosure or in revenue. PostBus Ltd, based in Berne, signed an exclusivity agreement for the sale on 16 May 2019. The competition authority in France approved the proposed sale on 26 September 2019. The sale took place on 30 September 2019.

CarPostal France SAS has the following interests.

Subsidiaries:
- CarPostal Riviera SAS, Menton (France)
- CarPostal Haguenau SAS, Haguenau (France)
- CarPostal Interurbain SAS, Voreppe (France)
- CarPostal Dole SAS, Dole (France)
- CarPostal Foncière SCI, Saint-Priest (France)
- CarPostal Villefranche-sur-Saône SAS, Arnas (France)
- CarPostal Méditerranée SAS, Agde (France)
- CarPostal Agde SAS, Agde (France)
- CarPostal Bourgogne Franche-Comté SAS, Foucherans (France)
- CarPostal Loire SARL, Montverdun (France)
- Holding Rochette Participations SAS, Montverdun (France)
- CarPostal Bourg-en-Bresse SAS, Bourg-en-Bresse (France)
- CarPostal Salon de Provence SAS, Salon-de-Provence (France)
- CarPostal Bassin de Thau SAS, Sète (France)
- GR4 SAS, Crolles (France)
- Autocars et Transports Grindler SAS, Vif (France)
- Autocars Trans-Azur SAS, Salon-de-Provence (France)

Associates:
- SCI Les Romarins, Salon-de-Provence (France)

Due to the classification as "held for sale", an impairment loss of –19 million francs was recognized and the carrying amount of the assets of the CarPostal France Group was reduced by fair value less costs to sell. Fair value was determined on the basis of the sales negotiations. This was a non-recurring measurement of fair value. Fair value was assigned to level 3.

Intra-Group transactions were fully eliminated. Eliminations were allocated to the continuing operations and the discontinued operation in such a way that each was recorded where the affected item was disclosed (e.g. the receivable with the creditor and the liability with the debtor).

CarPostal France Group | Income statement CHF million	2018 1.1 to 31.12	2019 1.1 to 30.9
Net revenue from contracts with customers	126	85
Other operating income	5	4
Operating income	**131**	**89**
Operating expenses	–138	–84
Operating profit	**–7**	**5**
Impairment expense due to revaluation at fair value less costs to sell	–	–19
Losses on disposal	–	–13
Group loss before tax from discontinued operations	**–7**	**–27**
Income tax associated with profit before tax from usual business activities during the reporting period	2	–2
Income tax due to revaluation at fair value less costs to sell	–	–
Group loss after tax from discontinued operations	**–5**	**–29**

CarPostal France Group | Net cash flows CHF million	2018 1.1 to 31.12	2019 1.1 to 30.9
Cash flow from operating activities	2	3
Cash flow from investing activities	–3	–10
Cash flow from financing activities	–5	7
Change in cash and cash equivalents	**–6**	**0**

CarPostal France Group | Balance sheet

CHF million	30.9.2019
Assets	
Amounts due from banks	10
Trade accounts receivable	14
Other receivables	12
Inventories	1
Investments in associates	1
Property, plant and equipment and intangible assets	26
Right-of-use assets	27
Income tax assets	9
Total disposed assets of discontinued operation	**100**
Liabilities	
Other financial liabilities	63
Trade accounts payable	3
Other liabilities	19
Income tax liabilities	3
Total liabilities associated with disposed assets of discontinued operation	**88**
Net assets of discontinued operation	**12**

Information on the assets and liabilities of disposals can be found under Note 27, Subsidiaries, associates and joint ventures.

21 | Property, plant and equipment

Investment commitments for property, plant and equipment amount to 190 million francs (previous year: 120 million francs).

As at 31 December 2019, 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 2019.

Property, plant and equipment 2018 CHF million	Operating property	Assets under construction: operating property	Equipment, machinery and IT systems	Furnishings, vehicles and other assets	Assets under construction: other asset classes	Total
Acquisition cost						
As at 1.1.2018	**4,862**	**73**	**1,155**	**807**	**21**	**6,918**
Additions to the consolidated Group	8	–	1	5	–	14
Additions	0 [1]	66	53	117	50	286
Disposals	–143	–3	–51	–38	–1	–236
Reclassifications	39	–48	34	–3	–33	–11
Disposals arising from reclassifications (IFRS 5)	–3	–	–	–55	–	–58
Currency translation differences	–1	–	–2	–5	0	–8
As at 31.12.2018	**4,762**	**88**	**1,190**	**828**	**37**	**6,905**
Cumulative amortization						
As at 1.1.2018	**3,643**	**–**	**768**	**401**	**0**	**4,812**
Depreciation	88	–	100	85	–	273
Impairment	–	–	–	0	5	5
Disposals	–134	–	–46	–35	–	–215
Reclassifications	–5	–	2	–3	–	–6
Disposals arising from reclassifications (IFRS 5)	–2	–	–	–40	–	–42
Currency translation differences	–1	–	–2	–2	–	–5
As at 31.12.2018	**3,589**	**–**	**822**	**406**	**5**	**4,822**
Carrying amount as at 1.1.2018	**1,219**	**73**	**387**	**406**	**21**	**2,106**
Carrying amount as at 31.12.2018	**1,173**	**88**	**368**	**422**	**32**	**2,083**
of which assets in leasing	0	–	0	31	–	31

1 Includes less than one million francs from subsidies for railway track installations for 2018.

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Property, plant and equipment

2019 CHF million	Operating property	Assets under construction: operating property	Equipment, machinery and IT systems	Furnishings, vehicles and other assets	Assets under construction: other asset classes	Total
Acquisition cost						
As at 1.1.2019	**4,762**	**88**	**1,190**	**828**	**37**	**6,905**
Additions to the consolidated Group	–	–	0	0	–	0
Additions	0 [1]	107	53	109	128	397
Disposals	–207	–4	–48	–39	–3	–301
Reclassifications	53	–52	51	–15	–77	–40
Disposals arising from reclassifications (IFRS 5)	–6	–	–7	–132	0	–145
Currency translation differences	–1	–	–1	–2	0	–4
As at 31.12.2019	**4,601**	**139**	**1,238**	**749**	**85**	**6,812**
Cumulative amortization						
As at 1.1.2019	**3,589**	**–**	**822**	**406**	**5**	**4,822**
Depreciation	81	–	76	82	–	239
Impairment	–	–	5	8	3	16
Disposals	–199	–	–42	–33	0	–274
Reclassifications	0	–	0	–15	–	–15
Disposals arising from reclassifications (IFRS 5)	–3	–	–5	–85	0	–93
Currency translation differences	0	–	0	–1	–	–1
As at 31.12.2019	**3,468**	**–**	**856**	**362**	**8**	**4,694**
Carrying amount as at 1.1.2019	**1,173**	**88**	**368**	**422**	**32**	**2,083**
Carrying amount as at 31.12.2019	**1,133**	**139**	**382**	**387**	**77**	**2,118**

1 Includes less than one million francs from subsidies for railway track installations for 2019.

22 | Investment property

Investment property

CHF million	2018 Investment property	2018 Investment property under construction	2018 Total	2019 Investment property	2019 Investment property under construction	2019 Total
Acquisition cost						
Balance as at 1.1.	**290**	**37**	**327**	**311**	**47**	**358**
Additions	–	24	24	0	38	38
Disposals	–2	0	–2	0	0	0
Reclassifications	23	–14	9	33	–34	–1
Balance as at 31.12.	**311**	**47**	**358**	**344**	**51**	**395**
Cumulative amortization						
Balance as at 1.1.	**37**	**–**	**37**	**54**	**–**	**54**
Depreciation	13	–	13	13	–	13
Impairment	–	–	–	–	–	–
Disposals	–2	–	–2	0	–	0
Reclassifications	6	–	6	–	–	–
Balance as at 31.12.	**54**	**–**	**54**	**67**	**–**	**67**
Carrying amount as at 1.1.	**253**	**37**	**290**	**257**	**47**	**304**
Carrying amount as at 31.12.	**257**	**47**	**304**	**277**	**51**	**328**

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

– Rental income: 20 million francs (previous year: 20 million francs)
– Direct operating expenses (incl. depreciation) that generated rental income during the reporting period: 19 million francs (previous year: 21 million francs)

On 31 December 2019, there were no restrictions on the saleability or transfer of earnings and proceeds from any sale.

There are investment commitments for investment property of 61 million francs (previous year: 14 million francs).

23 | Intangible assets and goodwill

Intangible assets and goodwill				2018				2019
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 as at 1.1.	**275**	**347**	**171**	**793**	**299**	**556**	**11**	**866**
Additions to the consolidated Group	27	22	–	49	1	2	–	3
Additions	–	30	11	41	–	15	18	33
Disposals	–	–14	0	–14	–	–14	–	–14
Reclassifications	0	173	–171	2	–	12	–10	2
Disposals arising from reclassifications (IFRS 5)	–	–	–	–	–15	–10	–	–25
Currency translation differences	–3	–2	–	–5	–2	–2	0	–4
Balance as at 31.12.	**299**	**556**	**11**	**866**	**283**	**559**	**19**	**861**
Cumulative amortization								
Balance as at 1.1.	**31**	**242**	**20**	**293**	**34**	**313**	**1**	**348**
Depreciation	–	50	–	50	–	50	–	50
Impairment	2 [2]	17	–	19	2 [2]	0	0	2
Disposals	–	–13	–	–13	–	–13	–	–13
Reclassifications	–	19	–19	0	–	1	–	1
Disposals arising from reclassifications (IFRS 5)	–	–	–	–	–2	–8	–	–10
Currency translation differences	1	–2	–	–1	0	–1	–	–1
Balance as at 31.12.	**34**	**313**	**1**	**348**	**34**	**342**	**1**	**377**
Carrying amount as at 1.1.	**244**	**105**	**151**	**500**	**265**	**243**	**10**	**518**
Carrying amount as at 31.12.	**265**	**243**	**10**	**518**	**249**	**217**	**18**	**484**

1 Goodwill relating to fully consolidated companies. Goodwill arising on the acquisition of interests in associates and joint ventures is included in the carrying amount of these equity interests (see Note 27, Subsidiaries, associates and joint ventures).
2 See following table "Goodwill by segment".

Other intangible assets essentially comprise purchased standard and banking software.

Investment commitments for intangible assets amount to 6 million francs (previous year: one 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 and tested in the fourth quarter of each year for impairment. A cash-generating unit is usually a company.

The goodwill refers to the following segments or cash-generating units:

Goodwill by segment						31.12.2018						31.12.2019
CHF million	Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other	Total goodwill	PostMail	Post-Logistics	Swiss Post Solutions	PostBus	Other
PostMail segment	68	68	–	–	–	–	68	68	–	–	–	–
PostLogistics	27	–	27	–	–	–	27	–	27	–	–	–
BPS Group	14	–	14	–	–	–	14	–	14	–	–	–
notime Group	9	–	9	–	–	–	9	–	9	–	–	–
SAT Group	9	–	9	–	–	–	–	–	–	–	–	–
SPS Germany Group	40	–	–	40	–	–	39	–	–	39	–	–
SPS USA Group	35	–	–	35	–	–	35	–	–	35	–	–
Swiss Post Solutions AG	29	–	–	29	–	–	29	–	–	29	–	–
Swiss Post Solutions Ltd	22	–	–	22	–	–	22	–	–	22	–	–
Other cash-generating units [1]	12	–	9	1	2	–	6	–	5	1	–	–
Total	**265**	**68**	**68**	**127**	**2**	**–**	**249**	**68**	**55**	**126**	**–**	**–**

1 Goodwill of 2 million francs was impaired.

The recoverable amount of a cash-generating unit is based on a calculation of its value in use via the discounted cash flow method, in turn based on the strategic financial planning approved by the management. The calculation of value in use reflects the cash flows for the next five years, discounted to present value at the weighted average cost of capital (WACC), and an estimated residual value. This includes a growth component at the level of country-specific inflation. WACC is determined using the capital asset pricing model and comprises weighted equity costs and borrowing costs. The return on 10-year government bonds of the country in which the cash-generating unit operates is taken as the risk-free interest rate.

The following discount rates were used per cash-generating unit to determine the recoverable amount of goodwill.

Discount rates		WACC before taxes
Percent	2018	2019
PostMail segment	8.8	7.3
PostLogistics	6.2	7.1
BPS Group	10.5	7.1
notime Group	10.5	6.9
SAT Group	12.9	–
SPS Germany Group	9.9	7.6
SPS USA Group	13.0	8.1
Swiss Post Solutions AG	8.4	6.6
Swiss Post Solutions Ltd	9.6	7.3
Other cash-generating units	10.5	7.3

The discount rates include specific risk premiums depending on the risk assessment of the relevant cash-generating unit. The expected future cash flows and the assumptions applied are based on historical data from both internal and external sources of information.

Results of the verification of the recoverable amount of goodwill

At 31 December 2019, impairment losses totalling 2 million francs (prior year: 2 million francs) had to be recognized on goodwill.

All other goodwill items remain recoverable as at 31 December 2019. The recoverable amount (value in use) of these cash-generating units exceeds the carrying amount on the date of measurement. Swiss Post believes that no reasonably possible changes would result in a material assumption that the carrying amount of the cash-generating units exceeds the recoverable amount.

24 | Right-of-use assets

Right-of-use assets					2019
CHF million	Land	Operating property	Equipment, machinery and IT systems	Furnishings, vehicles and other assets	Total
Acquisition cost					
Balance as at 1.1.	**113**	**523**	**15**	**68**	**719**
Additions to the consolidated Group	–	0	–	–	0
Additions	4	207	2	19	232
Disposals	–2	–40	0	–2	–44
Reclassifications	–	–	–	–3	–3
Disposals arising from reclassifications (IFRS 5)	–	–	–	–49	–49
Currency translation differences	–	0	0	0	0
Balance as at 31.12.	**115**	**690**	**17**	**33**	**855**
Cumulative amortization					
Balance as at 1.1.	**–**	**–**	**–**	**13**	**13**
Depreciation	4	118	4	8	134
Impairment	–	–	–	–	–
Disposals	–	0	0	0	0
Disposals arising from reclassifications (IFRS 5)	–	–	–	–14	–14
Currency translation differences	–	0	0	0	0
Balance as at 31.12.	**4**	**118**	**4**	**7**	**133**
Carrying amount as at 1.1.	**113**	**523**	**15**	**55**	**706**
Carrying amount as at 31.12.	**111**	**572**	**13**	**26**	**722**

As part of its business activities, Swiss Post leases properties for the performance of operations. Operating equipment and vehicles are leased depending on the situation, but this is nevertheless the exception. Residual value guarantees and extension and termination options are measured upon conclusion of contract in relation to their likelihood of occurrence or exercise and are remeasured in the event of indications of a change in general conditions. No significant remeasurements had taken place as at 31 December 2019. The volume of contractually agreed lease contracts, which had not yet entered into force, stood at just under 2 million francs as at 31 December 2019. There are no significant sale-and-leaseback transactions, restrictions or covenants in the entire portfolio.

25 | Provisions

Provisions

CHF million	Other long-term employee benefits	Restructuring	Claims incurred	Litigation risks	Other	Total
As at 1.1.2018	**225** [1]	**68**	**45**	**14**	**185**	**537** [1]
Additions to the consolidated Group	–	–	–	–	0	0
Recognition	13 [1]	32	13	2	59	119 [1]
Present value adjustment	1	–	–	–	–	1
Use	–28	–23	–14	–1	–18	–84
Reversal	0	–12	–3	–6	–10	–31
Reclassifications	–	–	–	0	–90	–90
Currency translation differences	–	0	–	0	0	0
As at 31.12.2018	**211** [1]	**65**	**41**	**9**	**126**	**452** [1]
of which short term	27	17	20	5	17	86
As at 1.1.2019	**211** [1]	**65**	**41**	**9**	**126**	**452** [1]
Recognition	23	54	32	4	33	146
Present value adjustment	1	–	–	–	–	1
Use	–3	–29	–16	–2	–17	–67
Reversal	–14	–12	–11	–2	–7	–46
Reclassifications	0	–	–	–	–	0
Currency translation differences	–	0	–	0	0	0
As at 31.12.2019	**218**	**78**	**46**	**9**	**135**	**486**
of which short term	14	52	23	5	10	104

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

Provisions of 54 million francs were recognized for planned and communicated restructuring plans (previous year: 32 million francs). The amount consists of benefits due based on the collective employment contract redundancy plan as well as additional benefits. In connection with the signing of the framework agreement concerning the reimbursement of PostBus compensatory payments with the FOT and the Conference of Cantonal Directors of Public Transport (CPT), other provisions (CHF 90 million) were reclassified to other liabilities over the course of the previous year. Other provisions were recognized in the period under review, amongst other things in connection with onerous contracts and damages from valuables logistics.

Contingent liabilities: guarantees and guarantee obligations

There were no guarantees or guarantee obligations at the end of 2019.

Contingent liabilities: 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 34 million francs (previous year: 37 million francs).

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	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Discount rate	0.50%	0.10%	0.75%	0.27%
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	8.88%	8.56%	3.42%	3.52%
Average remaining service in years	9.39	9.50	11.26	11.28

Change in other long-term employee benefits

Other long-term employee benefits	Loyalty bonuses		Staff vouchers	
CHF million	2018	2019	2018	2019
Balance as at 1.1.	**91**	**77**	**130**	**130**
Accrued claims	8	9	4	3
Benefits paid	–21	–10	–5	–4
Interest on employee benefit obligations	0	0	1	1
(Gains)/losses resulting from changes in assumptions	–1	1	2	11
Actuarial (gains)/losses	0	1	–2	–5
Balance as at 31.12.	**77**	**78**	**130**	**136**

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

Other long-term employee benefits recognized in the income statement

Expenses recognized in the income statement	Loyalty bonuses		Staff vouchers	
CHF million	2018	2019	2018	2019
Accrued claims	8	9	4	3
Interest on employee benefit obligations	0	0	1	1
Actuarial (gains)/losses	0	2	0	6
Total expenses for other long-term employee benefits	**8**	**11**	**5**	**10**

26 | 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 Services Organization Act on 26 June 2013 with retroactive effect to 1 January 2013. The Confederation remains the full owner of Swiss Post.

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

Gains 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 changes in assumed (estimated) amounts and differences between assumed (estimated) amounts and their actual realizations.

Fair value reserves

Fair value reserves comprise fluctuations in the value of financial assets FVTOCI, which are caused mainly by fluctuations in capital market interest rates. The cumulative gains/losses from the sale of debt instruments are transferred to the income statement. In the case of equity instruments held within the FVTOCI option, a reclassification to retained earnings is undertaken on the date of sale.

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 profit or loss 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 16 April 2019 decided to pay a dividend totalling 200 million francs (previous year: 200 million francs). The dividend was paid on 7 May 2019.

According to the proposal submitted by the Board of Directors to the General Meeting of Swiss Post Ltd, 50 million francs will be distributed for the 2019 financial year. Further details can be found in the Swiss Post Ltd annual financial statements.

Other comprehensive income includes the following:

Group | Gains and losses recorded directly in other comprehensive income CHF million	Notes	Revaluation of employee benefit obligations	Fair value reserves	Hedging reserves	Currency translation reserves	Other gains and losses	Equity attributable to the owner	Non-controlling interests	Total
Balance as at 1.1.2018		**–588**	**197**	**–131**	**–57**	**4**	**–575**	**0**	**–575**
Revaluation of employee benefit obligations	12	81	–	–	–	–	81	–	81
Change in fair value reserves of equity instruments FVTOCI		–	26	–	–	–	26	–	26
Change in deferred income taxes	17	–15	–5	–	–	–	–20	–	–20
Items not reclassifiable in the consolidated income statement, after tax		**66**	**21**	**–**	**–**	**–**	**87**	**–**	**87**
Change in currency translation reserves		–	–	–	–11	–	–11	0	–11
Change in share of other comprehensive income from associates and joint ventures		–	–	–	–	1	1	–	1
Change in fair value reserves of debt instruments FVTOCI, net [1]		–	–169	–	–	–	–169	–	–169
Change in hedging reserves, net [1]		–	–	43	–	–	43	–	43
Change in deferred income taxes	17	–	34	–9	–	–	25	–	25
Reclassifiable items in income statement, after tax		**–**	**–135**	**34**	**–11**	**1**	**–111**	**0**	**–111**
Other comprehensive income		**66**	**–114**	**34**	**–11**	**1**	**–24**	**0**	**–24**
Balance as at 31.12.2018		**–522**	**83**	**–97**	**–68**	**5**	**–599**	**0**	**–599**
Balance as at 1.1.2019		**–522**	**83**	**–97**	**–68**	**5**	**–599**	**0**	**–599**
Revaluation of employee benefit obligations	12	–167	–	–	–	–	–167	–	–167
Change in fair value reserves of equity instruments FVTOCI		–	40	–	–	–	40	–	40
Change in share of other comprehensive income from associates and joint ventures		–	–	–	–	0	0	–	0
Change in deferred income taxes	17	–17	–9	–	–	–	–26	–	–26
Items not reclassifiable in the income statement, after tax		**–184**	**31**	**–**	**–**	**0**	**–153**	**–**	**–153**
Change in currency translation reserves		–	–	–	14	–	14	0	14
Change in share of other comprehensive income from associates and joint ventures		–	–	–	–	0	0	–	0
Change in fair value reserves of debt instruments FVTOCI, net [1]		–	257	–	–	–	257	–	257
Change in hedging reserves, net [1]		–	–	–60	–	–	–60	–	–60
Change in deferred income taxes	17	–	–48	9	–	–	–39	–	–39
Reclassifiable items in consolidated income statement, after tax		**–**	**209**	**–51**	**14**	**0**	**172**	**0**	**172**
Other comprehensive income		**–184**	**240**	**–51**	**14**	**0**	**19**	**0**	**19**
Balance as at 31.12.2019		**–706**	**323**	**–148**	**–54**	**5**	**–580**	**–**	**–580**

1 Additional information can be found in the consolidated statement of comprehensive income.

27 | Subsidiaries, associates and joint ventures

The main majority interests of Swiss Post Ltd, as the Group's parent company, are in Post CH Ltd, PostFinance Ltd and PostBus Ltd.

Subsidiaries (scope of consolidation)

The companies listed below are fully consolidated.

Segment	Company	Domicile	Currency	Share capital in thousands	Equity interest in percent as at 31.12.2018	Equity interest in percent as at 31.12.2019
Switzerland						
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	ASMIQ AG	Zurich	CHF	100	100	100
1	DMB Direct Mail Biel-Bienne AG	Biel/Bienne	CHF	100	100	100
1	Distriba LTD [1]	Basel	CHF	80	–	–
2	Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
4	Post Company Cars 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 SAT Holding Ltd [2]	Berne	CHF	2,000	100	–
4	Botec Boncourt S.A.	Boncourt	CHF	200	100	100
4	Relatra AG	Tägerwilen	CHF	180	100	100
4	DESTINAS AG	Tägerwilen	CHF	140	100	100
4	HAMIPO Holding AG [3]	Saillon	CHF	100	100	–
4	Eden-Trans GmbH	Leuk	CHF	100	100	100
4	Walli-Trans AG	Leuk	CHF	100	100	100
4	BPS Speditions-Service AG	Pfungen	CHF	100	100	100
4	BPS Speditions-Service Basel AG, Arlesheim	Arlesheim	CHF	150	100	100
4	notime AG [4]	Zurich	CHF	259	51	57
4	notime (Schweiz) AG [5]	Zurich	CHF	100	51	57
4	BLUESPED LOGISTICS Sàrl [6]	Boncourt	CHF	20	–	100
5	PostFinance Ltd	Berne	CHF	2,000,000	100*	100*
5	Lendico Schweiz AG [2]	Zurich	CHF	100	100	–
6	PostBus Ltd [7]	Berne	CHF	1,100	100*	–
6	PubliBike AG	Fribourg	CHF	200	100	100
6	PostBus Mobility Solutions Ltd [7]	Berne	CHF	1,100	100	–
6	PostBus Production Ltd [7]	Berne	CHF	1,100	100	–
6	PostBus Vehicles Ltd [7]	Berne	CHF	1,100	100	–
6	PostBus Ltd (previously PostBus Switzerland Ltd) [8]	Berne	CHF	1,000	100	100*
7	Post Real Estate Management and Services Ltd	Berne	CHF	1,000	100	100
7	Post Real Estate Ltd [9]	Berne	CHF	100,000	20*/80	20*/80
1–7	Post CH Ltd	Berne	CHF	500,000	100*	100*

* Equity interest is held by Swiss Post Ltd.
1 Acquisition of shares (100 percent) and merger with Direct Mail Company AG.
2 Sale of shares (100 percent).
3 Merger with BPS Speditions-Service AG.
4 Capital increases.
5 Indirect change to shares due to capital increases at notime AG.
6 Acquisition of shares (100 percent).
7 Merger with PostBus Switzerland Ltd.
8 Change of company name from PostBus Switzerland Ltd to PostBus Ltd.
9 Swiss Post Ltd and Post CH Ltd hold 20 percent and 80 percent respectively of shares in Post Real Estate Ltd.

Segment
1 = PostMail
2 = Swiss Post Solutions
3 = PostalNetwork
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

Segment	Company	Domicile	Currency	Share capital in thousands	Equity interest in percent as at 31.12.2018	Equity interest in percent as at 31.12.2019
Belgium						
4	Société d'Affrètement et de Transit S.A.T. SA [10]	Brussels	EUR	62	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 [10]	Weil am Rhein	EUR	25	100	–
4	Zollagentur Imlig GmbH	Rheinfelden Baden	EUR	25	100	100
4	Bächle Logistics GmbH	Villingen-Schwenningen	EUR	26	100	100
France						
2	Swiss Post Solutions SAS	Paris	EUR	50	100	100
4	Société d'Affrètement et de Transit S.A.T. SAS [10]	Bartenheim	EUR	200	100	–
4	Société de Transports Internationaux S.T.I. SARL [10]	Bartenheim	EUR	8	100	–
4	SCI S.A.T. [10]	Bartenheim	EUR	1	100	–
4	Tele Trans SAS	Saint-Louis	EUR	38	100	100
4	Botec Sàrl	Fêche-l'Église	EUR	15	100	100
4	BLUESPED France Sàrl [11]	Delle	EUR	10	–	100
6	CarPostal France SAS [10]	Saint-Priest	EUR	18,200	100	–
6	CarPostal Bourg-en-Bresse SAS [10]	Bourg-en-Bresse	EUR	190	100	–
6	CarPostal Haguenau SAS [10]	Haguenau	EUR	464	100	–
6	CarPostal Interurbain SAS [10]	Voreppe	EUR	250	100	–
6	CarPostal Dole SAS [10]	Dole	EUR	300	100	–
6	CarPostal Foncière SCI [10]	Saint-Priest	EUR	50	100	–
6	CarPostal Villefranche-sur-Saône SAS [10]	Arnas	EUR	150	100	–
6	CarPostal Agde SAS [10]	Agde	EUR	250	100	–
6	CarPostal Bourgogne Franche-Comté SAS [10]	Foucherans	EUR	300	100	–
6	CarPostal Méditerranée SAS [10]	Agde	EUR	420	100	–
6	Holding Rochette Participations SAS [10]	Montverdun	EUR	400	100	–
6	CarPostal Loire SARL [10]	Montverdun	EUR	1,925	100	–
6	CarPostal Riviera SAS [10]	Menton	EUR	200	100	–
6	CarPostal Salon de Provence SAS [10]	Salon-de-Provence	EUR	200	100	–
6	CarPostal Bassin de Thau SAS [10]	Sète	EUR	250	100	–
6	GR4 SAS [12]	Crolles	EUR	200	48	–
6	Autocars et Transports Grindler SAS [10]	Vif	EUR	250	100	–
6	Autocars Trans-Azur SAS [10]	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*

* Equity interest is held by Swiss Post Ltd.
10 Sale of shares (100 percent).
11 Acquisition of shares (100 percent).
12 Sale of shares (48 percent).

Segment
2 = Swiss Post Solutions
4 = PostLogistics
6 = PostBus
7 = Other

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Segment	Company	Domicile	Currency	Share capital in thousands	Equity interest in percent as at 31.12.2018	Equity interest in percent as at 31.12.2019
Singapore						
2	Swiss Post Solutions Holding Pte. Ltd. [13]	Singapore	SGD	0.001	–	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

13 Company founding (100 percent).

Segment
2 = Swiss Post Solutions

Additions and disposals of subsidiaries

Full year 2018

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

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

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

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

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

Post CH Ltd, based in Berne, acquired the remaining 50 percent of the shares in Direct Mail Biel-Bienne AG, based in Biel/Bienne, on 29 June 2018. Since this date, Direct Mail Biel-Bienne AG has no longer been accounted for in the consolidated financial statements using the equity method (50 percent), but reported as a fully consolidated subsidiary (100 percent). The company specializes in areas including products and services for the delivery of unaddressed items.

Full year 2019

Post CH Ltd, based in Berne, acquired 100 percent of the shares in Distriba AG, based in Basel, on 2 May 2019. The company operates in the area of delivery of unaddressed items in the Basel region and employs 184 members of staff.

Lendico Schweiz AG, based in Zurich, was sold (100 percent) on 28 May 2019.

Post CH Ltd, based in Berne, acquired 100 percent of the shares in BLUESPED LOGISTICS Sàrl, based in Boncourt and BLUESPED France Sàrl, based in Delle (France), on 11 June 2019. The companies operate in the areas of national and international transport and customs clearance. They employ a total of twelve members of staff. Thanks to the takeover of these two companies, Swiss Post is further expanding its services in the freight, express and warehousing international unit, including customs clearance, and increasing its presence in the area of Boncourt, crossing the border into France.

Swiss Post Solutions Holding Pte. Ltd., based in Singapore (Singapore), was founded on 28 June 2019. Post CH Ltd, based in Berne, holds 100 percent of the shares.

Swiss Post SAT Holding Ltd, based in Berne, was sold on 9 July 2019 (100 percent). Swiss Post SAT Holding Ltd holds 100 percent of the shares in Société d'Affrètement et de Transit S.A.T. SAS and Société de Transports Internationaux S.T.I. SARL, both of which are based in Bartenheim (France), in Trans-Euro GmbH, based in Weil am Rhein (Germany), and in Société d’Affrètement et de Transit S.A.T. SA, based in Brussels (Belgium). Société d'Affrètement et de Transit S.A.T. SAS holds 100 percent of the shares in SCI S.A.T., based in Bartenheim (France).

CarPostal France SAS, based in Saint-Priest (France), was sold on 30 September 2019 (100 percent). CarPostal France SAS holds 100 percent of the shares in CarPostal Bourg-en-Bresse SAS, based in Bourg-en-Bresse (France), CarPostal Haguenau SAS, based in Haguenau (France), CarPostal Interurbain SAS, based in Voreppe (France), CarPostal Dole SAS, based in Dole (France), CarPostal Foncière SCI, based in Saint-Priest (France), CarPostal Villefranche-sur-Saône SAS, based in Arnas (France), CarPostal Agde SAS and CarPostal Méditerranée SAS, both based in Agde (France), CarPostal Bourgogne Franche-Comté SAS, based in Foucherans (France), Holding Rochette Participations SAS, based in Montverdun (France), CarPostal Riviera SAS, based in Menton (France), CarPostal Salon de Provence SAS and Autocars Trans-Azur, both based in Salon-de-Provence (France), CarPostal Bassin de Thau SAS, based in Sète (France), Autocars et Transports Grindler SAS, based in Vif (France), and 48 percent of the shares in GR4, based in Crolles (France). The holding Rochette Participations SAS holds 100 percent of the shares in CarPostal Loire SARL, based in Montverdun (France). Autocars Trans-Azur holds 50 percent of the shares in SCI Les Romarins, based in Salon-de-Provence (France).

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Assets and liabilities arising from acquisitions

The following assets and liabilities were newly consolidated in connection with acquisitions of subsidiaries:

Assets and liabilities arising from acquisitions	Total fair value [1]	Total fair value [2]
CHF million	2018	2019
Cash and cash equivalents	1	6
Trade accounts receivable and other receivables	15	2
Inventories	1	0
Property, plant and equipment, intangible assets, right-of-use assets and financial assets	36	3
Other financial liabilities	–8	0
Trade accounts payable	–4	0
Provisions and other liabilities	–10	–2
Fair value of net assets	**31**	**9**
Goodwill	27	1
Cash and cash equivalents acquired [3]	–1	–6
Fair value of existing investments	0	–
Fair value of non-controlling interests	0	–
Purchase price payments falling due at a later date (earn-outs)	0	–3
Payment of liabilities from acquisitions in previous years	3	2
Net cash outflow arising from acquisitions	**60**	**3**

1 Composition: Transports Fontaimpe SAS, Direct Mail Biel-Bienne AG, notime AG, notime (Schweiz) AG, Bächle Logistics GmbH, section of the company DXC-Technology Group.
2 Composition: Distriba SA, BLUESPED LOGISTICS Sàrl, BLUESPED France Sàrl.
3 Composition: cash and current amounts due from banks.

The acquisition costs for the companies acquired in 2019 amount to a total of 10 million francs. The purchase price payments (earn-outs) due at a later date amount to around 3 million francs. The remaining amount was settled in cash and cash equivalents.

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 around 0.1 million francs and is recognized in the income statement under “Other operating expenses”.

Since the acquisition date, the acquired entities have contributed 6 million francs to operating income and one million francs to operating profit.

Overall, the effects of these acquisitions on the consolidated financial statements are 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 CHF million	Total carrying amount[1] 2018	Total carrying amount[2] 2019
Cash and cash equivalents	0	57
Trade accounts receivable and other receivables	0	52
Inventories	–	1
Property, plant and equipment, intangible assets, right-of-use assets and financial assets	0	70
Other financial liabilities	–	–65
Trade accounts payable	0	–4
Provisions and other liabilities	0	–73
Carrying amount of net assets disposed of	**0**	**38**
Non-controlling interests in the carrying amount of net assets disposed of	–	0
Cash and cash equivalents disposed of[3]	0	–57
Net loss from disposals[4]	0	–1
Realized currency translation reserves	–	16
Net cash inflow / (net cash outflow) arising from disposals	**0**	**–4**

1 Composition: Swiss Post Solutions s.r.o.
2 Composition: Lendico Schweiz AG, SAT Group, CarPostal France Group.
3 Composition: cash and current amounts due from banks.
4 The net loss from disposals was reported in net financial income (12 million francs) and in Group loss from discontinued operations (–13 million francs) in the income statement.

Sales proceeds arising from disposals stood at 57 million francs in 2019.

Overall, the effects of these disposals on the consolidated financial statements are not material in nature. For more information, see Note 2, Basis of accounting, Accounting changes as well as Note 20, Non-current assets held for sale, disposal groups and discontinued operations.

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Associates and joint ventures

The companies listed below are accounted for using the equity method.

Segment	Company	Domicile	Currency	Share capital in thousands	Equity interest in percent as at 31.12.2018	Equity interest in percent as at 31.12.2019
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	Asendia Holding Ltd	Berne	CHF	125	40	40
1	Prime Data AG	Brugg	CHF	100	25	25
4	TNT Swiss Post GmbH	Buchs (AG)	CHF	1,316	38	38
5	SIX Interbank Clearing AG [1]	Zurich	CHF	1,000	25	–
5	Finform Ltd	Berne	CHF	100	50	50
5	TWINT Ltd	Zurich	CHF	12,750	27	27
5	TONI Digital Insurance Solutions AG [2]	Schlieren	CHF	1,418	24	31
5	Tilbago AG [3,4]	Lucerne	CHF	158	–	23
5	Ormera AG [5]	Berne	CHF	100	–	43
6	Sensetalbahn AG	Berne	CHF	2,888	34	34
Germany						
4	GSF Spedition Schweiz GmbH	Gütersloh	EUR	25	50	50
5	moneymeets GmbH	Cologne	EUR	81	26	26
5	moneymeets community GmbH	Cologne	EUR	81	26	26
France						
6	SCI Les Romarins [6]	Salon-de-Provence	EUR	150	50	–
Liechtenstein						
7	Liechtensteinische Post AG	Schaan	CHF	5,000	25	25*

* Equity interest is held by Swiss Post Ltd.
1 Sale of shares (25 percent).
2 Capital increase (now 31 percent).
3 Additional purchase of shares (5.7 percent, previously 19 percent).
4 Capital increase with dilution (now 22.51 percent).
5 Company founding (42.5 percent).
6 Sale of shares (50 percent).

Segment
1 = PostMail
4 = PostLogistics
5 = PostFinance
6 = PostBus
7 = Other

Additions and disposals of associates and joint ventures

2018

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

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

Post CH Ltd, based in Berne, acquired the remaining 50 percent of the shares in Direct Mail Biel-Bienne AG, based in Bienne, on 29 June 2018. Since this date, Direct Mail Biel-Bienne AG has no longer been accounted for in the consolidated financial statements using the equity method (50 percent), but reported as a fully consolidated subsidiary (100 percent). For more information, see page 167.

On 3 September 2018, PostFinance Ltd, based in Berne, signed an agreement to sell its shares (25 percent) in Swiss Euro Clearing Bank GmbH, based in Frankfurt am Main (Germany). From this date, Swiss Euro Clearing Bank GmbH is no longer recognized using the equity method in the consolidated financial statements, but is reported under non-current assets held for sale in accordance with IFRS 5.

2019

On 31 January 2019, PostFinance Ltd, based in Berne, sold its shares (25 percent) in Swiss Euro Clearing Bank GmbH, based in Frankfurt am Main (Germany). The sales contract was signed on 3 September 2018. From this date, the company was no longer recognized using the equity method in the consolidated financial statements, but was reported under non-current assets held for sale in accordance with IFRS 5.

PostFinance Ltd, based in Berne, acquired a further 5.7 percent in Tilbago AG, based in Lucerne, on 1 March 2019, in addition to the 19 percent already held. Since this date Tilbago AG has been accounted for using the equity method in the consolidated financial statements.

On 27 March 2019, PostFinance Ltd, based in Berne, sold its shares (25 percent) in SIX Interbank Clearing Ltd, based in Zurich.

Ormera AG, based in Berne, was founded on 5 September 2019. PostFinance Ltd, based in Berne, holds 42.5 percent of the shares. Since this date the company has been accounted for using the equity method in the consolidated financial statements.

The shares (50 percent) in SCI Les Romarins, based in Salon-de-Provence (France), were sold as part of the disposal of CarPostal France SAS, based in Saint-Priest (France), on 30 September 2019.

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 28, Transactions with related companies and parties).

Investments in associates and joint ventures

CHF million	Notes	2018	2019
Balance as at 1.1.		**138**	**153**
Additions		13	1
Disposals		–5	–13
Disposals resulting from reclassifications as per IFRS 5	20	–24	–1
Dividends		–2	–6
Share of net profit (after taxes) recognized in the income statement		35	3
Share of net profit (after taxes) recorded in other comprehensive income		1	0
Currency translation differences		–3	–5
Balance as at 31.12.		**153**	**132**

Comprehensive income from associates

Net income from associates

CHF million	2018	2019
Share of net profit (after taxes) recognized in the income statement	6	3
Share of net profit (after taxes) recorded in other comprehensive income	1	0
Comprehensive income from associates	**7**	**3**

Comprehensive income from joint ventures

Net income from joint ventures

CHF million	2018	2019
Share of net profit (after taxes) recognized in the income statement	29	0
Share of net profit (after taxes) recorded in other comprehensive income	0	–
Comprehensive income from joint ventures	**29**	**0**

28 | 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	2018[3]	2019	2018[3]	2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Swiss Confederation	247[1]	246[1]	21	4	547	446	781	639
Swisscom	84	69	15	23	160	158	266	151
Swiss Federal Railways SBB	37	44	43	47	105	253	311	409
RUAG	1	1	0	0	0	0	2	1
SKYGUIDE	1	3	0	0	200	200	10	17
Companies with joint management or significant influence	**370**	**363**	**79**	**74**	**1,012**	**1,057**	**1,370**	**1,217**
Associates and joint ventures	**135**	**127**	**35**	**46**	**64**	**63**	**39**	**29**
Other related companies and parties	**1**	**1**	**5**	**10**	**0**	**0**	**67**[2]	**11**[2]

1 Includes compensation for passenger transport of 199 million francs for 2019 (previous year: 202 million francs).
2 Primarily includes customer deposits of the Swiss Post pension fund held at PostFinance.
3 Figures have been adjusted (see Note 2, Basis of accounting, Accounting changes).

Remuneration paid to members of the management

In the past financial year, compensation including fringe benefits of 5.44 million francs (previous year: 5.9 million francs) and pension benefits of around 0.83 million francs (previous year: around 0.86 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 2019 was based on target attainment in 2017 and 2018 and amounted to around 1.01 million francs (previous year: around 1.25 million francs). There are no loan agreements in place with members of the Board of Directors or Executive Management.

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29 | 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		31.12.2018	31.12.2019	31.12.2018	31.12.2019
1 euro	EUR	1.13	1.08	1.16	1.11
1 US dollar	USD	0.99	0.97	0.98	0.99
1 pound sterling	GBP	1.25	1.27	1.31	1.27

30 | Events after the reporting period

Prior to the approval of the 2019 consolidated annual financial statements by Swiss Post Ltd's Board of Directors on 9 March 2020, 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.

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To the General Meeting of
Swiss Post Ltd, Berne

Berne, 9. March 2020

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the pages 78 to 177 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 statement of cash flows and the notes as at 31 December 2019, 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 2019, 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. 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.

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 Swiss Post Ltd and PostFinance Ltd as well as 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 financial 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.

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Building a better working world

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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Other matter

The consolidated financial statements of Swiss Post Ltd for the year ended 31 December 2018 were audited by another statutory auditor who expressed an unmodified opinion on those consolidated financial statements on 4 March 2019.

Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

Ernst & Young Ltd

Olivier Mange Licensed audit expert (Auditor in charge)	Michel Wälchli Licensed audit expert

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.

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Income statement

Swiss Post Ltd | Income statement

CHF million	2018	2019
Operating income		
Trade income	74	69
Income from interests	136	216
Total operating income	**210**	**285**
Operating expenses		
Personnel expenses	–6	–5
Other operating expenses	–63	–63
Depreciation of intangible assets	–66	–67
Total operating expenses	**–135**	**–135**
Operating profit	**75**	**150**
Financial income	110	100
Financial expenses	–101	–629
Total net financial income	**9**	**–529**
Net annual result before tax	**84**	**–379**
Direct taxes	0	2
Net annual result	**84**	**–377**

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Balance sheet

Swiss Post Ltd | Balance sheet

CHF million	31.12.2018	31.12.2019
Assets		
Current assets		
Amounts due from banks	920	1,176
Amounts due from PostFinance Ltd	3	60
Trade accounts receivable	13	83
Other current receivables	1,652	1,274
Accrued income and prepaid expenses	2	28
Total current assets	**2,590**	**2,621**
Fixed assets		
Financial assets	649	790
Interests	8,019	7,441
Intangible assets	600	533
Total fixed assets	**9,268**	**8,764**
Total assets	**11,858**	**11,385**
Equity and liabilities		
Liabilities		
Trade accounts payable	7	10
Current interest-bearing liabilities	239	460
Other current liabilities	5	4
Accrued expenses and deferred income	1	2
Total current liabilities	**252**	**476**
Non-current interest-bearing liabilities	970	845
Provisions	0	5
Total non-current liabilities	**970**	**850**
Total liabilities	**1,222**	**1,326**
Equity		
Share capital	1,300	1,300
Statutory capital reserves		
Other capital reserves	8,685	8,685
Distributable profit		
Profit carried forward	567	451
Net annual result	84	–377
Total equity	**10,636**	**10,059**
Total equity and liabilities	**11,858**	**11,385**

Notes

1 | Basic principles

1.1 General

A description is given below of any significant valuation policies 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 gains 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, IFRSs). 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.

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2 | Information on the balance sheet and income statement

2.1 Trade accounts receivable

Swiss Post Ltd | Trade accounts receivable

CHF million	31.12.2018	31.12.2019
Amounts due from third parties	–	0
Amounts due from interests	13	83
Total trade accounts receivable	**13**	**83**

2.2 Other current receivables

Swiss Post Ltd | Other current receivables

CHF million	31.12.2018	31.12.2019
Amounts due from third parties	4	0
Amounts due from investors and governing bodies	325	227
Amounts due from interests	1,323	1,047
Total other current receivables	**1,652**	**1,274**

2.3 Financial assets

Swiss Post Ltd | Financial assets

CHF million	31.12.2018	31.12.2019
Financial assets due from third parties	0	–
Financial assets due from interests	649	790
Total financial assets	**649**	**790**

2.4 Interests

Swiss Post Ltd | Interests

Company	Domicile	Currency	Share capital in thousands	Interest in percent Balance as at 31.12.2018	Interest in percent Balance as at 31.12.2019
Directly held interests					
Switzerland					
PostFinance Ltd	Berne	CHF	2,000,000	100	100
Post Real Estate Ltd [1]	Berne	CHF	100,000	20	20
Post CH Ltd	Berne	CHF	500,000	100	100
PostBus Ltd [2]	Berne	CHF	1,100	100	–
PostBus Ltd (previously PostBus Switzerland Ltd) [3,4]	Berne	CHF	1,000	–	100
Germany					
Swiss Post Solutions Holding GmbH	Bamberg	EUR	25	100	100
Liechtenstein					
Swiss Post Insurance AG	Triesen	CHF	30,000	100	100
Liechtensteinische Post AG [5]	Schaan	CHF	5,000	–	25
Material indirectly held interests					
Switzerland					
Swiss Post Solutions Ltd	Zurich	CHF	1,000	100	100
Post Company Cars 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 [3]	Berne	CHF	1,000	100	–
PostBus Production Ltd [2]	Berne	CHF	1,100	100	–
PostBus Vehicles Ltd [2]	Berne	CHF	1,100	100	–

1 Swiss Post Ltd indirectly holds an additional 80 percent in Post Real Estate Ltd.
2 Merger with PostBus Switzerland Ltd.
3 Now a directly held interest due to merger.
4 Change of company name from PostBus Switzerland Ltd to PostBus Ltd.
5 Purchase of shares (25%).

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	31.12.2018	31.12.2019
Liabilities relating to third parties	0	0
Liabilities relating to interests	7	10
Total trade accounts payable	**7**	**10**

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2.7 Current interest-bearing liabilities

Swiss Post Ltd | Current interest-bearing liabilities

CHF million	31.12.2018	31.12.2019
Liabilities relating to third parties	50	401
Liabilities relating to interests	189	59
Total current interest-bearing liabilities	**239**	**460**

2.8 Other current liabilities

Swiss Post Ltd | Other current liabilites

CHF million	31.12.2018	31.12.2019
Liabilities relating to third parties	5	4
Liabilities relating to interests	0	0
Total other current liabilities	**5**	**4**

2.9 Non-current interest-bearing liabilities

Swiss Post Ltd | Non-current interest-bearing liabilities

CHF million	31.12.2018	31.12.2019
Liabilities relating to third parties	970	845
Total non-current interest-bearing liabilities	**970**	**845**

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 2018 and 2019 from the following interests is reported in income from interests: Post CH Ltd and PostFinance Ltd.

2.13 Financial income

Financial income mainly consists of interest income from loans to interests and foreign currency gains as well as reversals of impairment on interests and loans to interests.

2.14 Financial expenses

Financial expenses mainly consist of interest expenses, foreign currency losses and impairments on interests and loans to interests. 582 million francs of impairment on the interest of PostFinance Ltd were charged to the account in 2019.

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 845 million francs. Nine tranches overall, expiring between 2020 and 2032, are outstanding on the capital market from major, predominantly domestic, private and institutional investors. The average interest rate applicable to these private placements is 1.08 percent, and the average remaining maturity of the outstanding tranches was just under eight years at the end of 2019.

3.3 Liabilities relating to employee benefits schemes

The liabilities relating to the Swiss Post pension fund totalled 60,639 francs at 31 December 2019 (31 December 2018: 61,132 francs), and are reported in other current liabilities. They are classed as liabilities relating to third parties.

3.4 Collateral for third party liabilities

As at 31 December 2019, guarantees and guarantee obligations amounted to 16 million francs (31 December 2018: 16 million francs).

Collateral has been made available to guarantee intra-Group receivables from cash pooling via a time deposit (amounts due from banks) of 100 million francs (31 December 2018: 100 million francs).

In addition, on 31 December 2019, Letters of Comfort of 1,538 million francs existed, deposited by Swiss Post Ltd (31 December 2018: 2,174 million francs).

Under the system of group taxation for value added tax, liability is as follows: each natural person or legal entity 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.

No other information is required to be reported by law as set out in article 959c, paragraph 1, section 4 of the Swiss Code of Obligations.

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4 | Proposed appropriation of distributable profit

At the General Meeting on 28 April 2020, the Board of Directors will propose that the distributable profit of 74 million francs for the financial year ended 31 December 2019 be appropriated as follows:

Swiss Post Ltd | Appropriation of distributable profit proposed by the Board of Directors

CHF million	31.12.2019
Profit carried forward	451
Net annual result	–377
Available distributable profit	**74**
Dividends	50
Amount carried forward to new account	**24**

Building a better working world

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To the General Meeting of
Swiss Post Ltd, Berne

Berne, 9 March 2020

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the pages 182 to 189 of the financial report covering the financial statements of Swiss Post Ltd, which comprise the income statement, balance sheet, and notes, for the year ended 31 December 2019.

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 31 December 2019 comply with Swiss law and the company's articles of incorporation.

Other matter
The financial statements of Swiss Post Ltd for the year ended 31 December 2018 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 4 March 2019.

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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.

Ernst & Young Ltd

Olivier Mange Licensed audit expert (Auditor in charge)	Michel Wälchli Licensed audit expert

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").

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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	2018 1.1 to 31.12	2019 1.1 to 31.12
PostFinance segment operating profit (EBIT) as per IFRS before fees and net cost compensation	**220**	**240**
Management/licence fees/net cost compensation	7	5
PostFinance segment operating profit (EBIT) as per IFRS after fees and net cost compensation	**227**	**245**
Net income from associates	−1	−6
Net financial income	−39	−42
PostFinance segment earnings before tax (EBT)	**187**	**197**
Income taxes	−37	−98
PostFinance segment profit	**150**	**99**
Consolidation effects from associates	1	26
Consolidation effects from subsidiaries	−1	1
PostFinance Ltd profit before reconciliation	**150**	**126**
Amortization of revalued held-to-maturity financial investments/amortized cost	−3	–
Valuation differences for financial assets as per ARB	3	−3
Reversal of impairment/impairment on financial assets and receivables, incl. taxes	73	–
Realized gains from (earlier than scheduled) sales	0	−4
Valuation differences between IAS 19 and Swiss GAAP ARR 16	10	6
Valuation differences, IFRS 16 Leases	–	1
Depreciation of revalued real estate	−4	−4
Individual impairment charge due to lower fair value (fixed assets)	−3	−1
Value adjustment and amortization of goodwill	−200	−800
Valuation differences for investments as per ARB	0	−1
Realized gains from investments	0	0
Adjustment of deferred tax effects as per IFRS	40	98
PostFinance Ltd profit as per ARB	**66**	**−582**

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

– In its monetary policy assessment of 19 September 2019, the SNB suggests that the low interest environment around the world has become more entrenched and could persist for some time. The yield curve used as the basis for planning net interest income fell further compared with the previous year. Due to lower amounts budgeted in the strategic financial planning as a result of the prevailing negative interest environment and the credit ban, the recoverable amount of goodwill was lost so that the latter had to be completely impaired in the 2019 financial year.
– 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 an offset of 5 million francs on the operating profit (previous year: 7 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	31.12.2018	31.12.2019
Assets			
Liquid assets		37,201	46,946
Amounts due from banks		4,595	3,889
Amounts due from securities financing transactions	5	21	22
Amounts due from customers	6	11,676	12,075
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	102	162
Other financial instruments at fair value		–	–
Financial investments	8	62,547	60,406
Accrued income and prepaid expenses		468	383
Participations	9, 10	124	105
Tangible fixed assets	11	1,200	1,166
Intangible assets	12	800	–
Other assets	13	321	420
Total assets		**119,055**	**125,574**
Total subordinated claims		5	11
of which subject to mandatory conversion and/or debt waiver		–	1
Liabilities			
Amounts due to banks		1,095	1,324
Liabilities from securities financing transactions	5	–	9,125
Amounts due in respect of customer deposits		110,501	108,469
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	478	340
Liabilities from other financial instruments at fair value		–	–
Cash bonds		80	71
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		94	105
Other liabilities	13	5	5
Provisions	16	54	35
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/loss		66	–582
Total liabilities		**119,055**	**125,574**
Total subordinated liabilities		–	203
of which subject to mandatory conversion and/or debt waiver		–	203

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PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2018	31.12.2019
Contingent liabilities	25	88	52
Irrevocable commitments		723	699
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2018	2019
Interest and discount income	28	142	140
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		563	392
Interest expense	28	14	33
Gross result from interest operations		**719**	**565**
Changes in value adjustments for default risks and losses from interest operations		88	–4
Net result from interest operations		**807**	**561**
Commission income from securities trading and investment activities		59	65
Commission income from lending activities		21	21
Commission income from other services		606	645
Commission expense		–410	–385
Result from commission business and services		**276**	**346**
Result from trading activities and the fair value option	27	**228**	**214**
Result from the disposal of financial investments		0	8
Income from participations		6	10
Result from real estate		68	73
Other ordinary income		86	87
Other ordinary expenses		–43	–
Other result from ordinary activities		**117**	**178**
Operating income		**1,428**	**1,299**
Personnel expenses	29	–478	–442
General and administrative expenses	30	–566	–552
Operating expenses		**–1,044**	**–994**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–287	–892
Changes to provisions and other value adjustments, and losses		–10	–10
Operating result		**87**	**–597**
Extraordinary income	31	0	27
Extraordinary expenses	31	0	–2
Changes in reserves for general banking risks		–	–
Taxes	32	–21	–10
Profit / loss		**66**	**–582**

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Appropriation of profit / loss

PostFinance Ltd | Distributable profit / loss

CHF million	31.12.2018	31.12.2019
Profit / loss for the year	66	–582
Profit carried forward	–	–
Total distributable profit / loss	**66**	**–582**

At the General Meeting on 16 April 2020, the PostFinance Board of Directors will propose the following appropriation of profit / loss:

PostFinance Ltd | Appropriation of profit / loss

CHF million	31.12.2018	31.12.2019
Dividend distributions	66	–
Profit / loss carried forward to new account	–	–582
Total distributable profit / loss	**66**	**–582**

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2018	Cash outflow 2018	Cash inflow 2019	Cash outflow 2019
Cash flow from operating activities (internal financing)				
Profit/loss for the year	66	–	–	582
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	287	–	891	–
Provisions and other value adjustments	9	–	–	20
Change in value adjustments for default risks and losses	–	88	5	–
Accrued income and prepaid expenses	88	–	85	–
Accrued expenses and deferred income	–	14	11	–
Other items	3	–	–	–
Previous year's dividend	–	136	–	66
Subtotal	**215**	**–**	**324**	**–**
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	0	13	14	3
Real estate	3	34	11	48
Other tangible fixed assets	0	21	0	13
Intangible assets	–	–	–	–
Subtotal	**–**	**65**	**–**	**39**
Cash flow from banking operations				
Medium and long-term business (>1 year):				
Amounts due to banks	–	–	–	–
Amounts due in respect of customer deposits	1	–	204	–
Cash bonds	–	13	–	8
Amounts due from banks	–	74	532	–
Amounts due from customers	92	–	–	73
Mortgage loans	0	–	0	–
Financial investments	329	–	2,141	–
Short-term business:	–	–		
Amounts due to banks	552	–	229	–
Liabilities from securities financing transactions	–	–	9,125	–
Amounts due in respect of customer deposits	–	2,792	–	2,236
Negative replacement values of derivative financial instruments	–	250	–	138
Other liabilities	–	1	–	–
Amounts due from banks	302	–	173	–
Amounts due from securities financing transactions	3	–	–	–
Amounts due from customers	431	–	–	330
Positive replacement values of derivative financial instruments	–	58	–	60
Financial investments	–	–	–	–
Other accounts receivable	53	–	–	98
Subtotal	**–**	**1,425**	**9,461**	**–**
Liquidity				
Liquid assets	1,275	–	–	9,746
Subtotal	**1,275**	**–**	**–**	**9,746**
Total	**1,490**	**1,490**	**9,785**	**9,785**

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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 1.1.2019	**2,000**	**4,682**	**–**	**–**	**66**	**–**	**6,748**
Dividends	–	–	–	–	−66	–	−66
Loss	–	–	–	–	–	−582	−582
Equity as at 31.12.2019	**2,000**	**4,682**	**–**	**–**	**–**	**−582**	**6,100**

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	31.12.2018	31.12.2019
EUR	1.1262	1.0849
USD	0.9851	0.9679
GBP	1.2498	1.2695
JPY	0.0089	0.0089

Offsetting

As a rule, no offsetting takes place, except in the cases set out below. Receivables and payables 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. Value adjustments are deducted from the corresponding asset item.

Trade date / settlement date accounting

As a rule, 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.

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General valuation policies

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 and deferred default risks. 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. 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 market 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 market 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 and deferred default risks. Any premiums and discounts related to amounts due from customers 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. 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 debt 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 gains and losses from these securities are 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 instruments held for trading. Derivative financial instruments acquired for trading purposes are recognized at market values 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 the market value of an asset or liability. Changes in the 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 recognized in profit or loss. 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 gains or 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. 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 and valued according to the principle of the lower of cost or market value.

Establishing amounts for value adjustments

Depending on the change in credit risk since acquisition, debt securities, amounts due from securities financing transactions, amounts due from customers and amounts due from banks belong to one of three levels for the calculation of value adjustments. Depending on the level, the value adjustment matches the expected loss over the next year (level 1) or the expected loss over the remaining term to maturity of an instrument (levels 2 – 3). The expected loss over the next year depends on the exposure of the position for the relevant year included in the default risk, on the probability of default of the instrument due to economic trends, and on an expected loss given default. The lifetime expected loss depends on the probability of default of the position due to economic trends over the remaining term to maturity, on its future exposure included in the default risk, and on an expected loss given default.

At the time of initial recognition, a financial instrument with intrinsic value is allocated to level 1. A transition to level 2 takes place if there has been a significant increase in credit risk since initial recognition. There is a significant increase in credit risk if the current rating of a position is below a defined threshold. The threshold applied depends on the original rating of the position. Due to the exponential nature of the probability of default, the relative change in the probability of default must be higher, the better the rating at the time an instrument was acquired. The assigned rating corresponds to the rating issued by recognized rating agencies. If no such rating exists, the ratings of non-recognized rating agencies (e.g. ratings of qualified banks) are used. A payment delay of more than 30 days also serves as a criterion for a move to level 2. In addition, a dedicated committee assesses whether there is a significant rise in credit risk for positions under special consideration, leading to a reclassification to level 2. This affects the following positions: those that have a non investment-grade rating, those whose spread exceeds a defined value, those that are lower tier 2 positions or those that do not have an external rating. If an event of default is present on the balance sheet date, the position is allocated to level 3. An event of default is present if PostFinance assumes that there is a strong probability that the debtor will be unable to meet their payment obligations in full and as agreed, if a D rating (default) applies or if the liability is more than 90 days overdue from the counterparty. If a position has been allocated to levels 2 or 3, it can again be transferred to level 1 or 2 as soon as the criteria for that level have been satisfied.

The value adjustment of a financial instrument is measured using the following parameters: default probability, credit loss ratio and credit exposure at the time of default. As PostFinance has not recorded any bond defaults in the past and invests primarily in highly rated bonds, there are no internal default time series available in order to estimate default probabilities on this basis. For this reason, default probabilities are derived from migration matrices from external sources. These derived probabilities are adjusted periodically based on the expected economic trends. The economic situation is estimated to be slightly above average, so slightly below-average probabilities of default have been applied for

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the financial year. The model parameters for the credit loss rate for various types of product are derived from various external sources by means of an expert opinion. A dedicated committee can override the credit loss rate of specific positions if necessary. Credit exposure at the time of default generally corresponds to amortized cost or forecasted amortized cost plus outstanding interest.

Value adjustments are calculated on amounts due from private and business accounts and associated limits on a collective basis. The portfolios used were generated on the basis of the characteristics applied in product management. Receivables are allocated to level 1 on initial recognition. They are allocated to levels 2 or 3 when the overdue period defined for the relevant level has been exceeded. The default rate used to determine the calculation of expected loss is calculated using historical data for a switch to level 2 or level 3. On the balance sheet date the previously calculated default probability is verified in order to determine whether an adjustment is needed on the basis of current and forward-looking information. The value adjustment for amounts due from banks is measured based on the default risk of outstanding loans or their credit rating.

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. The fair values of participations for the purposes of impairment testing at least once a year are determined on the basis of stock market prices and valuation techniques such as the discounted cashflow method or using the venture capital approach.

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
– Software 3 – 10 years
– Real estate 10 – 50 years

Assets associated with the purchase, installation and development of 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 profit or loss. Gains 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 receivable and payable, 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 holders of qualified participations 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 et seq. 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. A future economic benefit is calculated based on the last available and audited financial statements from the Swiss Post pension fund foundation.

Taxes

Income tax is determined on the basis of the accrued net annual result in the relevant reporting period. 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 values are recognized as deferred taxes under provisions. Deferred taxes are determined separately in each business period.

Changes in the accounting and valuation principles versus the previous year

In the financial year 2019, there were no changes in the accounting and valuation principles versus the previous year.

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Business policy on the use of derivative financial instruments and hedge accounting

PostFinance uses derivative financial instruments exclusively to hedge interest and currency risks.

The bond market in Swiss francs is not sufficient to cover PostFinance'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 of the other financial instruments 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. As a rule, interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

Types of hedged items and hedging transactions
PostFinance mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate / interest rate currency swaps).

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 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 upon its initial recognition (on a prospective basis via the critical terms match 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.

Ineffectiveness
If this results in an ineffective portion, this is recognized in the income statement for the period in question. PostFinance analyses the fair value of the hedged item to determine the ineffectiveness using the hypothetical derivative method. The terms of the hypothetical derivative match the decisive terms of the hedged item and there is a fair value of zero at the beginning of the hedging relationship.

Events after the balance sheet date

On the date of issue of the annual financial statements, no material events had occurred as at 31 December 2019 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, account services 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 materialize. 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 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 unrealized gains due to missed opportunities or incorrectly assessed potential. 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). 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.

The PostFinance Board of Directors assesses the company’s overall risk situation on a quarterly basis. Assisted by the Board of Directors’ Risk and Audit & Compliance Committees, it sets out – in accordance with FINMA Circular 2017/01 “Corporate governance – banks” – 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 internal control system (ICS) which the operating units are required to observe in managing risks. The Board of Directors limits the maximum risks that can be entered into by defining the quantitative risk appetite. The quantitative risk appetite comprises requirements for the total amount of capital that is available to cover risks, regulations on the allocation of capital to individual risk categories and the definition of minimum liquidity and leverage ratio requirements. The qualitative risk appetite consists of regulations that trigger a discussion of the content of individual risks or aggregated risk positions as well as the strategies for managing such risks within the Executive Board or 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 (2nd LoD 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 throughout the institution meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up stipulations and directives 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 Chief Risk Officer is a member of the Executive Board and is responsible for ensuring that Risk Control and all other subordinated control entities perform the tasks entrusted to them.

The business units which represent the 1st line of defence (1st LoD) 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 committees mandated for this purpose, as the non profit-oriented unit of the 1st LoD 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 LoD are control entities which are independent of the business units assuring the 1st LoD. At PostFinance, these are Risk Control, Compliance and Governance. As an independent control entity, the Risk Control department defines appropriate instruments to identify, measure, evaluate and control the financial, strategic and operational risks entered into by PostFinance. It independently monitors compliance with limits of the Board of Directors and the Executive Board as well as the established risk profile across all risk categories. Risk Control performs the 2nd LoD function for all risks except compliance risks, which are monitored by the Compliance and Governance departments. As a central function of the 2nd LoD, Risk Control coordinates the work of all 2nd LoD functions and ensures PostFinance's integrated risk reporting.

The Compliance and Governance departments provide support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations. Compliance and Governance perform the 2nd LoD function for compliance risks. They are responsible for assessing the compliance risk and report significant information to the Board of Directors and Executive Board on a regular basis.

The 2nd LoD units 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 LoD. Matters of major importance are reported to PostFinance's Board of Directors promptly and on an ad-hoc basis.

As part of the 3rd LoD, Internal Auditing is responsible for risk monitoring and for overseeing the 1st and 2nd LoDs. It reports directly to the Board of Directors of PostFinance.

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 Fluctuating net interest income over time	Absolute and relative sensitivity limits for equity Implementation of multi-period dynamic revenue analyses
– Liquidity risks	Insolvency	Compliance with the minimum regulatory requirements for the liquidity coverage ratio (LCR) Holding of cash reserves to cover liquidity requirements in stress situations
– Credit risks	Losses due to the default of counterparties	Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level Quantification of the economic concentration risks in the credit portfolio and definition of diversification requirements
– Market risks	Losses in fair value to be charged to the ARB income statement	Value-at-risk limits for fair value effects on the income statement and equity
Strategic risks	Losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.	Quantification of gross risk by evaluating the expected 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 warning levels for strategic top risks. Level-appropriate addressing of risks by defining approval 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). The estimated residual risks represent the potential losses from operational risks.	Quantification of gross risk by evaluating the expected 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 warning levels for individual risks and operational top risks. Level-appropriate addressing of risks by defining approval limits for individual 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 stochastic models to determine value at risk or expected shortfall risk indicators (e.g. to measure fair value risks resulting from open foreign currency items or to quantify economic concentration risks in the credit portfolio). 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. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

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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 and on the result from interest operations in the income statement resulting mainly from maturity mismatches. 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 interest margin volatility.

The maturities of money and capital market investments are determined on the basis of the target present value sensitivity of equity, 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 shifts in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other. The present value sensitivity of equity is measured by the Risk Management department on a weekly basis and reported to the Executive Board. If the present value sensitivity deviates significantly from the required level specified by the Executive Board due to short-term shocks, maturity can be controlled on the asset side using swaps.

Absolute change in the present value of equity

CHF million	31.12.2018	31.12.2019
Standard parallel up shock in accordance with FINMA Circular 2019/2 [1]	–	–160
Shift in the yield curve of -100 basis points	–76	–

1 In order to determine the present value sensitivity of equity, the six standard shocks in accordance with FINMA Circular 2019/2 "Interest rate risks – banks" have been applied since 1.1.2019. The interest rate shocks are currency-dependent and amount to 150 basis points for CHF and 200 basis points for EUR and USD.

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future interest income. In addition, dynamic income simulations are carried out for a broad set of deterministic scenarios over the course of the year. 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 was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance 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.

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 sets a maximum figure not to be exceeded with regard to regulatory minimum capital 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. New investments are generally 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.

The directives for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems, with ESG criteria also taken into account. 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, taking into account the current portfolio. 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 economic concentration risks in the credit portfolio are taken into consideration in defining the portfolio and counterparty limits. To measure them, PostFinance uses a credit portfolio model that quantifies the credit risks within the credit portfolio while taking into account correlation effects. On the basis of the modelled risk indicators (expected shortfall and the relevant risk contributions of sub-portfolios), limits can be defined in such a way that they increase portfolio efficiency and/or limit concentration risks.

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.

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. Concentrations of securities delivered (with the exception of cash collateral) are measured, monitored and reported to the Executive Board on a monthly basis. At the same time, wrong-way risks are assessed and risk control proposals submitted where concentrations have been identified. The recoverable amount of the securities delivered resulting from securities lending transactions undergoes a quarterly stress test.

Note on credit risks arising from mortgage lending
The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 and with Valiant Bank AG since 2010 do not result in any credit risks for PostFinance. These are borne entirely by the partner 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, and medium- to 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. The 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 its minimum capital requirement 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 capital 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 the 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 fund investments in the banking book, hedged items and the related hedging instruments) also have an effect on the volatility of the income statement.

Market risks are modelled according to value at risk and limited in the income statement by the Board of Directors. 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 ARB income statement 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. The Risk Management department measures market risks on a weekly basis. It informs the Executive Board of the extent to which limits are used and submits risk control proposals where necessary.

As at 31 December 2019, ARB value at risk for the income statement stood at 14 million francs (previous year: 58 million francs).

Operational and strategic risks

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. Strategic risks comprise losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. The Board of Directors sets out the principles for managing operational and strategic risks in the framework for risk management throughout the institution.

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 and strategic risk management system that is controlled centrally by the Risk Control department, part of the 2nd LoD. 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 traceable identification, measurement, monitoring and reporting on all material operational risks. The department 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. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

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4 | Capital adequacy disclosure in accordance with FINMA Circular 2016 / 01

According to the decree issued by the SNB on 29 June 2015, PostFinance was designated a systemically important financial group. For this reason, PostFinance must comply with the requirements set out in Articles 124 – 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO).

Two disclosures showing PostFinance's equity situation were published as at 31 December 2019. The information in the "Capital adequacy disclosure" meets the requirements of Annexes 1 and 2 of the FINMA Circular 2016/01 "Disclosure – banks". The capital adequacy disclosure on grounds of systemic importance, which is a parallel calculation in accordance with Annex 3 of the aforementioned Circular, is also published. The different requirements result in deviations, particularly with regard to eligible equity capital and capital ratios. The specified documents are published at www.postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2018	31.12.2019
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	21	22
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	–	9,125
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	4,394	13,128
with unrestricted right to resell or pledge	4,394	13,128
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	4,925	4,803
of which, repledged securities	–	–
of which, resold securities	–	–

6 | Collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

Presentation of collateral for loans / receivables

31.12.2019 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers [1]		–	1,187	10,904	12,091
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2019**	**0**	**1,187**	**10,904**	**12,091**
	31.12.2018	0	33	11,655	11,688
Total loans (after netting with value adjustments)	**31.12.2019**	**0**	**1,187**	**10,888**	**12,075**
	31.12.2018	0	33	11,643	11,676

1 As at 31 December 2019, guarantees, insurance policies and cash collateral are now recognized as receivables with other collateral.

Presentation of collateral for off-balance-sheet transactions

as at 31.12.2019 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	51	1	52
Irrevocable commitments		–	–	699	699
Total off-balance sheet	**31.12.2019**	**–**	**51**	**700**	**751**
	31.12.2018	–	47	764	811

PostFinance discloses payment obligations for depositor protection in irrevocable commitments.

Impaired loans / receivables

CHF million	31.12.2018	31.12.2019
Gross debt amount	5	8
Net debt amount	5	8
Individual value adjustments	5	8

7 | Derivative financial instruments and hedge accounting

Derivatives entered into by PostFinance on behalf of customers are disclosed in the following overview as trading instruments.

Presentation of derivative financial instruments (assets and liabilities)

as at 31.12.2019 CHF million		Trading instruments			Hedging instruments		
		Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments							
Forward contracts including FRAs		–	–	–	0	–	219
Swaps		–	–	–	–	160	2,209
Foreign exchange / precious metals							
Forward contracts		4	6	802	52	3	4,671
Cross-currency interest rate swaps		–	–	–	106	171	8,121
Equity securities / indices							
Options (exchange-traded)		–	–	0	–	–	–
Total before netting agreements as at	**31.12.2019**	**4**	**6**	**802**	**158**	**333**	**15,220**
of which, determined using a valuation model		4	6		158	333	
	31.12.2018	4	5	788	98	473	14,921
of which, determined using a valuation model		4	5		98	473	
Total after netting agreements as at	**31.12.2019**	**4**	**6**	**802**	**158**	**333**	**15,220**
	31.12.2018	4	5	788	98	473	14,921

Breakdown by counterparty

31.12.2019 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	158	4

Cash flow hedges

PostFinance uses cash flow hedge accounting to hedge the volatility of cash flows from interest-bearing instruments that can be predicted with a high degree of probability. Cash flow hedge accounting is used in particular to hedge fixed income instruments in foreign currencies via cross-currency interest rate swaps.

Contract volumes of cash flow hedges

CHF million	Total	Term to maturity 0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018					
Currency risk					
Cross-currency interest rate swaps	8,413	–	303	4,743	3,367
Other					
Completed non-settled transactions	13	13	–	–	–
31.12.2019					
Currency risk					
Cross-currency interest rate swaps	8,121	53	200	5,673	2,194
Other					
Completed non-settled transactions	219	219	–	–	–

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

Changes in hedging instruments

CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Change in fair value of hedging instrument in the reporting period, recorded in other assets/liabilities	Ineffectiveness recorded in the income statement	Net amount reclassified from other assets/liabilities to the income statement[1]
31.12.2018						
Currency risk						
Cross-currency interest rate swaps	68	366	287	287	–	–244
Other						
Completed non-settled transactions	0	–	–0	–0	–	–0
31.12.2019						
Currency risk						
Cross-currency interest rate swaps	106	171	206	206	–	–266
Other						
Completed non-settled transactions	0	–	0	0	–	0

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option. Reclassifications from other assets and liabilities are carried out in the result from trading activities and the fair value option (fair value change).

In the course of the reporting period, the following effects arose from designated hedged items (item in the balance sheet: financial investments):

Effects of hedged items in cash flow hedging CHF million	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Hedging reserves in other assets/liabilities
31.12.2018		
Currency risk		
Debt securities intended to be held to maturity	–287	–123
31.12.2019		
Currency risk		
Debt securities intended to be held to maturity	–206	–182

On 1 January 2019 the hedging reserves in other assets/liabilities stood at 123 million francs. The overall fair value changes of the hedging instruments are included in the hedging reserves directly in equity in other assets/liabilities. Subsequently, the net interest accrued and paid/received (5 million francs) and the foreign currency share (287 million francs of gains) and discontinued hedging relationships (–26 million francs) are transferred to the income statement (recycled in the result from trading activities and the fair value option). Thus the residual fair value change of the hedging instruments remains in the hedging reserves in other assets/liabilities.

Hedging reserves in other assets/liabilities CHF million	2018 Hedging reserves – unrealized gains/losses from cash flow hedge	2019 Hedging reserves – unrealized gains/losses from cash flow hedge
Balance at 1 January	**–165**	**–123**
Change in fair value of hedging instrument		
Currency risk	286	206
Other	–0	0
Net amount reclassified from cash flow hedging reserves to income statement		
Currency risk	–244	–266
of which arising from discontinued hedging relationships [1]	–	26
of which from changes in foreign currency basis spreads	–1	1
Balance at 31 December	**–123**	**–182**

1 The hedging relationships were also discontinued via the early sale of three hedged items during the year under review.

These cash flows are expected to have an effect on the income statement in the following periods:

Cash flows (not discounted)				Term to maturity
CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121
31.12.2019				
Cash inflows	11	28	116	20
Cash outflows	–38	–97	–389	–66

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in value of interest-sensitive assets and assets exposed to foreign currency risks. Fair value hedge accounting is used in particular to hedge fixed income instruments via interest rate swaps.

Contract volumes for fair value hedges					Term to maturity
CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2018					
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238
31.12.2019					
Interest rate and currency risk					
Interest rate swaps	2,209	246	25	700	1,238

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

Net income from fair value hedges		
CHF million	2018	2019
Fair value hedges for interest rate risks		
Profit / (loss) on hedging instrument	–7	–60
Profit / (loss) on hedged activities or those which are allocated to the hedged risk	7	60
Net profit / (loss) corresponding to the ineffective share of the fair value hedges	–	–

In the course of the reporting period, the following amounts arose from designated hedged items (item in the balance sheet: financial investments, amounts due from banks, amounts due from customers):

Change in fair value hedge CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Ineffectiveness recorded in income statement [1]
31.12.2018				
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–
31.12.2019				
Interest rate and currency risk				
Interest rate swaps	–	160	–60	–

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option.

Effects of hedged items from fair value hedging CHF million	Book value of hedged item	Accumulated expenses or income from fair value hedge adjustments that were recorded in the book value of the hedged item	Change in fair value which was used for disclosure of ineffectiveness in the reporting period
31.12.2018			
Interest rate and currency risk			
Debt securities intended to be held to maturity	1,494	36	11
Amounts due from customers and banks	1,160	50	–4
31.12.2019			
Interest rate and currency risk			
Debt securities intended to be held to maturity	1,298	92	56
Amounts due from customers and banks	1,064	54	4

8 | Financial investments

Breakdown of financial investments		Book value		Fair value
CHF million	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Debt securities	61,454	60,257	62,268	61,818
of which, intended to be held to maturity	61,454	60,257	62,268	61,818
Equity securities [1]	1,093	148	1,107	164
Total	**62,547**	**60,406**	**63,375**	**61,982**
of which, securities eligible for repo transactions in accordance with liquidity requirements [2]	24,494	23,404	–	–

1 There are no qualified participations.
2 The securities eligible for repos correspond to the SNB GC Basket.

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Breakdown of counterparties by rating [1]

31.12.2019 CHF million	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: book values	38,405	13,766	6,053	145	–	1,888

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

CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2018	2019 Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2019	Market value 31.12.2019
Participations										
with market value	46	–	46	–	–	–1	–	–	45	79
without market value	138	–60	78	–	3	–14	–8	1	60	–
Total participations	**184**	**–60**	**124**	**–**	**3**	**–15**	**–8**	**1**	**105**	**79**

10 | Significant participations

Significant participations

CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes [1] 31.12.2018	31.12.2019
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
Ormera AG, Berne, Switzerland	Automated energy billing	CHF	100,000	–	42.50%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	1,417,782	23.93%	30.66%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	12,750,000	26.66%	26.66%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	26.66%	26.66%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	26.17%	26.17%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	26.17%	26.17%
Tilbago AG, Lucerne, Switzerland	Smart online payment collection solution (robo payment collection)	CHF	158,373	19.00%	22.50%
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	100.00%	–
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%	–
SIX Interbank Clearing Ltd, Zurich, Switzerland	Payment transaction processing for financial institutions	CHF	1,000,000	25.00%	–

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 value 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 reduce total assets by 3 million francs (previous year: increase of 20 million francs) and to increase the loss for the year by 9 million francs (previous year: reduction of profit for the year of 13 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2018	Reclassi-fications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2019
				2019					
Bank buildings	230	−49	181	–	19	−11	−20	–	169
Other real estate	1,009	−192	817	–	29	0	−30	–	816
Proprietary or separately acquired software	231	−56	175	–	0	–	−24	–	151
Other tangible fixed assets	89	−62	27	–	13	0	−10	–	30
Total tangible fixed assets	**1,559**	**−359**	**1,200**	**–**	**61**	**−11**	**−84**	**–**	**1,166**

Future lease obligations under operating leases

CHF million	2020	2021	2022	2023	2024	2025	**Total**
Future lease payments	13	12	11	0	0	0	**36**
of which cancellable within a year	1	1	1	0	0	0	**3**

12 | Intangible assets

Presentation of intangible assets

CHF million	Cost value	Accumulated amortization	Book value 31.12.2018	Additions	Disposals	Amortization	Book value 31.12.2019
				2019			
Goodwill	2,000	−1,200	800	–	–	−800	–
Total intangible assets	**2,000**	**−1,200**	**800**	**–**	**–**	**−800**	**–**

In its monetary policy assessment of 19 September 2019, the SNB suggests that the low interest environment has become more entrenched and could persist for some time. The yield curve used as the basis for planning net interest income fell further compared with the previous year. Due to lower amounts budgeted in the strategic financial planning as a result of the prevailing negative interest environment and the credit ban, the recoverable amount of goodwill was lost so that the latter had to be completely impaired in the 2019 financial year.

13 | Other assets and other liabilities

Breakdown of other assets and other liabilities

CHF million	31.12.2018 Other assets	31.12.2019 Other assets	31.12.2018 Other liabilities	31.12.2019 Other liabilities
Compensation account	208	321	–	–
Indirect taxes	106	92	4	5
Other assets and liabilities	7	7	1	0
Total other assets and other liabilities	**321**	**420**	**5**	**5**

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	31.12.2018	31.12.2019
Financial investments:		
Book value of assets pledged and assigned as collateral	63	84
Effective commitments	–	–

1 Excluding securities lending and securities borrowing, and repurchase and reverse 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 pension 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 annual 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 39,799 active insured persons and 29,168 pensioners (as at 31 October 2019), the Swiss Post pension fund had total assets of 17,081 million francs as at 31 December 2019 (previous year: 16,083 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 108.0 percent (previous year: 101.9 percent). As the Swiss Post pension fund value fluctuation reserves have not yet reached the set regulatory level, there is no overfunding available. The Swiss Post pension fund has employer contribution reserves of 552 million francs, of which 550 million francs with a waiver of use (previous year: 553 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 1.75 percent (previous year: 1.75 percent) and the technical basis of OPA 2015 (previous year: OPA 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; in 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 2019. 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	31.12.2019	31.12.2018	31.12.2019	2019	2019	31.12.2018	31.12.2019
Swiss Post pension fund	86	0	0	0	36	37	36
Staff vouchers	–7	–6	–7	1	0	–1	1
Disability pensions	–1	–1	–1	0	0	0	0
Total ARR 16	**78**	**–7**	**–8**	**1**	**36**	**36**	**37**

The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance's retirement capital of PostFinance's entire retirement capital. This gives the following picture:

Employer contribution reserves (ECR)	Nominal value	Waiver of use [1]		Net amount	Influence of ECR on personnel expenses	
CHF million	31.12.2019	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Swiss Post pension fund	36	–36	0	0	1	0
Total ARR 16	**36**	**–36**	**0**	**0**	**1**	**0**

1 The impairment of the employer contribution reserves due to the waiver of use is based on the most recent audited and approved annual financial statements of the Swiss Post pension fund.

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 CHF million	As at 31.12.2018	Use in conformity with designated purpose [1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2019
Provisions for pension benefit obligations	7	–	–	–	2	–	9
Provisions for restructuring	24	–10	–	–	1	–11	4
Other provisions	23	–4	–	–	8	–5	22
Total provisions	**54**	**–14**	**–**	**–**	**11**	**–16**	**35**
Reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks	**129**	**–**	**–**	**–**	**14**	**–9**	**134**
of which, value adjustments for default risks in respect of impaired loans / receivables	112	–	–	–	12	–8	116
of which, value adjustments for latent risks	17	–	–	–	2	–1	18

1 There were no changes in purpose.

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17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital			31.12.2018			31.12.2019
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	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Holders of qualified participations	1,110	713	779	917
Group companies	0	–	1	–
Linked companies	12	26	422	284
Transactions with members of governing bodies	0	0	5	17

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), 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		31.12.2018		31.12.2019
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 31.12.2019 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Liquid assets		46,946	–	–	–	–	–	–	46,946
Amounts due from banks		240	–	215	215	1,461	1,758	–	3,889
Amounts due from securities financing transactions		–	–	22	–	–	–	–	22
Amounts due from customers		467	1	1,020	752	4,286	5,549	–	12,075
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		–	–	45	11	101	5	–	162
Financial investments		149	–	2,318	5,778	30,786	21,375	–	60,406
Total	**31.12.2019**	**47,802**	**1**	**3,620**	**6,756**	**36,634**	**28,687**	**–**	**123,500**
	31.12.2018	39,344	3	2,227	7,919	35,728	30,921	0	116,142

Presentation of the maturity structure of financial instruments (debt capital / financial instruments)

as at 31.12.2019 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Amounts due to banks		784	–	540	–	–	–	–	1,324
Liabilities from securities financing transactions		–	–	9,125	–	–	–	–	9,125
Amounts due in respect of customer deposits		69,257	37,485	1,723	4	–	–	–	108,469
Negative replacement values of derivative financial instruments		–	–	9	10	132	189	–	340
Cash bonds		–	–	4	55	12	0	–	71
Total	**31.12.2019**	**70,041**	**37,485**	**11,401**	**69**	**144**	**189**	**–**	**119,329**
	31.12.2018	72,935	39,129	11	8	68	4	–	112,154

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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		31.12.2018		31.12.2019
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	37,198	3	46,945	1
Amounts due from banks	4,281	314	3,758	131
Amounts due from securities financing transactions	21	–	22	–
Amounts due from customers	11,659	17	12,059	16
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	38	64	63	99
Financial investments	31,498	31,049	31,811	28,595
Accrued income and prepaid expenses	282	186	253	130
Participations	101	23	86	19
Tangible fixed assets	1,200	–	1,166	–
Intangible assets	800	–	0	–
Other assets	321	0	420	0
Total assets	**87,399**	**31,656**	**96,583**	**28,991**
Liabilities				
Amounts due to banks	1,012	83	1,227	97
Liabilities from securities financing transactions	–	–	6,675	2,450
Amounts due in respect of customer deposits	106,408	4,093	104,407	4,062
Negative replacement values of derivative financial instruments	125	353	139	201
Cash bonds	79	1	71	0
Accrued expenses and deferred income	94	0	105	0
Other liabilities	5	–	5	–
Provisions	54	–	35	–
Bank’s capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit/loss	66	–	–582	–
Total liabilities	**114,525**	**4,530**	**118,764**	**6,810**

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2018		31.12.2019	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	87,399	73.41	96,582	76.91
Europe	15,181	12.75	12,538	9.99
North America	8,457	7.10	7,687	6.12
Other countries	8,018	6.74	8,767	6.98
Total assets	**119,055**	**100.00**	**125,574**	**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 31.12.2018		Net foreign exposure 31.12.2019	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	15,917	50.33	13,882	48.32
Aa	10,377	32.82	9,372	32.62
A	4,227	13.37	4,196	14.60
Baa	283	0.89	494	1.72
Ba	116	0.37	13	0.05
B	292	0.92	342	1.19
Caa	319	1.01	319	1.11
No rating	91	0.29	111	0.39
Total	**31,622**	**100.00**	**28,729**	**100.00**

24 | Assets and liabilities by currency

Presentation of assets and liabilities broken down by the most significant currencies for the bank

31.12.2019
CHF million

	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	46,829	117	–	–	–	–	46,946
Amounts due from banks	3,838	30	15	1	1	4	3,889
Amounts due from securities financing transactions	–	22	–	–	–	–	22
Amounts due from customers	12,059	8	8	0	0	0	12,075
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	162	–	–	–	–	–	162
Financial investments	45,573	10,827	3,626	–	–	380	60,406
Accrued income and prepaid expenses	289	62	29	0	0	3	383
Participations	86	2	17	–	–	0	105
Tangible fixed assets	1,166	–	–	–	–	–	1,166
Intangible assets	–	–	–	–	–	–	–
Other assets	420	0	0	0	0	0	420
Total assets shown in balance sheet	**110,422**	**11,068**	**3,695**	**1**	**1**	**387**	**125,574**
Delivery entitlements from spot exchange, forward forex and forex options transactions	12,900	398	175	45	8	68	13,594
Total assets	**123,322**	**11,466**	**3,870**	**46**	**9**	**455**	**139,168**
Liabilities							
Amounts due to banks	1,314	10	–	–	0	–	1,324
Liabilities from securities financing transactions	9,125	–	–	–	–	–	9,125
Amounts due in respect of customer deposits	105,461	2,486	432	42	9	39	108,469
Negative replacement values of derivative financial instruments	340	–	–	–	–	–	340
Cash bonds	70	1	–	–	–	–	71
Accrued expenses and deferred income	105	0	0	0	–	–	105
Other liabilities [1]	–4	9	0	–	–	0	5
Provisions	35	–	–	–	–	–	35
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Loss	–582	–	–	–	–	–	–582
Total liabilities shown in the balance sheet	**122,546**	**2,506**	**432**	**42**	**9**	**39**	**125,574**
Delivery obligations from spot exchange, forward forex and forex options transactions	692	8,913	3,412	4	0	412	13,433
Total liabilities	**123,238**	**11,419**	**3,844**	**46**	**9**	**451**	**139,007**
Net position per currency 31.12.2019	**84**	**47**	**26**	**0**	**0**	**4**	
Net position per currency 31.12.2018	–228	73	–1	0	0	4	

1 The compensation accounts are balanced across all currencies. This effect results in a negative value for the currency CHF.

Information on off-balance sheet transactions

25 | Contingent assets and liabilities

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2018	31.12.2019
Guarantees to secure credits and similar	87	51
Other contingent liabilities	1	1
Total contingent liabilities	**88**	**52**
Contingent assets arising from tax losses carried forward	–	70
Total contingent assets	**0**	**70**

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 1.5 billion francs in favour of PostFinance Ltd as at 31 December 2019.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2018	31.12.2019
Type of managed assets:		
Assets under discretionary asset management agreements	–	0
Other managed assets	43,656	46,058
Total managed assets (including double counting)[1]	**43,656**	**46,058**
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 schemes 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	31.12.2018	31.12.2019
Total managed assets (including double counting) at beginning	**46,305**	**43,656**
+/- net new money inflow or net new money outflow[1]	−2,024	1,033
+/- price gains/losses, interest, dividends and currency gains/losses	−625	1,369
+/- other effects	–	–
Total managed assets (including double counting) at end	**43,656**	**46,058**

1 Net new money inflow or net new money outflow is calculated based on the overall change in managed assets, less price, interest and currency gains/losses, dividend distributions and other effects.

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Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2018	2019
Payment transactions and financial investments	229	226
Hedge accounting	0	–4
Proprietary trading	–1	–8
Total result from trading activities	**228**	**214**

Breakdown by risk and based on the use of the fair value option

CHF million	2018	2019
Result from trading activities from:		
Interest rate instruments	1	–193
Equity securities	0	–0
Foreign currencies	227	407
Total result from trading activities [1]	**228**	**214**

1 PostFinance does not apply the fair value option.

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 is subject to a customer asset fee. PostFinance also charges a customer asset fee for private customers' assets that exceed a defined threshold value.

Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

CHF million	2018	2019
Negative interest on the lending business offset against interest and discount income	–16	–5
Negative interest on the borrowing business offset against interest expense	47	65

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2018	2019
Salaries (meeting attendance fees and fixed compensation to members of the bank’s governing bodies, salaries and benefits)	386	352
Social insurance benefits	72	73
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	20	17
Total personnel expenses	**478**	**442**

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2018	2019
Office space expenses	40	37
Expenses for information and communications technology	219	234
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	18	18
Fees of audit firm(s) (Art. 961a no. 2 CO)	2	2
of which, for financial and regulatory audits	2	2
of which, for other services	0	–
Other operating expenses	287	261
Total general and administrative expenses	**566**	**552**

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2018	2019
Losses from disposal of participations	0	2
Total extraordinary expenses	**0**	**2**

Extraordinary income

CHF million	2018	2019
Reversals of impairment	–	1
Gains from disposal of participations	0	25
Other extraordinary income	–	1
Total extraordinary income	**0**	**27**

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32 | Taxes

Current and deferred taxes

CHF million	2018	2019
Expenses for current capital and income taxes	21	10
Total taxes	**21**	**10**

Owing to the loss for the year, expenses for current capital taxes and income taxes in 2019 largely consist of capital taxes. A tax rate of 20.5 percent was used for calculating the previous year's corporate income tax.

Building a better working world

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To the General Meeting of
PostFinance Ltd, Berne

Berne, 28. February 2020

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 flow statement, statement of changes in equity and notes (pages 196 to 235), for the year ended 31 December 2019.

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 31 December 2019 comply with Swiss law and the company's articles of incorporation.

Other matter
The financial statements of PostFinance AG for the year ended 31 December 2018 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 22 February 2019.

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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 recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Philipp de Boer
Licensed audit expert
(Auditor in charge)

Jan Streit
Licensed audit expert

Reporting

Annual reporting structure

The Swiss Post annual reporting documents for 2019 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
- Annual Report key figures
- Sustainability Report (report in accordance with the Global Reporting Initiative guidelines)

These documents are available in electronic format in the online version of the Annual Report at www.swisspost.ch/annualreport. The Swiss Post Annual Report and the PostFinance Ltd Annual Report are also available in printed form.

Languages

The Swiss Post Annual Report and Financial Report are available in English, German, French and Italian. The German version is authoritative.

Ordering

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Swiss Post employees may order copies through the usual channels.

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Five-year overview of key figures

		2015	2016	2017	2018	2019
Result						
Operating income	CHF million	8,224	8,188	8,064	7,254 [1]	7,164
Generated in competition	% of operating income	85.1	85.8	85.7	84.8	85.4
Generated abroad and crossborder	% of operating income	14.0	13.7	14.3	14.6	14.8
Operating profit	CHF million	823	704	718	505 [1]	450
Generated in competition	% of operating profit	87.0	93.5	86.7	72.5	75.1
Generated abroad and crossborder	% of operating profit	6.9	9.1	11.4	18.0	14.9
Group profit	CHF million	645	558	527	404 [1]	255
Equity	CHF million	4,385	4,744	6,583	6,759 [1]	6,834
Value generation						
Economic value added	CHF million	169	122	102	–24 [1]	–17
Added value generated	CHF million	5,193	5,145	5,143	4,613 [1]	4,616
to employees	CHF million	4,074	4,034	3,989	3,802 [1]	3,764
to creditors	CHF million	69	64	48	48 [1]	75
to public sector	CHF million	94	118	63	42 [1]	32
to owner	CHF million	200	200	200	200	50
to company	CHF million	756	729	843	521 [1]	695
Jobs						
Headcount (excluding trainees)	Full-time equivalents	44,131	43,485	42,316	39,932 [2]	39,670
Trainees in Switzerland	Persons	2,077	2,118	2,115	2,001	1,894
Jobs in peripheral regions	Persons	18,633	18,176	17,640	16,765	16,073
Turnover rate (voluntary departures)	As % of average headcount	3.8	4.0	4.8	5.5	5.1
Notice given by employer for economic reasons	Persons	78	84	161	152	105
Employment conditions and remuneration						
Employment in accordance with Swiss Post CEC	Full-time equivalents as %	89.6	85.6	85.6	85.2	86.1
Swiss Post CEC minimum salary	CHF per annum	47,620	47,620	47,620	47,620	47,620
Average salary for employees	CHF per annum	83,472	82,231	83,178	83,383	82,741
Average remuneration paid to members of Executive Management	CHF per annum	591,574	588,377	559,044	588,916	582,289
Salary bandwidth [3]	Factor	7.1	7.2	6.7	7.1	7.0
Health management						
Occupational accidents	Number per 100 FTEs	6.1	5.9	6.5	6.0	6.4
Days lost to illness and accidents	Days per employee	12.4	12.5	12.9	13.1	13.3
Diversity						
Women	% of employees	48.4	48.1	47.5	46.3	45.0
Nationalities represented	Number	142	143	140	138	140
Women on Board of Directors	%	33.3	33.3	33.3	33.3	33.3
Women in Executive Management	%	12.1	11.1	20.5	22.9	11.1
Women in senior management roles	%	12.3	12.3	13.4	16.0	17.1
Women in middle and lower management roles	%	23.4	24.2	23.9	23.2	23.8
Demographics						
Average age of workforce	Years	45.3	45.6	46.0	46.1	46.1
Resource consumption						
Energy consumption	GWh	1,458	1,491	1,453	1,479	1,377
Energy consumption within Swiss Post	GWh	890	905	887	902	816
Renewable share	%	20.0	19.3	19.6	20.4	21.6
Energy consumption outside Swiss Post	GWh	568	586	567	578	561
Carbon footprint (scope 1–3)						
Carbon footprint	t CO_2 equivalent	440,728	446,151	436,550	439,955	408,784
CO_2 efficiency increase since 2010 [4]	%	13.7	16.5	19.6	20.4	27.6

1 The figure has been adjusted (see Note 2, Basis of accounting, Accounting changes and Discontinued operations).
2 In the PostMail segment, the calculation of average FTEs (excluding trainees) was revised for two subsidiaries, resulting in the adjustment of the figure for 2018. In the PostBus segment, figures for 2018 were adjusted due to the classification of CarPostal France Group as a disposal group held for sale and a discontinued operation.
3 Factor = average remuneration paid to Members of Executive Management vs. average employee salary.
4 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.).

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