



Financial Report 2005

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The amounts shown in the Financial Report are rounded.

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

This financial report appears in English, French, German and Italian.
For checks and audits, the German version is authoritative.

Financial commentary

Key figures

Swiss Post Group key figures

		2005	2004 ¹
Operating income	CHF m	7 499	7 348
Operating result ²	CHF m	805	829
As a percentage of the operating result		10.7	11.3
Group profit for the year	CHF m	811	830
Total assets	CHF m	50 130	46 879
Equity	CHF m	922	269
Investments ³	CHF m	347	230
Employees at Swiss Post Group (excluding trainees)	full-time equivalents ⁴	41 073	42 284
Employees at Swiss Post (excluding trainees)	full-time equivalents ⁴	37 033	38 972
Trainees at Swiss Post Group	full-time equivalents ⁴	1 465	1 556

¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

² Operating result corresponds to operating profit before consideration of non-operating financial result and taxes (EBIT).

³ Investment in tangible fixed assets, participations and intangible assets.

⁴ Average expressed in terms of full-time equivalents.

Financial trends in 2005

Economic background

Both exports and domestic demand contributed to growth in Switzerland in 2005. Despite higher oil prices, a number of economic indicators improved both globally and in Switzerland over the past few months. The slowdown in the Swiss economy that set in towards the end of 2004, partly a result of declining momentum from abroad, appears to have been overcome. The economic uptrend continued throughout 2005.

Swiss Post cannot escape the general economic trend. Demand for logistics and financial services depends on the economic trend as well as on the related interest rate trend.

Volumes of business

The already persistent trend towards declining volumes for certain logistics services and products continued in 2005.

In the domestic letters segment the downtrend, i.e. substitution of physical by electronic communication (e-mail, etc.), weakened slightly compared with the previous year. By contrast, the trend in letters exports increased. In Switzerland, the more expensive priority letters remained at the prior year's level. Fiercer competition contributed to the decline in parcels business.

PostFinance is continuing to see gratifying growth in customer deposits, even compared with its competitors. The number of PostBus passengers continued to grow at a moderate rate.

Volumes

			2005	2004	Change
Segment	Volumes of business				
Mail	Addressed letters	items in millions	2 822	2 858	-1.3 %
	of which priority items ¹	items in millions	754	754	0.0 %
	of which non-priority items ¹	items in millions	2 029	2 064	-1.7 %
	non-priority individual		922	954	-3.3 %
	non-priority bulk items		1 107	1 110	-0.3 %
	Unaddressed items	items in millions	1 214	1 253	-3.1 %
	Newspapers	items in millions	1 203	1 195	0.7 %
Logistics	Parcels ¹	items in millions	105	106	-0.9 %
	Swiss-Express	items in millions	4 187	4 193	-0.1 %
Financial Services	Inflow of new money	CHF m	2 065	3 149	-34.4 %
	Customer deposits (average balance)	in CHF m	38 169	35 652	7.1 %
Passenger Transport	Passengers	in millions	105	102	2.9 %
International	Letters mailed (from Switzerland)	items in millions	192	203	-5.4 %

¹ Prior-year figure (adjusted)

Overall financial assessment

As was already predicted in the first half of the year, the performance in the second half was weaker. Group profit in 2005 came to 811 million francs (adjusted prior-year figure: 830 million francs). Operating income rose by 151 million francs over the previous year to 7,499 million francs. Both financial services income and net sales from logistics services contributed to this result. Operating expenses of 6,694 million francs exceed the year-back figure by 175 million francs. Merchandise and service expenses (73 million francs), expenses for financial services (36 million francs) and other operating expenses (102 million francs) contributed to this increase. Although staff costs were 33 million francs down on the previous year and writedowns were reduced by 3 million francs, this did not compensate for the above-mentioned increase in expenses.

Significant events

Revised Postal Act and Postal Ordinance / owner and regulator

In December 2005 the Federal Council decided to open up the market for letters weighing over 100 g. As of 1 April 2006, private companies will also be able to operate in the letters market. According to this decision, private operators may collect, carry, sort and deliver letters in future. Swiss Post has prepared for this liberalization by optimizing its services and providing a competitive offering.

The Federal Council has defined the following financial targets for Swiss Post as part of its strategic goals:

- An appropriate result will be generated in the universal service and in the competitive segment, and the company value will be increased. Comparable domestic and international companies will serve as a benchmark.
- Swiss Post generally finances its investments from the cash flow it generates.
- Priority was given to gradually building up the necessary equity base and restructuring the pension fund from the profit it generates. A secondary goal will be to pay an appropriate dividend on the endowment capital provided by the Confederation.

Moreover, the Federal Council has stated that as of 2008 no more public funds will be used for press promotion.

The differences of opinion between the postal regulator and Swiss Post have been resolved. Swiss Post's financial statements are in order and do not violate the law. The head of the Swiss Post regulatory authority and the Chief Executive Officer of Swiss Post arrived at this conclusion in December. Both parties agreed as to how the costs of the basic service should be disclosed in future.

Adjustments to key services and prices

Owing to the imminent liberalization of the letter market, Swiss Post is adjusting the prices for letters over 100 g. As of 1 April 2006, these letters will be subject to value-added tax. Swiss Post will bear part of the overall resulting costs of 30 million francs.

Swiss Post will renew and standardize its 20,000 or so letterboxes by 2010. The new letterboxes will be more customer-friendly and more secure.

Reorganization of Letter Centres (REMA)

One of the most important strategic projects at Swiss Post aimed at reorganizing the letter centres (REMA) is on track. The locations of the three new letter centres will be Zurich-Mülligen, Härkingen and Eclépens. In February 2005 ground was broken for the redevelopment of the first new letter centre in Zurich-Mülligen (East). The letter centre is due to start operations at the end of 2007. The construction costs for the three new letter centres are put at 450 million francs. The six sub-centres will be built in Geneva, Basel, Kriens, Ostermundigen, Cadenazzo and Gossau. Here, funds totalling 34 million francs are planned.

After a successful WTO tender, investments of 436 million francs were approved in the course of the year for letter processing plant (plant technology, letter data recognition and processing, conveyor and warehouse technology and IT).

Following the decision to outsource part of the video coding and returns processing to the Canton of Graubünden, around 65 new full-time positions will be created with the second location in the Canton of Valais. Swiss Post is thus actively promoting the creation of new jobs in marginal regions.

Major optimization measures

Swiss Post is pooling its logistics services under the new PostLogistics brand and gradually replacing the various brands PostParcels, ParcelLogistics AG, ExpressPost AG, Swiss Post NET AG, BTL Logistics AG and Setz Gütertransport AG. This will be accompanied by a leaner management structure in the core postal business. In this context, the operational activities of the two subsidiaries BTL Logistics AG and Setz Gütertransport AG were merged into Setz Gütertransport AG on 1 July 2005.

In 2004, Swiss Post started the first pilot tests for a new agency model, among other things, as part of the Ymago project. From today's standpoint the course it embarked on has proven to be the right one. With this project, Swiss Post is meeting a major customer demand for simplified services, longer opening hours and more attractive locations. A decision regarding development of the post office network is expected at the end of 2006 once all the pilot tests have been evaluated. There is no doubt that the basic service will still be provided in future via the post office network of Swiss Post in the form of conventional post offices, agencies, mobile post offices and postal entrepreneurs.

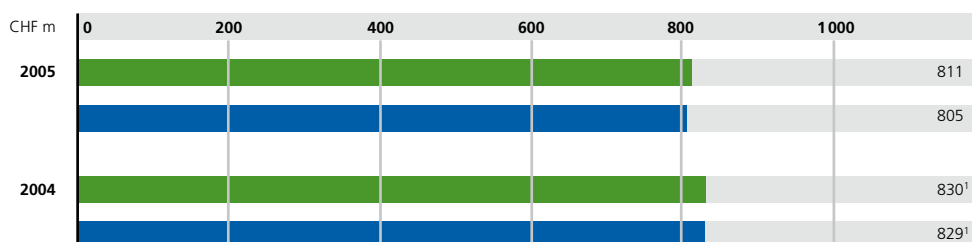
Expansion of business activities

Only a few companies were established or acquired in 2005:

- Beginning in January 2005, the subsidiary SPI Sweden AG continued the business operations of the former franchisee.
- In June 2005, 25 percent of the shares of Liechtensteinische Post AG were acquired under a call option.
- SwissSign AG was taken over in July 2005 in order to enable Swiss Post to offer the infrastructure and expertise for a public key infrastructure that complies with the law.

Consolidated income statement

■ Group profit
■ Operating result before interest and taxes



¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

At 811 million francs, Group profit for 2005 was 2.3 percent or 19 million francs below the year-back result of 830 million francs. Operating profit came to 7,499 million francs (2004: 7,348 million francs). The increase was based on higher net sales from financial and logistics services totalling 7,194 million francs (2004: 7,076 million francs). Other operating income came to 305 million francs (2004: 272 million francs), i.e. an increase of 33 million francs.

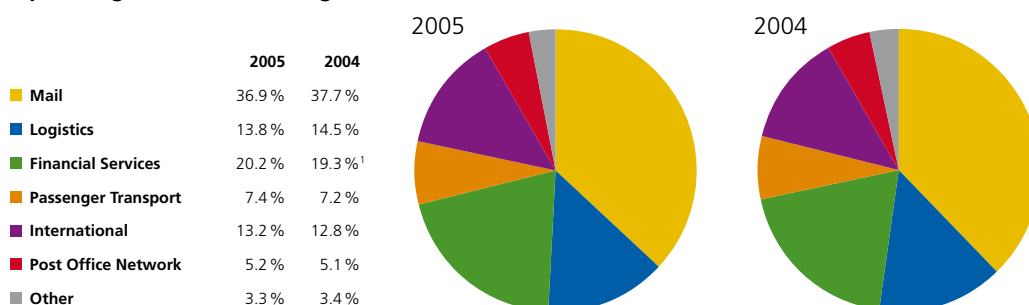
The Financial Services, Passenger Transport and International segments in particular contributed to the growth in sales. Sales declined, however, at PostMail, Logistics and Post Offices & Sales. The increase in customer deposits had a positive effect on income from financial services, as in the previous year. The sale of tangible fixed assets no longer needed for operating purposes generated income of 36 million francs (2004: 21 million francs).

Operating expenses of 6,694 million francs were up 175 million francs or 2.7 percent on the previous year. Staff costs decreased by just 33 million francs, owing to a 1,211 decline in headcount. The effect on staff costs would have been greater had it not been for the already decided, uninsured payment to employees as a result of the renewed good result that was charged to the year under review.

Other expenses increased by 102 million francs as a result of acquisitions. Writedowns changed only slightly, down 3 million francs on the previous year to 252 million francs. The imminent investments for the new letter centres as part of the REMA project will lead to higher writedowns in future.

The financial result – the balance of financial income and expenses – remained unchanged compared with the previous year. It is worth noting that interest income and expenses for PostFinance were not included in the financial result but stated under "Operating income" and "Operating expenses" respectively.

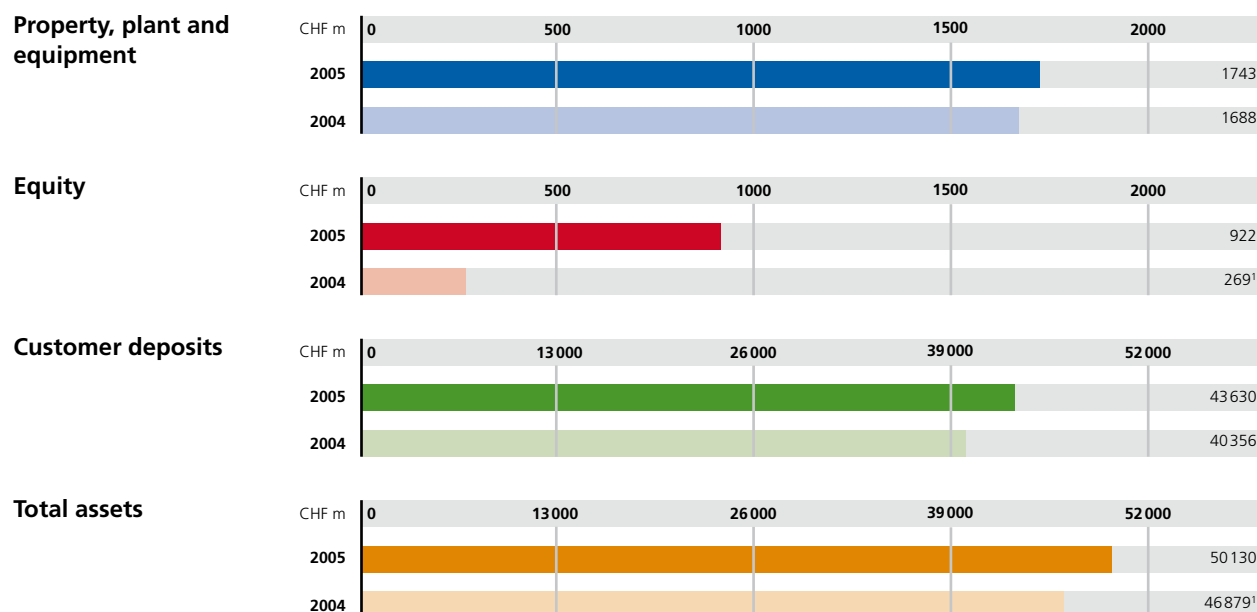
Operating income of the segments



¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Consolidated balance sheet

Key balance sheet items



¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Once again, the consolidated balance sheet of Swiss Post is shaped by customer deposits of the Financial Services business area. Total assets increased by 3,251 million francs to 50,130 million francs as a result of a renewed increase in customer deposits at PostFinance. As at 31 December 2005 customer deposits account for around 87 percent of total assets (2004: 86 percent). The lion's share was invested in bonds, owing to the investment guidelines and the agreement with the Federal Treasury, while the remainder was placed primarily with the Federal Treasury.

Amounts due from banks increased by 2,653 million francs as a result of the continuing influx of new money.

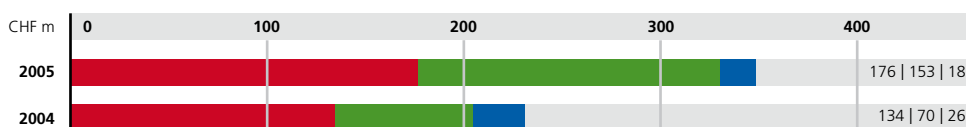
The carrying amount of property, plant and equipment increased by 55 million francs as a result of initial investments in REMA. The decrease in provisions (excluding pension fund) of 11 million francs is due primarily to the release of restructuring provisions at Logistics that were no longer required and which was carried in the income statement. Thanks mainly to a deposit of 350 million francs into the employer's reserve in connection with the appropriation of profit in 2004, the liability for employee benefit obligations was reduced to 3,122 million francs (2004: 3,523 million francs).

Consolidated equity in accordance with IFRS came to 922 million francs at the end of the reporting year (year-back figure adjusted: 269 million francs). As a result of changed IAS 39 provisions (revised 2004), impairment on financial assets was adjusted in the 2004 accounting year. Equity increased by 19 million francs as a result of the adjustment made on 1 January 2004. Changes in value adjustments carried in the income statement were also adjusted accordingly and resulted in a 9 million franc decrease in Group profit in 2004.

Investments

Higher investments

- Other property, plant and equipment, intangible assets
- Operating property
- Participations



Investments in property, plant and equipment and participations came to 347 million francs and were considerably higher than the year-back figure. The increase is due primarily to the REMA project. As in 2004, the investment volume was financed entirely out of funds generated by Swiss Post itself.

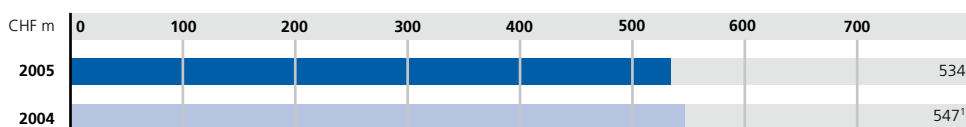
Other investments focused on refits of postal operations buildings, rationalization and optimization projects, sourcing of substitute vehicles for the transport of goods and passengers, and IT projects.

Investments in participations include the acquisition of a 25 percent stake in Liechtensteinische Post AG and the purchase of SwissSign AG. The expertise of SwissSign AG supports the introduction of the digital postmark which makes legally valid electronic registered letters possible.

The budgets show that investments will increase to well over 600 million francs in 2006. The renewed increase is due mainly to the REMA project with planned investments in buildings and plant of around 300 million francs. Otherwise, no individual projects with above-average investments are planned. The higher investment volume anticipated for 2006 can probably be financed from cash flow.

Value trend

Added value



¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

In accordance with the Federal Council's strategic targets, Swiss Post must increase the company value. This is measured in terms of value added (VA). The VA is an absolute figure (millions of francs) and indicates how much added value the company as a whole or a specific unit generates. Value added is created when the tax-adjusted operating profit exceeds the required interest on invested capital (operating assets multiplied by the weighted capital costs). This method takes both the Income Statement (operating profit) and the risks (capital costs) and capital invested (net operating assets) into account. For the Financial Services segment, the value is determined on the basis of equity, calculated in accordance with the regulations of Basel II, instead of the operating assets.

In 2005 the increase in the value of the company as a whole came to 534 million francs (2004: 547 million francs). The calculation was based on equity costs of 10 percent for Financial Services and for the other business areas on average equity- and debt-weighted capital costs for the Group of 7.1 percent.

The value added for the entire company is included as a key figure in the calculation of the variable performance component of management remuneration. In this way, management is motivated to think and act systematically in terms of generating genuine value, while taking into account capital retention and the risks (capital costs).

Segments

Although the operating result did not reach the year-back level, all segments contributed to the positive result. The results of the Mail and Post Office Network business areas are shown after infrastructure contributions (compensation for non-covered costs in the post office network as a result of reserved services of the Mail area).

The costs of the post office network not covered by compensation payments came to 442 million francs (2004: 374 million francs). The first increase after a number of clear decreases is due to two main factors. Firstly, the disproportionately high volume declines and higher wages were not offset by improvements in efficiency. Secondly, the release in 2004 of restructuring provisions that were no longer required had a positive effect. The operating result of the post office network corresponds to the proceeds from the sale of third-party products amounting to 27 million francs (2004: 19 million francs).

Before infrastructure contributions, the operating results were as follows:

Mail: 660 million francs (2004: 652 million francs)
 Post Office Network: –415 million francs (2004: –355 million francs)

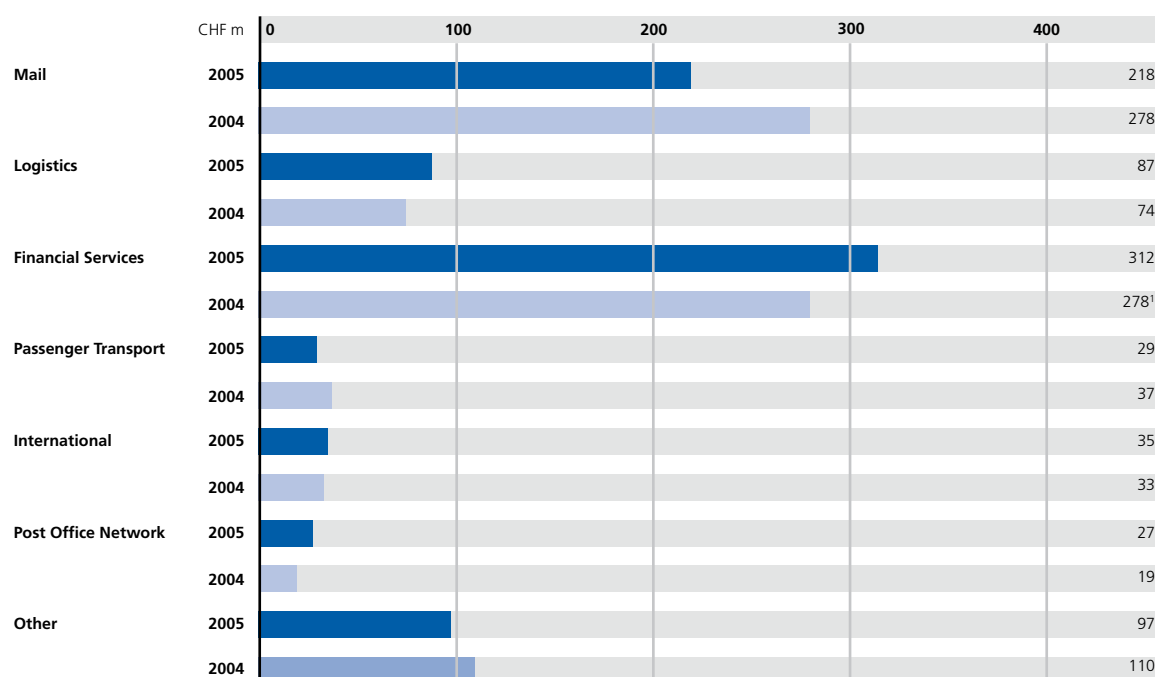
	Operating income		Operating results ¹		No. of employees (excl. trainees) ²	
	2005	2004 ³	2005	2004 ³	2005	2004
Monetary values in CHF m						
Mail	3 178	3 236	218	278	15 364	15 572
Logistics	1 368	1 393	87	74	5 540	6 075
Financial Services ³	1 529	1 444	312	278	2 390	2 246
Passenger Transport	559	538	29	37	1 392	1 376
International	992	939	35	33	898	723
Post Office Network	1 875	1 939	27	19	12 046	12 911
Other	967	965	97	110	3 443	3 381
Consolidation	–2 969	–3 107				
Group	7 499	7 348	805	829	41 073	42 284

¹ Operating result before non-operating financial result and taxes.

² Average headcount in terms of full-time positions

³ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Operating results of the segments 2005



¹ Adjustment on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Mail

Mainly as a result of volumes it was not possible to match the prior-year operating result of 3,236 million francs (2005: 3,178 million francs). After compensating the uncovered costs of the post office network, the operating result declined by 60 million francs and amounted to 218 million francs in the year under review. Before the infrastructure contribution, the result was increased slightly to 660 million francs (2004: 652 million francs). Compared with the previous year, headcount was reduced by 208 full-time equivalents with a year-end total of 15,364 full-time equivalents.

Logistics

The operating result of 87 million francs was 13 million francs higher than in the previous year (74 million francs). Parcel volumes were down slightly, as expected, resulting in lower net sales for logistics services. However, this decline was more than offset by corresponding reductions in expenses especially in the human resources segment (reduction of 535 full-time equivalents).

Financial Services

Compared with the previous year, operating income was lifted by 85 million francs to 1,529 million francs. The operating result improved accordingly to 312 million francs. Interest income, the service and commission business and the release of writedowns on investments all contributed to the increase. However, the tighter margins in the interest business and an increased shift of funds to products earning higher interest (savings products and models with preferential interest rates) had a negative effect on interest income. In its service and commission business PostFinance benefited from the pricing model it introduced in 2004 as well as from income generated by the fund and mortgage business. Staff costs increased by 27 million francs as a result of the strategic development of PostFinance (increase of 144 full-time positions).

Passenger Transport

As a result of additional public transport services, which are compensated under the Railways Act and the Transport Act by the Confederation and the cantons, and thanks to the positive trend in commission business (rail substitutions and excursions), operating income went up to 559 million francs – a 21 million franc increase over the previous year (538 million francs). Likewise, the number of kilometres travelled increased by 3 million to 94 million. Expenses for this expansion in services and the much higher fuel prices resulted in a reduction in the operating result, however.

International

Operating income abroad went up by 53 million francs as a result of acquisitions. These positive effects were dampened by the loss of a key market area in Switzerland. Thanks to lower compensation paid to international partners as part of the international payment settlement, the gross margin for postal services was slightly higher. On balance, this resulted in a 2 million franc increase in operating profit to 35 million francs, compared with the previous year. The headcount increased by 175 full-time positions.

Post Office Network

Operating income, which is generated primarily internally, declined to 1,875 million francs. It was not possible to compensate the decline in income from acceptance services and home delivery with additional income generated by the sale of non-postal brand items. The Post Office Network generated sales of 381 million francs with these products, corresponding to an operating result of 27 million francs (2004: 19 million francs). The uncovered infrastructure costs rose again for the first time in a long time (from 374 million francs to 442 million francs). It was not possible to offset the decline in volumes of products sold via the post office network with improvements in efficiency. Moreover, the previous year's results were affected by special factors such as the release of restructuring provisions that were no longer required. Headcount was reduced by 865 full-time positions in the reporting year.

Other

As in the previous year, the results of MailSource Group and individual parent house units (especially Real Estate, Philately, Group Treasury) are included under "Other". The operating result now comes to 97 million francs (2004: 110 million francs). The increase in operating income was also only insignificant. Headcount totalled 3,443 full-time equivalents (2004: 3,381 full-time equivalents). The increase in headcount in the reporting year by 62 full-time positions was due primarily to MailSource Group.

Owner information

The Confederation is the sole owner of Swiss Post. The Confederation also acts as a regulator in the postal market with the following tasks: supervising safeguarding of the universal service, market supervision and enabling effective competition as part of gradual market liberalization.

The Federal Council sets out strategic objectives for Swiss Post for four years at a time. For controlling and monitoring purposes, the owner receives, in addition to the Annual Report, an annual report on the status of implementation of strategic goals, a report on human resources in accordance with the Public Officials Act and all reports and proposals submitted to the Board of Directors for information and decision-making purposes. In addition, the UVEK and the Federal Finance Administration are informed at regular meetings about the business performance and financial trends.

The regulatory authority receives a report once a year, which is based on the Postal Ordinance. Moreover, the regulatory authority is informed each year about the measures planned for the next two years in connection with the universal service, the post office network and delivery.

In addition, Swiss Post pursues an open and active information policy in respect of the public and the media. It publishes up-to-date financial information every six months and presents its Annual Report and financial statements at a press conference. Comprehensive information is also provided at special media events about the strategic orientation and key projects.

Parent company financial statements

Article 11 of the Postal Organization Act (POA) states that the consolidated financial statements are to be drawn up in line with recognized standards. Swiss Post decided to adopt IFRS (International Financial Reporting Standards). By contrast, the financial statements of the parent Swiss Post are prepared in accordance with generally accepted commercial principles. The profit stated in the 2005 financial statements for the parent is around 27 million francs lower than in the consolidated financial statements. In addition to the usual consolidation effects, the different treatment of pension plans stands out in this context. Therefore, the 2005 financial statements for the parent, Swiss Post, do not contain expense reductions arising from the reduction of employee benefit obligations and from long-term benefits due to employees and retirees amounting to net CHF 44 million (the parent financial statements do not include any corresponding provisions from previous years). See also Note 2, Accounting Principles, in the notes to the financial, page 66.

Swiss Post Group

Consolidated income statement

CHF m	Note	2005	2004 ¹
Net sales from logistics services		5 690	5 657
Income from financial services	6	1 504	1 419
Other operating income	7	305	272
Total operating income	5	7 499	7 348
Staff costs	8, 9	-3 704	-3 737
Resale merchandise and service expenses	10	-1 365	-1 292
Expenses for financial services	6	-263	-227
Other operating expenses	11	-1 110	-1 008
Depreciation	24, 25	-252	-255
Total operating expenses		-6 694	-6 519
Operating result	5	805	829
Financial income	12	12	15
Financial expenses	13	-9	-12
Profit / loss from associates	23	7	-1
Earnings before taxes		815	831
Income taxes	14	-4	-1
Group profit		811	830
Allocation of Group profit			
Group profit attributable to the Swiss Confederation (owner)		809	828
Group profit attributable to minority interests		2	2
Group profit		811	830

¹ Figures adjusted on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Consolidated balance sheet

CHF m	Note	31.12.2005	31.12.2004 ¹
Assets			
Cash holdings		2 296	1 871
Receivables due from banks	15	11 934	9 281
Interest-bearing amounts due from customers	15	81	76
Trade accounts receivable	15	918	955
Other receivables	15	755	777
Inventories	16	54	54
Non-current assets held for sale	34	12	—
Financial assets	17–22	32 186	32 042
Investments in associates	23	35	28
Property, plant and equipment	24	1 743	1 688
Intangible assets	25	106	101
Deferred income tax assets	14	10	6
Total assets		50 130	46 879
Liabilities			
Customer deposits	26	43 630	40 356
Other financial liabilities	26	474	618
Trade accounts payable		670	792
Other liabilities		746	746
Provisions	27	562	573
Employee benefit obligations	9	3 122	3 523
Current income tax liabilities		1	0
Deferred income tax liabilities	14	3	2
Total debt		49 208	46 610
Endowment capital		1 300	1 300
Capital reserves		554	204
Retained earnings		– 1 386	– 1 845
Reserves for self-insurance		265	265
Fair value reserves on financial assets ²		183	342
Currency translation reserves		1	0
Equity attributable to the owner		917	266
Minority interests		5	3
Total equity		922	269
Total liabilities		50 130	46 879

¹ Figures adjusted on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

² See also the Consolidated statement of changes in equity for details.

Consolidated statement of changes in equity

	Endowment capital	Capital reserves	Retained earnings ^{1, 2}	Reserve for self-insurance	Fair value reserves	Hedging reserve	Currency translation reserves	Equity attributable to the owner	Minority interests ²	Total ²
CHF m										
As at 1.1.2004 prior to restatement	1 300	204	-2 692	265	512	0	0	-411	2	-409
Restatement of write-downs on financial assets owing to changed IAS 39 provisions	—	—	19	—	—	—	—	19	—	19
As at 1.1.2004 after restatement	1 300	204	-2 673	265	512	0	0	-392	2	-390
Increase in fair value reserves on "available for sale" financial assets					3 ³	—	—	3		3
Gains transferred to the income statement due to the sale of financial assets					-14 ³	—	—	-14		-14
Amortization of fair value reserves on financial assets reclassified as "held to maturity" ⁴					-159	—	—	-159		-159
Total expenses / income recognized under equity					342	—	—	-562		-562
Group profit ²			828					828	2	830
Total profit for the period			828					266	4	270
Dividends			—					—	-1	-1
As at 31.12.2004²	1 300	204	-1 845	265	342	0	0	266	3	269
As at 1.1.2005	1 300	204	-1 845	265	342	0	0	266	3	269
Decrease in fair value reserves on "available for sale" financial assets					-46 ³	—	—	-46		-46
Gains transferred to the income statement due to the sale of financial assets					-11 ³	—	—	-11		-11
Amortization of fair value reserves on financial assets reclassified as "held to maturity" ⁴					-102	—	—	-102		-102
Change in unrealized gains / losses on hedging reserves for cash flow hedges (net)					—	0	—	—		0
Realized gains / losses transferred to the income statement from cash flow hedges					—	0	—	—		0
Change in currency translation reserve					—	—	1	1		1
Total expenses / income recognized under equity					183	0	1	108		108
Group profit			809					809	2	811
Total profit for the period			809					917	5	922
Dividends ⁵			-350					-350	-1	-351
Transfer to capital reserves ⁵		350	—					350	1	351
As at 31.12.05	1 300	554	-1 386	265	183	0	1	917	5	922

¹ Includes the initial capitalization of employee benefit obligations from IAS 19 of 3,658 million francs on 1 January 2002.

² Figures adjusted on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19

³ See also Note 17, Financial assets, p. 40

⁴ Amortization of fair value reserves is recognized in the income statement under "Income from financial services" (as interest income, in accordance with IAS 18). See also Note 19, Financial assets held to maturity, p. 41

⁵ In accordance with the proposal of the Board of Directors concerning appropriation of available earnings in 2004, 350 million francs were deposited in the Swiss Post pension fund as the employer's reserve. As a result of available earnings being thus appropriated, an equal amount was allocated to capital reserves.

As at 1 January 1998, the Swiss Confederation has provided Swiss Post with interest-free endowment capital of 1,300 million francs.

Bearing in mind economic viability and cover requirements, insurance risks are financed primarily through a self-insurance solution, as a result of which exceptional claims may affect the result. A special, appropriated reserve was created under Equity to cover this risk, which is borne by the Group itself. Major and special risks are insured externally. Under Article 14 of the Postal Organization Act, Swiss Post is exempt from the duty to obtain insurance laid down in federal and cantonal law.

Fair value reserves include fluctuations in the value of "available-for-sale" financial assets, which are caused mainly by fluctuations in capital market interest rates. When the assets are sold, the corresponding amount is transferred to the income statement.

Hedging reserves include net gains and losses resulting from fair value changes attributable to the effective portion of cash flow hedges. The hedging reserve is released to the income statement when the hedged item affects the income statement. PostFinance has only been using hedge accounting since the third quarter of 2005, as a result of which the hedging reserves amounted to less than half a million francs.

Consolidated cash flow statement

CHF m	Note	2005	2004 ¹
Earnings before taxes		815	831
Depreciation	24, 25	252	269
Release of negative goodwill BTL Logistics AG	33	—	-14
Net gains from the sale of property, plant and equipment		-36	-21
Net writedowns on financial assets		-31	-7
Net (decrease) in provisions		-62	-198
Other financial results (excl. financial services)		-27	-24
Change in net current assets:			
Decrease in receivables		48	86
(Decrease)/increase in liabilities		-121	11
Decrease/(increase) in other non-interest-bearing current assets		0	0
Change in items from financial services:			
(Increase) in receivables due from banks (term of 3 months or more)		-195	-4
(Increase) in financial assets		-232	-2 151
Change in customer deposits/interest-bearing amounts due from customers		3 269	1 395
Change in other receivables/liabilities from financial services		-69	-972
Income taxes paid		-8	-5
Cash flow from operating activities		3 603	- 804
Investment in property, plant and equipment	24	-329	-182
Investment in intangible assets (excl. goodwill)	25	0	-2
Investment in subsidiaries, minus cash and cash equivalents taken over	33	-13	-45
Investment in associates		-5	-
Proceeds on disposal of property, plant and equipment		52	40
Proceeds on disposal of other (non-operating) financial assets (net)		-28	183
Interest received (excl. financial services)		15	17
Cash flow from investing activities		- 308	11
Increase (decrease) in other financial liabilities		-58	75
Interest paid		-2	-2
Transfer to Swiss Post pension fund	9	-350	-
Dividends paid to minority interests		-1	-1
Cash flow from financing activities		- 411	72
Change in cash and cash equivalents		2 884	- 721
Cash and cash equivalents at 1 January		10 051	10 772
Cash and cash equivalents at 31 December		12 935	10 051
Cash and cash equivalents include:			
Cash holdings		2 296	1 871
Receivables due from banks with an original term of less than 3 months	15	10 639	8 180
Total cash and cash equivalents at 31 December		12 935	10 051

¹ Figures adjusted on the basis of changed IFRS provisions, see Notes to the financial statements, no. 2, Accounting Principles, p. 19.

Notes to the consolidated financial statements

1 Business activities of Swiss Post

Swiss Post is a public organization with its head office in Berne which is wholly owned by the Swiss Confederation. Swiss Post and its subsidiaries (hereinafter referred to as Swiss Post) provide logistics and financial services both in Switzerland and abroad (see Note 5, Segment information, page 29).

2 Accounting principles

Introduction

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

The consolidated financial statements are drawn up on the basis of historical cost. Exceptions to this rule are described in the accounting principles set out below. For instance, derivative financial instruments and financial assets held for trading, designated at fair value and classified as "available for sale" are carried in the balance sheet at their fair value.

To take account of the characteristics of the financial services and their importance for Swiss Post, profit/loss from financial services is shown separately in Note 6 (Profit/loss from financial services, page 33). Furthermore, the balance sheet is not broken down into current and non-current items, but structured according to descending liquidity in accordance with IAS 30 (Disclosures in financial statements of banks and similar financial institutions). Financial expenses and income from financial services and the underlying cash flows are shown as operating expenses, income or cash flows. Financial expenses and income from other business units are stated as non-operating financial results (excluding financial services) and the relevant cash flows as investment or financing transactions.

Revised International Accounting Standards (IAS) and new International Financial Reporting Standards (IFRS)

The following new and revised standards were applied in the reporting period:

IAS 1	(revised 2004)	Presentation of Financial Statements
IAS 2	(revised 2004)	Inventories
IAS 8	(revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	(revised 2004)	Events after the balance sheet date
IAS 16	(revised 2004)	Property, plant and equipment
IAS 17	(revised 2004)	Leases
IAS 21	(revised 2004)	The Effects of Changes in Foreign Exchange Rates
IAS 24	(revised 2004)	Related Party Disclosures
IAS 27	(revised 2004)	Consolidated and Separate Financial Statements
IAS 28	(revised 2004)	Investments in Associates
IAS 32	(revised 2004)	Financial Instruments: Disclosure and Presentation
IAS 39	(revised 2004)	Financial Instruments: Recognition and Measurement
IFRS 5	(issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

The following standards have been applied since 31 March 2004:

IAS 36	(revised 2004)	Impairment of Assets
IAS 38	(revised 2004)	Intangible Assets
IFRS 3	(issued 2004)	Business Combinations

The overall impact on Swiss Post Group of applying the new and revised IFRS provisions is insignificant.

Application of the IFRSs in 2005 impacted on the disclosures for the 2004 accounting year as follows:

- Minority interests in the income statement are no longer presented separately in Group profit or loss. With regard to the 2004 accounting year, the old “Earnings after taxes and before minority interests” item disclosed in the financial report 2004 corresponds to the “Group profit or loss” item in the new financial report.
- Minority interests in the balance sheet are now treated as equity. As a result, the adjusted figures for the 2004 accounting year show equity to be higher.
- As of the 2005 accounting year, it is no longer permitted to recognize writedowns on available-for-sale financial assets (IAS 39 revised). Writedowns on financial assets were therefore adjusted as follows: As at 1 January 2004, the relevant writedowns amounted to 19 million francs. The adjusted equity item assumes that these writedowns do not exist and equity is therefore higher. In the 2004 accounting year, around 9 million francs of the aforementioned writedowns were reversed through the income statement. The adjusted profit for 2004 is lower, as it is not possible to recognize the reversal of a non-existent writedown.

Summary of the reconciliations of the main items:

CHF m	
Group profit disclosed in financial report 2004	837
+ Addition of minority interests in 2004	2
– Reversal of writedowns on available-for-sale financial assets	–9
Group profit for 2004 disclosed in Group financial report as at 31 Dec. 2005	830
Equity as at 31 Dec. 2004 disclosed in financial report 2004	256
+ Addition of minority interests in 2004	3
+ Addition of writedowns on available-for-sale financial assets	19
– Reversal of writedowns on available-for-sale financial assets	–9
Equity as at 31 Dec. 2004 disclosed in Group financial report as at 31 Dec. 2005	269

As of the 2005 accounting year, IFRS 5 requires non-current assets and groups of assets classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell.

As the owner of Swiss Post, the Swiss Confederation is now deemed to be a related party. Transactions with the Swiss Confederation are disclosed under note 30, page 53.

In the interests of comparability, the classification of some prior-year figures has been changed. The changes mainly concern the aforementioned minority interest disclosures and the restatements in connection with writedowns on financial assets.

Information about the current situation of Swiss Post in the public sphere

As part of its overall review of Swiss Post, the Federal Parliament approved the creation of the necessary legal basis for assumption of the deficit (calculated in accordance with federal legislation governing occupational retirement, survivors' and disability pension plans (BVG) in Swiss Post's former Occupational Pension Plan for Special Services (BVBD) and the recapitalization of Swiss Post to ensure that sufficient provisions are available for employee benefit obligations (calculated in accordance with IAS 19). The relevant amendments to the Postal Organization Act (Article 24, Sections 2 and 3) came into force on 1 January 2004.

The consolidated balance sheet for each of 2002 and 2003 showed equity to be negative after the provision of 3.7 billion francs for employee benefit obligations was recognized in accordance with IAS 19 as at 1 January 2002 (opening balance sheet as per IFRSs). Thanks in particular to retained earnings from recent years, the consolidated balance sheet as at 31 December 2004 showed positive equity again for the first time. Funding of the shortfall by the Swiss Confederation was not prejudiced in any way as a result of these provisions for pension obligations being recognized in the balance sheet. On 29 October 2003, the Federal Council set out the principles according to which the problems associated with the pension funds of the Swiss Confederation and former government-owned enterprises would be solved. Against this background and in consultation with its pension fund, Swiss Post is examining measures to reduce employee benefit obligations.

In preparing the financial statements, the Board of Directors and Executive Management considered the following:

As steps are taken towards liberalization, pressure on the earnings base of Swiss Post will increase. If the existing production and distribution structures are maintained, Swiss Post will soon no longer be able to cover the expenses thus incurred with the relevant revenues generated in the market. With this in mind, Executive Management and the Board of Directors have planned and implemented measures to ensure that the cost reductions required in future can be achieved through structural adjustments.

If – as a result of decisions beyond the sphere of influence of Executive Management and the Board of Directors – the measures planned and initiated cannot be fully implemented, and if the additional financial burdens are not covered by public-sector funds, it is conceivable that Swiss Post might report a loss. This would mean that Swiss Post would no longer be able to independently generate the financial resources required to continue operations.

In light of the aforementioned dependencies and due to the existing state guarantee, Swiss Post's consolidated financial statements are prepared on a going-concern basis despite the fact that its equity base is still inadequate.

3 Consolidation and accounting principles

The consolidated financial statements of Swiss Post comprise the parent – Swiss Post – and all companies in which Swiss Post holds over 50 percent of the voting rights, whether directly or indirectly, or where Swiss Post is responsible for operational and financial management. These companies are fully consolidated. The consolidated financial statements are based on the individual accounts of the parent and the subsidiaries, which in turn are prepared in accordance with uniform principles as at a uniform closing date.

All intra-Group claims, liabilities, expenses and income from intra-Group transactions and unrealized inter-company profits are eliminated in the consolidation. Minority interests in the equity of consolidated companies are presented as a separate item within equity. Minority interests in Group profit or loss are presented outside the consolidated income statement.

Investments in associates where Swiss Post has 20 to 50 percent of the voting power and/or significant influence but which it does not control are not consolidated, but accounted for by the equity method and reported under Investments in associates. Joint ventures with 50 percent of the voting power in which Swiss Post has significant influence but which it does not control are recognized and disclosed by the same method. Under the equity method, the investment value is calculated based on the historical cost, plus or minus the proportionate profit or loss since the acquisition date. Material holdings and transactions with these companies are posted separately as items with associates. Investments under 20 percent are recognized and presented as financial assets either classified as “available for sale” or designated at initial recognition “FVTPL” (Fair value through profit or loss).

Companies acquired during the reporting period are included in the consolidated financial statements from the date on which Swiss Post assumes effective control. Companies that are sold are included until the date of sale.

Please see Note 32 (Scope of consolidation, page 57) for an overview of Swiss Post subsidiaries and associates.

Currency translation

The consolidated financial statements of Swiss Post are drawn up in Swiss francs (CHF).

Transactions in foreign currencies are translated at the daily rate ruling on the date of the transaction. On the balance sheet date, monetary assets and liabilities in foreign currencies are translated at the year-end rate.

Assets and liabilities in balance sheets prepared in a foreign currency of fully consolidated companies are translated into Swiss francs at the daily rate prevailing 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 income statements of foreign subsidiaries are taken directly to consolidated equity.

Recognition of income

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

Income from logistics services is recognized after sales deductions at the time the service is provided. Income from the sale of products is recognized in the income statement if the risks and rewards associated with the products have been transferred to the purchaser. Swiss Post receives compensation from the Swiss Confederation for public passenger transport services and the uncovered costs of newspaper transport, which is recognized in the income statement on an accrual basis.

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

Cash

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

Financial receivables

Receivables due from banks and interest-bearing amounts due from customers (technically overdrawn Yellow Accounts) are measured at amortized cost under the effective interest method and usually correspond to the face value. If there are specific doubts as to a borrower's creditworthiness, an appropriate impairment charge may be recognized.

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are carried in the balance sheet at amortized cost, which usually corresponds to the face value, minus an impairment charge for doubtful receivables.

Inventories

Inventories comprise resale merchandise, fuel and operating materials. They are measured at the lower of historical or manufacturing cost and fair value less costs to sell. The historical or manufacturing cost is determined according to the weighted average cost method. Appropriate impairments are recognized for inventories that are not easily marketable.

Financial assets

Financial assets acquired with the aim of generating short-term gains by making targeted use of fluctuations in market prices are measured as financial assets at fair value, i.e. they are classified as at "Fair value through profit or loss, held for trading". Fair value changes in this category are taken to the income statement. Swiss Post has not so far designated any financial assets as at fair value through profit or loss at initial recognition.

Financial assets with a fixed term to maturity, where Swiss Post has the positive intent and ability to hold them until maturity, are classed as "Held to maturity" and carried in the balance sheet at amortized cost under the effective interest method. The effective interest method distributes the difference between the historical and repayment value (premium/discount) over the term to maturity of the asset in question using the annuity method. This results in a constant rate of interest until maturity.

Other financial assets, which are held for an indefinite period and can be sold at any time for liquidity reasons or in reaction to changing market conditions, are classed as "available for sale" and are recognized at their fair value. Unrealized gains and losses are recognized under "Fair value reserves" on financial assets in equity and are taken to the income statement only when the financial asset is sold or if an impairment is recognized. Currency translation differences on monetary financial assets classed as "available for sale" are taken to the income statement.

Loans granted by Swiss Post are carried in the balance sheet at amortized cost. Financial assets are accounted for in the balance sheet as at their due date.

Swiss Post checks its financial assets on a regular basis for any indication that an asset may be impaired. If there are indications that an asset is impaired, the recoverable amount is estimated. The recoverable amount on interest-bearing assets and loans is the present value of expected future cash flows from interest payments and repayments. The present value of "held to maturity" assets and loans is calculated on the basis of the original effective rate of interest on the financial assets in question. If the recoverable amount is less than the carrying amount of a financial asset, the difference is entered as an impairment in the income statement. The present value of "available for sale" financial assets is calculated at the current market interest rate. If an impairment is recognized on an "available for sale" financial asset, the cumulative net loss on this asset recognized in equity is eliminated from equity and taken to the income statement. If the fair value of an interest-bearing asset such as a bond is less than the carrying amount solely due to a change in market interest rates, no impairment is recognized provided the issuer's credit standing is considered to be good. In this case, the change in the fair value of financial assets classed as "available for sale" is taken directly to equity. Writedowns are made on equity instruments in the "available-for-sale" category if a significant (i.e. loss of 20 percent on the original purchase price) or permanent (i.e. lasting 9 months or more) loss in fair value is ascertained. Until the disposal takes place no reversals of impairment losses are recognized in the income statement; positive value changes are taken directly to equity.

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

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

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

Cash flow hedges are used to hedge future transactions. Changes in value to the extent a hedge is effective are recognized in equity, while changes in value to the extent a hedge is ineffective are recognized in the income statement.

Derivatives that are not accounted for using hedge accounting are treated as instruments held for trading.

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

The fair values of financial instruments are determined on the basis of stock market prices and valuation models (annuity method, etc.). For listed financial instruments, the fair values correspond to the market prices. For unlisted monetary financial instruments, the fair values are determined by discounting the cash flows, using the current interest rate applicable to similar instruments with the same maturity.

Repurchase and reverse repurchase transactions and securities lending transactions

Cash outflows arising from reverse repurchase transactions are stated as receivables due from banks. Financial assets obtained from transactions as collateral are not recognized in the balance sheet. Transactions are accounted for in the balance sheet on their due date. Interest income from reverse repurchase transactions is accounted for under the accrual-based accounting principle.

Financial assets transferred as collateral in repurchase transactions are still 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 under the accrual-based accounting principle.

In respect of securities lending and borrowing, Swiss Post engages in securities lending only. The loaned financial instruments are still 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:

Plots of land	none
Operating property	20–60 years
Equipment	3–20 years
Machinery	3–15 years
IT equipment	3–10 years
Furniture	3–20 years
Track vehicles	10–30 years
Other vehicles	3–10 years

Capitalized tenant fit-outs and installations in rented premises are depreciated over the estimated useful life or the duration of the rental agreement, if shorter. Property, plant and equipment comprising components with different useful lives is recognized and depreciated separately. The useful lives of items of property, plant and equipment are reviewed on an annual basis. There are no significant properties to be classified as investment properties in accordance with IAS 40.

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. Third-party capital interest for assets under construction are not capitalized but carried as an expense.

Leases

Lease agreements for properties, installations, other property, plant and equipment and vehicles where Swiss Post substantially assumes all risks and rewards incident to ownership are treated as finance leases. The fair value of the leased object is capitalized at inception of the lease and carried as an item of property, plant and equipment. Future lease payments are discounted and posted as a liability. Each lease payment is broken down into amortization and interest expense components. The amortization component is deducted from the capitalized lease obligation.

The other lease agreements are recognized as operating leases. The lease payments are carried in the income statement over the term of the lease.

In classifying long-term property leases, land and building elements are assessed separately. Subject to certain conditions, buildings are accounted for as finance leases. As a rule, leases in respect of plots of land are classified as operating leases due to the indefinite useful life.

Intangible assets

In the event of company mergers, capitalized goodwill is carried in the balance sheet at cost less impairment. In the event of acquisitions, the purchase price will in future be broken down into the identifiable assets and liabilities as part of the purchase price allocation.

Additions of intangible assets not acquired as a result of mergers are recognized at cost and written down over the period of their useful life. The estimated useful lives of intangible assets are reviewed on a regular basis.

Impairment (property, plant and equipment and intangible assets)

Tangible fixed assets and intangible assets (excl. goodwill) are checked regularly to determine if there are signs of over-valuation. If there are signs of overvaluation, the carrying amount is compared with the net recoverable amount (the higher of net selling price and value in use). If the carrying amount of an asset exceeds its recoverable amount, an impairment equal to the difference between the carrying amount and the recoverable amount is recognized in the income statement. The carrying amount of goodwill is reviewed at least annually.

Customer deposits

Customer deposits held with PostFinance such as Yellow Accounts, Deposito Accounts and investment accounts, as well as fixed-term deposits, are measured at amortized cost, which usually corresponds to the face value.

Other financial liabilities

Other financial liabilities comprise amounts due to banks (which are measured at amortized cost), derivatives measured at fair value, finance lease obligations and repurchase transactions.

Provisions

Provisions are made provided that – at the time the balance sheet is drawn up – a past event has resulted in a present obligation and a cash outflow is probable and can be measured reliably.

Restructuring provisions are made 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 made for expected expenses arising from claims incurred that are not insured externally.

Employee benefits

Most of the employees are insured with the Swiss Post pension fund, a defined benefit plan. In line with statutory provisions, the plan covers risks resulting from the economic consequences of old age, disability and death. The expenses 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 balance sheet date are taken into account, and assumptions are made as to future wage trends.

The implications of changes in the pension plan are taken directly to the income statement, provided they resulted in justifiably acquired rights. Other effects are recognized equitably in the income statement over the assumed average remaining working lives of the insureds. Actuarial and asset-related cumulative gains and losses are recognized on a straight-line basis over the average remaining useful lives, provided they exceed 10 percent of the higher of the pension assets and obligations (projected benefit obligation).

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

Provisions for other long-term benefits due to employees (loyalty bonuses for long years of service) and staff vouchers for retired employees are also determined in line with the projected unit credit method.

Income taxes

In accordance with Article 13 of the Postal Organization Act, the parent (Swiss Post) only pays tax on profit arising from competitive services under Article 9 of the Postal Act. 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 the taxable services provided by 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 the Group and tax-related assets and liabilities (balance sheet liability method). Tax loss carryforwards are taken into account in calculating deferred taxes only to the extent that it is probable that sufficient taxable profits will be generated in future, against which these can be offset.

Non-current assets held for sale and discontinued operations

Non-current assets (property, plant and equipment and intangible assets) or groups of assets (e. g. an entire operation) are classified as held for sale if they are no longer in use and Swiss Post intends to dispose of them. Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and no longer depreciated/amortized.

A discontinued operation comprises clearly identifiable activities that have already been sold or that are classified as non-current assets held for sale.

4 Estimation uncertainty and management's judgment used in applying accounting policies

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 ultimately may 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 financial statements as a result of Executive Management's judgments are also explained.

Estimation uncertainty

(a) Useful lives of items of property, plant and equipment

The useful lives of items of property, plant and equipment 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.

(b) Employee benefit obligations

Expenses and obligations arising from pension plans are calculated annually using the projected unit credit method. The calculations are based on various actuarial assumptions such as the expected long-term return on plan assets, expected wage trends and the discount rate for pension obligations.

(c) Fair values of financial instruments

Fair values of financial assets that are not traded publicly on a stock exchange are measured using recognized estimation methods. This requires making assumptions based on observed market information. The discounted cash flow (DCF) method was used to determine the fair value of some unquoted available-for-sale financial assets. The DCF is calculated on the basis of Bloomberg yield curves, taking the relevant parameters (rating, maturity, etc.) into account.

Management's judgment used in applying accounting policies

(a) Held-to-maturity investments

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

(b) Impairment of available-for-sale financial assets and held-to-maturity investments

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

5 Segment information

Basics

Segment reporting is based on Swiss Post's internal organizational and management structures. Transactions between the segments are based on a catalogue of services and a manual covering transfer prices. Transfer prices are calculated on the basis of commercial criteria.

Note 32 (Scope of consolidation, page 57) illustrates how Swiss Post accounting units and subsidiaries are assigned to the segments.

Primary segmentation

Mail	Services relating to addressed letters, newspapers, unaddressed items, electronic services.
Logistics	Parcels, express and courier deliveries, transport, logistics services.
Financial Services	Services relating to payments, investments, retirement planning and financing.
Passenger Transport	Road-based passenger transport and supplementary services.
International	Mailing and receipt of letters and parcels to and from countries abroad and related services in countries abroad. Mailing of newspapers/magazines.
Post Office Network	Sales channel for postal products/services and additionally for third-party products for private customers and small and medium-sized businesses.
Other	Swiss Post units which cannot be assigned to the segments (service and management units and Philately), subsidiaries of MailSource Group.
Consolidation	Effects of intra-Group elimination.

Secondary segmentation

Assignment to the "Switzerland" segment and the "International and cross-border" segment is based on geographical criteria. The "International and cross-border" segment includes the total turnover of Swiss Post International and the other foreign subsidiaries.

Statutory mandates

Statutory mandates require Swiss Post to provide a universal service throughout Switzerland. Pricing within the universal service is not at Swiss Post's discretion. Price changes affecting reserved services (monopoly) are subject to approval by the Federal Department of the Environment, Transport, Energy and Communication (UVEK).

Based on the Postal Act, Swiss Post provides reserved, non-reserved and competitive services. Reserved services (where Swiss Post has a monopoly) are provided by the Mail (addressed letters) and International (mailing and receipt of international letters) segments. Since 1 January 2004, all products (excluding catalogues weighing between 0.5 and 1 kg) in the Logistics segment have been considered as non-reserved services or competitive services (complete deregulation).

After compensation for services provided by the post office network, non-covered costs remain, which are charged to the Mail segment (reserved services). The post office network's operating profit of 27 million francs (2004: 19 million francs) corresponds to the profit from the sale of non-postal brand-name products.

Compensation from the Swiss Confederation

Swiss Post receives the following compensation for logistics services from the Swiss Confederation, disclosed under "Net sales":

- Mail segment: 80 million francs (2004: 79 million francs) for uncovered costs incurred in transporting newspapers.
- Passenger Transport segment: 188 million francs (2004: 181 million francs) for passenger transport services provided.

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 segment "Financial services" 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 the parent's centrally managed properties
- employee benefit obligations

Unallocated assets and liabilities comprise those (primarily loans, e. g. to PostBus operators) that are essentially financial and therefore not assigned to segment assets or segment liabilities.

Further information

Non-cash expenses/income primarily include those incurred in setting up and releasing provisions without affecting cash.

Results by business segment

2005

	Mail	Logistics	Financial Services	Passenger Transport ¹	International	Post Office Network	Other ²	Consolidation	Group
CHF m	Note								
Operating income									
with customers	2 765	1 038	1 512	553	990	391	250	—	7 499
with other segments	413	330	17	6	2	1 484	717	-2 969	—
Total operating income	3 178	1 368	1 529	559	992	1 875	967	-2 969	7 499
Operating result	218	87	312	29	35	27	97		805
Financial profit/loss	12, 13								3
Profit/loss from associates	23	1	—	2	0	4	—	0	7
Income taxes	14								-4
Group profit									811
Segment assets	516	290	47 242	170	580	477	2 139	-3 548	47 866
Associates	4	—	14	2	11	—	5		35
Non-allocated assets ³									2 229
Total assets									50 130
Segment liabilities	306	265	46 254	132	566	436	4 505	-3 548	48 916
Non-allocated liabilities ³									292
Total debt									49 208
Investment in property, plant and equipment and intangible assets	24	80	42	14	28	10	154		329
Depreciation	24, 25	37	47	29	22	5	108		249
Impairment	17, 25	—	0	3	—	2	1		6
Reversal of impairment	17	—	—	29	—	—	5		34
Other non-cash (expenses)/income		-9	-1	1	-3	0	-244		-250
Headcount ⁴	15 364	5 540	2 390	1 392	898	12 046	3 443		41 073

¹ The Passenger Transport segment is subject to the Railways Act (EBG). This provides for separate accounting regulations for franchised transport businesses (REVO). Results prepared in accordance with REVO and IFRS differ considerably.

² Includes Philately, MailSource Group, Real Estate and other service and management units.

³ Unallocated assets and liabilities comprise those that essentially contribute to the financial result but not to the operating result and therefore are not assigned to segment assets or segment liabilities.

⁴ Average expressed in terms of full-time equivalents (excl. trainees).

Results by region

2005

	Switzerland	International and cross-border	Group	
CHF m	Note			
Operating income with customers		6 410	1 089	7 499
Segment assets		47 227	639	47 866
Investment in property, plant and equipment and intangible assets	24	318	11	329

Results by business segment

2004

		Mail	Logistics	Financial services ¹	Passenger Transport ²	International	Post Office Network	Other ³	Consolidation	Group ¹
CHF m	Note									
Operating income										
with customers		2 768	1 068	1 419	531	937	378	247	—	7 348
with other segments		468	325	25	7	2	1 561	718	-3 106	—
Operating result		3 236	1 393	1 444	538	939	1 939	965	-3 106	7 348
Financial profit/loss		278	74	278	37	33	19	110		829
Profit	12, 13									3
Loss from associates	23	1	—	1	0	-3	—	—		-1
Income taxes	14									-1
Group profit¹										830
Segment assets ¹		549	288	44 162	165	643	498	2 127	-3 852	44 580
Associates		4	—	14	2	8	—	0		28
Non-allocated assets ⁵										2 271
Total assets¹										46 879
Segment liabilities		265	359	43 032	115	629	458	5 008	-3 852	46 014
Non-allocated liabilities ⁵										596
Total debt										46 610
Investment in property, plant and equipment and intangible assets	24, 25	31	29 ⁵	29	30	33	1	81		234
Depreciation	24, 25	41	40	30	20	8	1	115		255
Impairment	17, 24	1	—	4	—	0	0	—		5
Reversal of impairment	17	—	—	2	—	—	9	0		11
Other non-cash (expenses) / income		-3	-2	2	-5	0	18	-240		-230
Headcount ⁶		15 572	6 075	2 246	1 376	723	12 911	3 381		42 284

¹ Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

² The Passenger Transport segment is subject to the Railways Act (EBG). This provides for separate accounting regulations for franchised transport businesses (REVO). Results prepared in accordance with REVO and IFRS differ considerably.

³ Includes Philately, MailSource Group, Real Estate and other service and management units.

⁴ After deduction of negative goodwill (17 million francs) from the acquisition of BTL Logistics AG.

⁵ Unallocated assets and liabilities comprise those that essentially contribute to the financial result but not to the operating result and therefore are not assigned to segment assets or segment liabilities.

⁶ Average expressed in terms of full-time equivalents (excl. trainees).

Results by region

2004

		Switzerland ¹	International and cross-border	Group ¹
CHF m	Note			
Operating income with customers		6 316	1 032	7 348
Segment assets ¹		43 883	697	44 580
Investment in property, plant and equipment and intangible assets	24, 25	196	38	234

¹ Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

Notes to the income statement

6 Profit/loss from financial services

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

CHF m	2005	2004 ¹
Interest income		
Interest income on amounts due from banks	20	10
Interest income on securities lending and reverse-repurchase transactions	48	18
Interest income on interest-bearing amounts due from customers	9	9
Interest and dividend income on FVTPL ² : held for trading	—	1
Interest and dividend income on financial assets	726	732
Interest expense		
Interest expense for customer deposits	-175	-147
Interest expense for amounts due to banks	0	0
Interest expense on repurchase transactions	-2	-2
Profit/loss on interest business	626	621
Writedowns on financial assets	29	-11
Losses on payment transactions	-6	-7
Interest income after writedowns	649	603
Commission income on lending business	23	16
Commission income on securities and investment business	15	14
Commission income on other services	18	16
Commission expenses	-30	-16
Profit/loss on services	485	475
Profit/loss on service and commission business	511	505
Income on FVTPL ² : held for trading	80	76
Profit/loss on the sale of available-for-sale financial assets	11	14
Other financial profit/loss	-10	-6
Profit/loss on financial services	1241	1192
Shown in the consolidated income statement under:		
Income from financial services	1504	1419
Expenses for financial services	-263	-227

¹ Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

² FVTPL: Fair value through profit or loss (fair value changes are taken to the income statement)

7 Other operating income

	2005	2004
CHF m		
Rental income	57	66
Gains on the sale of property, plant and equipment	36	23
Other income	212	183
Total other operating income	305	272

Other income consists mainly of value added tax and customs duties collected by the International segment (see also Note 11, Other operating expenses, page 37).

8 Staff costs

		2005	2004
CHF m			
	Note		
Wages and salaries		3 133	3 150
Social security benefits		283	277
Employee benefit obligations	9	222	249
Change in restructuring provisions		2	17
Other staff costs		64	44
Total staff costs		3 704	3 737

Headcount

	2005	2004
Headcount ¹		
Employees at Swiss Post Group (excluding trainees)	41 073	42 284
Employees at Swiss Post (excluding trainees)	37 033	38 972
Trainees at Swiss Post Group	1 465	1 556

¹ Average expressed in terms of full-time equivalents.

9 Employee benefits

There are various employee benefit institutions in Switzerland and abroad. Most of the employees are insured with the Swiss Post pension fund foundation. The other pension plans are immaterial in the context of the consolidated financial statements.

CHF m	2005	2004
Accrued benefit claims	393	406
Interest on future benefit claims	492	542
Expected return on assets	- 508	- 547
Amortization of retroactive benefit improvements	4	10
Employee contributions	- 156	- 158
Employee benefit obligations arising from defined benefit plans	225	253
Employee benefit obligations for Postbus operators recognized under "Compensation paid to Postbus operators"	- 10	- 10
Employee benefit obligations for other benefit plans	7	6
Group employee benefit obligations	222	249
Actual profit/loss on plan assets	1232	536

Transactions between the Swiss Post pension fund foundation and Swiss Post are subject to terms and conditions consistent with those prevailing in the marketplace.

Statement of capitalized employee benefit obligations arising from defined benefit plans within the Swiss Post pension fund foundation:

Capitalized employee benefit obligations arising from defined benefit plans	31.12.2005	31.12.2004
CHF m		
Present value of pension obligations	15 456	14 437
Benefit plan assets at fair value	-12 580	-11 284
Shortfall	2 876	3 153
Non-amortized actuarial gains	267	394
Non-amortized plan amendment costs	-27	-31
Employee benefit obligations excluding assets set aside	6	7
Total capitalized employee benefit obligations arising from defined benefit plans	3 122	3 523

Adjustments to assumptions made regarding the technical interest rate and pension indexation as well as other actuarial profits and losses resulted in an overall increase in pension obligations of around 850 million francs.

Change in capitalized employee benefit obligations arising from defined benefit plans	2005	2004
CHF m		
As at 1.1	3 523	3 630
Employee benefit obligations arising from defined benefit plans	225	253
Employer contributions paid	-276	-360
Appropriation of profits	-350	—
Capitalized employee benefit obligations arising from defined benefit plans as at 31.12	3 122	3 523
of which:		
short-term, i.e. payments falling due within the next 12 months	277	360
long-term	2 845	3 163

Employer contributions paid during the previous year were affected by non-recurring final payments amounting to approx. 80 million francs made on the basis of past undertakings.

The following parameters were applied:

Employee benefit obligation	Discount rate	Expected re- turn on assets	Annual change in wages	Annual pension indexation	Staff turnover
31.12.2005	3.00 %	4.50 %	2 %	0.50 %	3.86 %
31.12.2004	3.50 %	4.50 %	2 %	0.75 %	3.86 %

10 Resale merchandise and service expenses

	2005	2004
CHF m		
Resale merchandise expenses	407	367
Compensation paid to Postbus operators	260	246
Compensation paid to forwarding companies	322	308
Compensation paid for international postal traffic	302	313
Temporary employees	74	58
Total resale merchandise and service expenses	1 365	1 292

PostBus operators are not employed by Swiss Post but operate PostBus routes for Swiss Post under contract.

11 Other operating expenses

	2005	2004
CHF m		
Premises	191	175
Maintenance and repair of property, plant and equipment	250	217
Energy and fuel	47	42
Operating materials	64	72
Office and administrative expenses	152	157
Marketing and communications	90	82
Loss on the sale of property, plant and equipment	2	2
Other expenses	314	261
Total other operating expenses	1 110	1 008

Other expenses include IT services purchased as well as value added tax and customs duties collected by the International segment (see also Note 7, Other operating income, page 34). The year-on-year increase is mainly the result of acquisitions.

12 Financial income

	2005	2004
CHF m		
Interest income	11	14
Gains on the sale of financial assets	—	0
Other financial income	1	1
Total financial income	12	15

Income from PostFinance's financial services business is posted as "Income from financial services".

13 Financial expenses

	2005	2004
CHF m		
Interest expense	2	2
Present value adjustments to provisions	5	8
Interest charges on finance lease	0	1
Impairment on financial assets	2	—
Other financial expenses	0	1
Total financial expenses	9	12

Expenses arising from PostFinance's financial services business are posted as "Expenses for financial services".

14 Income taxes

	2005	2004
CHF m		
Expense for current income taxes	8	4
Income from deferred income taxes	-4	-3
Total expenses for income taxes	4	1

With the exception of profits from competitive services, the vast majority of the parent's business is not subject to tax. However, the proportion of taxable services could rise in future as a result of liberalization.

As the vast majority of Swiss Post's business is not subject to tax, tax expenses are not analysed in relation to pre-tax profits.

Tax loss carryforwards of 358 million francs (2004: 454 million francs) were not capitalized at Swiss Post Group, as it seems uncertain that they will be utilized in the future. Potential tax savings amount to 87 million francs (2004: 103 million francs). Tax loss carryforwards expire after seven years.

Deferred tax assets of 10 million francs (2004: 6 million francs) and deferred tax liabilities of 3 million francs (2004: 2 million francs) were mainly the result of temporary differences between Group and tax-related assets (property, plant and equipment) and other liabilities.

Notes to the balance sheet

15 Receivables

	31 December 2005			31 December 2004		
	Gross	Write-down	Net	Gross	Write-down	Net
CHF m						
Receivables due from banks ¹	11 934	0	11 934	9 281	—	9 281
Interest-bearing amounts due from customers	83	2	81	79	3	76
Trade accounts receivable	927	9	918	967	12	955
Other receivables	759	4	755	781	4	777
Total receivables	13 703	15	13 688	11 108	19	11 089
¹ of which receivables from reverse-repurchase transactions and covered by securities with a fair value of			6 267			5 460
			6 267			5 460

Maturities of receivables:

	31 December 2005			31 December 2004		
	Total	Up to 3 months	Over 3 months	Total	Up to 3 months	Over 3 months
CHF m						
Receivables due from banks	11 934	10 639	1 295	9 281	8 181	1 100
Interest-bearing amounts due from customers	81	—	81	76	—	76
Trade accounts receivable	918	—	918	955	—	955
Other receivables	755	—	755	777	—	777
Total receivables	13 688	10 639	3 049	11 089	8 181	2 908

There are no receivables with a term of more than one year. Receivables due from banks comprise current account balances, money-market instruments and reverse-repurchase transactions. The current accounts mainly relate to Swiss Post's international payment transactions. The money-market instruments and reverse-repurchase transactions arise from the management of customer deposits. Securities cover for reverse-repurchase transactions is recognized on a daily basis at current fair values.

Interest-bearing amounts due from customers comprise technical overdrafts on Yellow Accounts.

16 Inventories

	31.12.2005	31.12.2004
CHF m		
Resale merchandise	38	38
Fuel and operating materials	17	20
Value adjustment for inventories which are not easily marketable	-1	-4
Total inventories	54	54

17 Financial assets

	Note	18	19	20	21	22	Total
		FVTPL held for trading ¹	Held to maturity	Available for sale	Derivative financial instruments	Loans	
CHF m							
As at 1.1.2005		79	22 254	6 855	49	2 805	32 042
Additions		12	6 447	1 430	—	882	8 771
Change in value recognized in income statement		1	-180	6	-39	-37	-249
Change in value not recognized in income statement		—	—	-58	0	—	-58
Reversal of impairment, net		—	0	29	—	1	30
Disposals		-90	-6 420	-1 171	—	-669	-8 350
Reclassifications		—	—	—	—	—	—
As at 31.12.2005		2	22 101	7 091	10	2 982	32 186

	Note	18	19	20	21	22	Total ²
		FVTPL held for trading ¹	Held to maturity	Available for sale ²	Derivative financial instruments	Loans	
CHF m							
As at 1.1.2004		—	18 476	10 358	53	1 325	30 212
Additions		77	4 489	2 265	—	1 672	8 503
Change in value recognized in income statement		2	-252	-67	—	—	-317
Change in value not recognized in income statement		—	—	-11	—	—	-11
Reversal of impairment, net		—	0	1	—	6	7
Disposals		—	-5 314	-836	-4	-198	-6 352
Reclassifications		—	4 855	-4 855	—	—	—
As at 31.12.2004		79	22 254	6 855	49	2 805	32 042

¹ FVTPL: Fair value through profit or loss (fair value changes are taken to the income statement).

² Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

Financial assets include securities loaned for securities lending of 5,776 million francs (2004: 2,002 million francs).

In accordance with hedge accounting requirements, derivative financial instruments (positive fair values) include an amount of less than one million francs (see Note 21, page 43). As hedge accounting was only introduced in the third quarter of 2005, the prior-year figure in respect of derivative financial instruments (49 million francs) did not include a corresponding amount.

Expenses for financial services include impairments amounting to 3 million francs (gross) (2004: 4 million francs). Income from financial services includes a reversal of impairment on a bond in the amount of 29 million francs (gross) (2004: 2 million francs). Financial expenses include an impairment of 1 million francs (2004: zero) and financial income a reversal of impairment of 5 million francs (gross) (2004: 9 million francs).

18 Fair value through profit or loss¹, held for trading

31 December 2005

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Bonds	—	—	—	—	—
Shares	1	—	—	—	1
Other securities held for trading	1	—	—	—	1
Total fair value through profit or loss¹	2	—	—	—	2

31 December 2004

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Bonds	79	—	—	79	—
Shares	—	—	—	—	—
Other securities held for trading	—	—	—	—	—
Total fair value through profit or loss¹	79	—	—	79	—

¹ Fair value changes are taken to the income statement.**19 Financial assets held to maturity**

31 December 2005

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years
CHF m				
Bonds	22 101	4 661	13 543	3 897
Total financial assets held to maturity	22 101	4 661	13 543	3 897
Measured at fair value	22 236			

31 December 2004

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years
CHF m				
Bonds	22 254	5 715	11 538	5 001
Total financial assets held to maturity	22 254	5 715	11 538	5 001
Measured at fair value	22 473			

Interest income in the reporting year amounted to 503 million francs (2004: 498 million francs) in accordance with the effective interest method.

20 Financial assets available for sale

31 December 2005

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Bonds	6 952	1 318	4 185	1 449	—
Shares	135	—	—	—	135
Other	4	—	0	—	4
Total financial assets available for sale	7 091	1 318	4 185	1 449	139

31 December 2004

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Bonds	6 850	920	4 083	1 847	—
Shares	—	—	—	—	—
Other	5	0	0	—	5
Total financial assets available for sale	6 855	920	4 083	1 847	5

¹ Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

In 2005, on the basis of the investment and risk policy, a strategic equity position was built up in a clearly defined and limited framework. Shares include equities totalling 2 million francs that are measured at cost because their fair value cannot be measured reliably.

Profit from the sale and early repayment of available-for-sale financial assets amounted to 11 million francs in the reporting year (2004: 14 million francs). In total, a gross profit of 11 million francs (2004: 14 million francs) was posted to the income statement.

Interest income in the reporting year amounted to 174 million francs (2004: 217 million francs) in accordance with the effective interest method.

21 Derivative financial instruments

		31 December 2005				31 December 2004			
		Positive market values	Contract volume	Negative market values	Contract volume	Positive market values	Contract volume	Negative market values	Contract volume
CHF m	Note 17			26		17		26	
Cash flow hedge									
Currency		—	—	—	—	—	—	—	—
Interest		0	20	0	57	—	—	—	—
Fair value hedge									
Currency		0	4	1	36	—	—	—	—
Interest		—	—	—	—	—	—	—	—
Other									
Currency		10	92	51	1 027	49	354	38	1 108
Interest		—	—	1	20	—	—	2	103
Total derivative financial instruments		10	116	53	1 140	49	354	40	1 211

Maturities of the derivative financial instruments

		31 December 2005				31 December 2004			
		Positive market values	Contract volume	Negative market values	Contract volume	Positive market values	Contract volume	Negative market values	Contract volume
CHF m	Note 17			26		17		26	
Cash flow hedge									
Up to 1 year		—	—	—	—	—	—	—	—
1 to 5 years		0	20	0	57	—	—	—	—
Over 5 years		—	—	—	—	—	—	—	—
Fair value hedge									
Up to 1 year		0	4	1	36	—	—	—	—
1 to 5 years		—	—	—	—	—	—	—	—
Over 5 years		—	—	—	—	—	—	—	—
Other									
Up to 1 year		0	8	9	248	28	187	10	331
1 to 5 years		10	84	42	779	21	144	28	777
Over 5 years		—	—	1	20	0	23	2	103
Total derivative financial instruments		10	116	53	1 140	49	354	40	1 211

Swiss Post buys derivative financial instruments mainly for hedging purposes. Hedge accounting is applied if the derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged risks. Derivatives that are not accounted for using hedge accounting are treated as instruments held for trading. See also Note 31, Financial Risk Management, page 54, for information on the risk strategy. PostFinance has been using hedge accounting since the third quarter of 2005.

22 Loans

31 December 2005

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Federal Finance Administration	575	475	100	—	—
Cantons and municipalities ¹	938	7	373	558	—
Other ²	1250	247	500	503	—
Total loans from the Swiss Confederation and state-run companies	2763	729	973	1061	—
Postbus operators	200	27	94	79	—
Sub-postmasters	3	3	—	—	—
Other ³	16	2	4	10	—
Total other loans	219	32	98	89	—
Total loans	2982	761	1071	1150	—

¹ Loans to cantons and municipalities, plus borrower's note loans to public entities.

² Borrower's note loans to banks and loans to "Other institutions" (invested with Pfandbriefbank and Gemeinsame Einrichtung KVG, Common Institution under the Federal Health Insurance Act).

³ Mortgages previously granted by the Swiss Post pension fund that have been taken over by PostFinance.

31 December 2004

	Total	Term to maturity less than 1 year	Term to maturity 1–5 years	Term to maturity over 5 years	No maturity
CHF m					
Federal Finance Administration	655	250	405	—	—
Cantons and municipalities ¹	1166	762	158	246	—
Other ²	752	50	237	465	—
Total loans from the Swiss Confederation and state-run companies	2573	1062	800	711	—
Postbus operators	198	27	92	79	—
Sub-postmasters	10	10	—	—	—
Other ³	24	7	2	14	1
Total other loans	232	44	94	93	1
Total loans	2805	1106	894	804	1

¹ Loans to cantons and municipalities, plus borrower's note loans to public entities.

² Borrower's note loans to banks and loans to "Other institutions" (invested with Pfandbriefbank and Gemeinsame Einrichtung KVG, Common Institution under the Federal Health Insurance Act).

³ Mortgages previously granted by the Swiss Post pension fund that have been taken over by PostFinance.

Interest income in the reporting year amounted to 48 million francs (2004: 17 million francs) in accordance with the effective interest method.

23 Investments in associates

The associates are listed in Note 32, Scope of consolidation, page 57.

Change in the balance sheet item relating to associates

	2005	2004
CHF m		
As at 1.1	28	38
Additions	5	—
Dividends received	–5	–5
Share in net profit (after taxes)	7	4
Goodwill amortization ¹	—	–5
Reclassification of Porta a Porta S.p.A. ²	—	–4
Currency translation differences	0	0
As at 31.12	35	28
of which: goodwill	11 ³	9

¹ As of 1 January 2005, goodwill is no longer systematically amortized but tested for impairment either annually or whenever there are indications of impairment. No impairment losses were recognized on goodwill in relation to associates at 31 December 2005.

² See also Note 25, Intangible assets, p. 47

³ Increase in goodwill due to the acquisition of a 25 % stake in Liechtensteinische Post AG.

Net income from associates

	2005	2004
CHF m		
Share in net profit/loss	7	4
Goodwill amortization ¹	—	–5
Total profit/loss from associates	7	–1

¹ As of 1 January 2005, goodwill is no longer systematically amortized but tested for impairment either annually or whenever there are indications of impairment. No impairment losses were recognized on goodwill in relation to associates at 31 December 2005.

Changes to associates

2005

A 25 percent stake was acquired in Liechtensteinische Post AG.

BVZ Zermatt Tours AG is currently in liquidation.

Swiss Post d-services Srl, a joint venture that was established in January but never became operational, was liquidated due to a change in the ownership structure at partner company HSE.

2004

In the first half of 2004, the takeover (100 percent) of Räber Information Management GmbH, based in Immensee, included the acquisition of the associate Scooba GmbH.

In June 2004, the stake in BVZ Zermatt Tours AG was decreased from 34 percent to 19 percent as part of a capital increase owing to a deficit balance not involving Swiss Post. As Swiss Post continues to have significant influence over the company, it will continue to be accounted for under the equity method in future.

The remaining 70 percent stake in Porta a Porta S.p.A. was acquired by Swiss Post International (Italy) Srl on 30 November 2004. The company will be known as Swiss Post Porta a Porta S.p.A. in future and will be fully consolidated (see also Note 33, Changes to the scope of consolidation, page 59).

24 Property, plant and equipment

31 December 2005

	Operating property	Assets under construction: operating property	Plant and equipment, machinery, IT equipment	Furniture, vehicles, other assets	Assets under construction: other asset types	Total
CHF m						
Cost						
As at 1.1.2005	6 023	59	1 174	579	6	7 841
Additions	7	146	105	62	9	329
Disposals	-65	-1	-80	-36	0	-182
Reclassifications	62	-62	14	-3	-11	—
Disposals arising from reclassifications in accordance with IFRS 5	-34	—	—	-40	—	-74
As at 31.12.2005	5 993	142	1 213	562	4	7 914
Accumulated depreciation						
As at 1.1.2005	4 943	—	902	308	—	6 153
Depreciation	97	—	85	61	—	243
Disposals	-57	—	-79	-31	—	-167
Reclassifications	—	—	2	-2	—	—
Disposals arising from reclassifications in accordance with IFRS 5	-23	—	—	-35	—	-58
As at 31.12.2005	4 960	—	910	301	—	6 171
Carrying value as at 31.12.2005	1 033	142	303	261	4	1 743
of which leased assets	—	—	—	10	—	10
Pledged assets	—	—	—	—	—	—

Investment obligations for property, plant and equipment amount to 261 million francs (2004: 104 million francs).

31 December 2004

	Operating property	Assets under construction: operating property	Plant and equipment, machinery, IT equipment	Furniture, vehicles, other assets	Assets under construction: other asset types	Total
CHF m						
Cost						
As at 1.1.2004	6 052	19	1 272	552	2	7 897
Additions to scope of consolidation	0	—	11	37	—	48
Additions	0	70	48	51	13	182
Disposals	-56	-3	-165	-61	-1	-286
Reclassifications	27	-27	8	0	-8	—
As at 31.12.2004	6 023	59	1 174	579	6	7 841
Accumulated depreciation and impairments						
As at 1.1.2004	4 892	—	965	284	—	6 141
Additions to scope of consolidation	0	—	4	19	—	23
Depreciation	98	—	95	62	—	255
Impairments	—	—	1	0	—	1
Disposals	-47	—	-163	-57	—	-267
Reclassifications	—	—	0	0	—	—
As at 31.12.2004	4 943	—	902	308	—	6 153
Carrying value as at 31.12.2004	1 080	59	272	271	6	1 688
of which leased assets	—	—	—	11	—	11
Pledged assets	25	—	—	—	—	25

25 Intangible assets and goodwill

	Goodwill ¹	Other intangible assets	Total 31.12.2005	Goodwill ¹	Other intangible assets	Total 31.12.2004
CHF m						
Cost						
As at 1.1.	122	50	172	68	41	109
Additions to scope of consolidation	—	5	5	—	7	7
Reclassification of Porta a Porta S.p.A.	—	—	—	4	—	4
Additions	8 ²	0	8	50	2	52
Elimination of accumulated depreciation ³	-41	—	-41	—	—	—
Disposals	—	-3	-3	—	—	—
As at 31.12.	89	52	141	122	50	172
Accumulated impairment losses and depreciation						
As at 1.1.	41	30	71	33	26	59
Depreciation	—	7	7	8	5	13
Impairments ⁴	2	—	2	—	—	—
Elimination of accumulated depreciation ³	-41	—	-41	—	—	—
Disposals	—	-4	-4	—	-1	-1
As at 31.12.	2	33	35	41	30	71
Carrying amount as at 31.12.	87	19	106	81	20	101

¹ Goodwill in relation to fully consolidated companies. The goodwill paid on investments in associates is included in the book value of these equity stakes as carried in the financial statements (see Note 23, Investments in associates, p. 45).

As of 31 March 2004, goodwill on new acquisitions is no longer systematically amortized but tested for impairment either annually or whenever there are indications of impairment.

² A call/put option relating to the acquisition of the remaining 70 % of Swiss Post Porta a Porta S.p.A. and the sale of 40 % of Swiss Post International (Italy) Srl in 2004 (see Note 33, Changes to the scope of consolidation, p. 59) is measured as a purchase price adjustment via goodwill.

³ Elimination of writedowns accumulated on goodwill arising from the application of IFRS 3.

⁴ See information below under "Reviewing the recoverable amount of goodwill".

Other intangible assets mainly comprise purchased standard software.
There are no investment obligations.

Reviewing the recoverable amount of goodwill

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

A CGU's recoverable amount is based on a calculation of its value on use, based on the strategic financial planning, which covers the next three plan years. To calculate value in use, future cash flows are discounted to present value in accordance with the strategic financial planning.

Goodwill relates to the following segments and subsidiaries:

Cash-generating units	31 December 2005				31 December 2004			
	Total goodwill	Mail	International	Other	Total goodwill	Mail	International	Other
CHF m								
MailSource UK Ltd.	17	—	—	17	17	—	—	17
Räber Information Management GmbH	3	3	—	—	3	3	—	—
Swiss Post International Netherlands BV	3	—	3	—	3	—	3	—
DCL Data Care AG	4	4	—	—	4	4	—	—
Swiss Post SAT Holding SA	9	—	9	—	9	—	9	—
Swiss Post Porta a Porta S.p.A.	29	—	29	—	22	—	22	—
DocumentServices AG	20	20	—	—	20	20	—	—
Other	2	1	1	—	3	—	3	—
Total	87	28	42	17	81	27	37	17

The following parameters were applied per country in determining the recoverable amount of goodwill relating to subsidiaries and associates at 31 December 2005, based on the discounted cash flow method. A market risk premium of 4.5 percent, and depending on the assessment of the risks, a small cap premium and a debt premium of 0–2 percent were also used for the calculations.

	Interest rate ¹	Tax rate ²	WACC ³
Switzerland	2.4 %	24 %	5.0 – 7.4 %
Italy	3.8 %	37 %	6.9 %
United Kingdom	4.5 %	30 %	8.3 %
Netherlands	3.6 %	35 %	8.6 %

¹ Yield on 10-year government bonds issued by the country in question

² Tax rate in the acquiree's country

³ Weighted average cost of capital

On the basis of the impairment tests performed, impairment losses were recognized on two goodwill items in the International segment totalling 2 million francs.

The goodwill paid on investments in associates is included in the book value of these equity stakes as carried in the financial statements (see Note 23, Investments in associates, page 45).

26 Financial liabilities

31 December 2005

CHF m	Note	On demand	Callable ¹	Up to 1 year	1–5 years	> 5 years	Total
Yellow Accounts		32 440	—	—	—	—	32 440
Deposito Accounts and investment accounts		—	9 871	—	—	—	9 871
Fixed-term deposits for private customers		—	—	55	168	20	243
Fixed-term deposits for business customers		—	7	1 059	10	—	1 076
Total customer deposits		32 440	9 878	1 114	178	20	43 630
Due to banks		1	—	6	12	—	19
Derivative financial instruments	21	—	—	10	43	0	53
Other financial liabilities							
Finance leases		—	—	2	7	2	11
Repurchase transactions		—	—	339	—	—	339
Other		33	—	6	13	—	52
Total other financial liabilities		34	—	363	75	2	474
Total financial liabilities		32 474	9 878	1 477	253	22	44 104

¹ Call deposits for which no notice of withdrawal has been given, recallable provided an agreed notice period is observed.

31 December 2004

CHF m	Note	On demand	Callable ¹	Up to 1 year	1–5 years	> 5 years	Total
Yellow Accounts		30 649	—	—	—	—	30 649
Deposito Accounts and investment accounts		—	8 563	—	—	—	8 563
Fixed-term deposits for private customers		—	—	55	162	32	249
Fixed-term deposits for business customers		—	13	862	20	—	895
Total customer deposits		30 649	8 576	917	182	32	40 356
Due to banks		12	—	9	9	—	30
Derivative financial instruments	21	—	—	10	28	2	40
Other financial liabilities							
Finance leases		—	—	3	7	3	13
Repurchase transactions		—	—	425	—	—	425
Other		93	—	4	13	—	110
Total other financial liabilities		105	—	451	57	5	618
Total financial liabilities		30 754	8 576	1 368	239	37	40 974

¹ Call deposits for which no notice of withdrawal has been given, recallable provided an agreed notice period is observed.

The portfolio of repurchase transactions is exposed to volatility. If demand for funds is relatively high, short-term refinancing requirements are covered through repurchase transactions. Generally speaking, collateral was provided for the full amount of the repurchase transactions.

In accordance with hedge accounting requirements, an amount of 1 million francs (2004: zero) was posted to derivative financial instruments (negative fair values).

Interest expense for customer deposits amounted to 175 million francs in the reporting year (2004: 147 million francs).

Present value of obligations arising from finance leases

	31 December 2005			31 December 2004		
	Nominal	Discount	Present value	Nominal	Discount	Present value
CHF m						
Up to 1 year	2	0	2	4	-1	3
1 to 5 years	8	-1	7	8	-1	7
Over 5 years	2	0	2	3	0	3
Total	12	-1	11	15	-2	13

27 Provisions

31 December 2005

	Long-term benefits due to employees	Restructuring	Incurred claims	Risk of lawsuits	Other	Total
CHF m						
As at 1.1.2005	328	179	47	10	9	573
Increase	31	18	14	2	11	76
Present value adjustment	9	5	—	—	—	14
Utilized	-23	-28	-9	-1	-5	-66
Released	-9	-19	-2	-4	-1	-35
As at 31.12.2005	336	155	50	7	14	562
of which short-term	23	41	9	0	7	80

31 December 2004

	Long-term benefits due to employees	Restructuring	Incurred claims	Risk of lawsuits	Other	Total
CHF m						
As at 1.1.2004	369	217	49	14	15	664
Increase	20	21	11	2	5	59
Present value adjustment	14	8	—	—	—	22
Utilized	-24	-41	-11	-2	-1	-79
Released	-51	-26	-2	-4	-10	-93
As at 31.12.2004	328	179	47	10	9	573
of which short-term	24	46	10	4	6	90

Provisions for long-term benefits due to employees comprise 234 million francs (2004: 233 million francs) for anniversary bonuses for long years of service to the company and 102 million francs (2004: 95 million francs) for staff vouchers, mainly for retirees

Other Notes

28 Operating Leasing

Swiss Post as lessee

Minimum obligations arising from lease and rental agreements that cannot be terminated break down as follows:

CHF m	31.12.2005	31.12.2004
Future obligations from operating leases, due		
within 1 year	95	100
1 to 5 years	265	268
more than 5 years	148	267
Future payment obligations from operating leases	508	635
Minimum lease payments	106	91
Conditional lease payments	5	5
Lease expenses for the year	111	96
Income from sub-letting in the past business year	11	12
Future income from sub-letting	44	60

Payments arising from operating lease agreements relate mainly to rent for the post office network's real estate (with an average remaining term of three years), rent for business premises and a ground rent agreement with PostLogistics AG (both with an average remaining term of 16 years). Income from sub-letting relates to the post office network's real estate which, for the purposes of optimization, has been sub-let to third parties until the lease expires.

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

Swiss Post as lessor

Income from the rental of Swiss Post's own properties to third parties amounted to 46 million francs in the reporting year (2004: 45 million francs). As at the balance sheet date, Swiss Post had not entered into any other significant lease agreements as the lessor.

CHF m	31.12.2005	31.12.2004
Future minimum payments due under lease agreements		
within 1 year	54	45
1 to 5 years	175	147
more than 5 years	72	102
Total	301	294

29 Contingent liabilities

Contingent liabilities were as follows as at 31 December 2005:

Guarantees

Guarantees and guarantee obligations amount to 8 million francs (2004: 8 million francs).

Legal cases

As regards claims or legal cases for which provisions have not been set up, the Executive Management believes either that they can be refuted or that they will not have a major impact on the Group's financial situation or operating result.

30 Related parties and key employees

Pursuant to IFRS, Swiss Post Group has relations with related parties such as subsidiaries, associates and key employees. Likewise, as the owner of Swiss Post, the Swiss Confederation is now deemed to be a related party.

All transactions between Swiss Post and related parties are concluded at market rates. As the owner of Swiss Post, the Confederation paid compensation of 80 million francs (2004: 79 million francs) and 188 million francs (2004: 181 million francs) for newspaper and passenger transport in the reporting year.

Transactions between Swiss Post and its subsidiaries were eliminated on consolidation and not included in the information contained in these Notes.

Swiss Post and its subsidiaries carried out the following transactions with related parties that are not part of the Group:

	Sales of goods and services		Purchases of goods and services		Receivables and loans with related parties		Liabilities with related parties	
	2005	2004	2005	2004	2005	2004	2005	2004
CHF m								
Companies with joint management or material influence	399	404	208	328	603	725	310	286
Swiss Confederation	250	288	65	186	585	660	75	141
Swisscom	113	104	78	75	6	57	19	27
Swiss Federal Railways	36	12	65	67	12	8	216	118
RUAG	0	0	0	0	0	0	0	—
Skyguide	0	0	0	0	0	0	0	—
Transactions with minority shareholders of subsidiaries	25	26	0	0	2	29	—	—
Associates	8	5	2	0	2	0	0	—

Compensation paid to key employees

In the past business year, compensation including fringe benefits of 5 million francs (2004: 5 million francs) and compensation for pension benefits of 1 million francs, as in 2004, was paid to key employees. Those defined as key employees are members of the Board of Directors and Executive Management. The performance-based component paid to members of Executive Management in 2005 was based on target attainment in 2004 and amounted to around 1 million francs. There are no loan agreements in place with key employees.

31 Financial Risk Management

Risk types and risk measurement

Interest rate and balance sheet structure risks

The term "interest rate risk" refers to the potential impact of a change in market interest rates on the market value of assets and liabilities in the balance sheet and on the result from interest business shown in the income statement.

PostFinance's interest-earning business is 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 risks are monitored and managed on an ongoing basis by the Asset & Liability Management Committee.

The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest. In order to map these for the purposes of asset and liability management, Swiss Post uses the replicating portfolio method to compile tranches with various terms to maturity, thereby keeping margin variability as low as possible. The interest rates in line with market conditions derived from the replicating portfolios also serve as guidelines for the rates extended to customers.

Funds are invested both in the money market (repo and custody transactions) and in the capital market, where consideration is given mainly to fixed-income instruments. Customer deposits, on the other hand, mostly earn variable rates of interest. Market risks arising from interest-related operations are measured and managed daily, both at the individual portfolio level and the overall balance sheet level, using the value-at-risk method. Rounding off the risk analysis process, sensitivity data are also applied and gap analyses and stress scenarios conducted.

Foreign currency risk

The term "foreign currency risk" refers to the risk that the value of a financial instrument may change as a result of fluctuations in exchange rates.

Market risks arising from foreign exchange transactions are measured and managed daily, both at the individual portfolio level and the overall balance sheet level, using the value-at-risk method. Rounding off the risk analysis process, stress scenarios are also applied.

The risks associated with cash flows from foreign-currency financial assets (coupon payments and nominal value repayments) as a result of exchange rate movements are hedged by means of forward exchange contracts with matching maturities.

To hedge against the effect of changes in foreign currency market interest rates and exchange rate changes on fair value and income from fixed-interest foreign currency bonds, cross currency interest rate swaps (CCIRS) and interest rate swaps (IRS) are used.

Financial instruments by currency

31 December 2005

	CHF	EUR	USD	GBP	Other	Total
CHF m						
Assets						
Cash holdings	2 210	85	0	0	1	2 296
Receivables due from banks	11 695	147	71	13	8	11 934
Interest-bearing amounts due from customers	81	—	—	—	—	81
Trade accounts receivable	550	263	17	27	61	918
Other receivables	623	104	6	1	21	755
Financial assets	30 874	1 114	175	14	9	32 186
Held for trading and derivatives	1	1	10	0	0	12
Held to maturity	22 012	89	—	—	—	22 101
Available for sale	5 880	1 023	165	14	9	7 091
Loans	2 981	1	—	—	—	2 982
Liabilities						
Customer deposits	43 129	421	66	8	6	43 630
Other financial liabilities	418	49	7	—	0	474
Trade accounts payable	300	277	3	5	85	670
Other liabilities	661	27	18	8	32	746

31 December 2004

	CHF	EUR	USD	GBP	Other	Total
CHF m						
Assets						
Cash holdings	1 801	70	0	0	—	1 871
Receivables due from banks	9 057	188	2	26	8	9 281
Interest-bearing amounts due from customers	76	—	—	—	—	76
Trade accounts receivable	563	255	14	26	97	955
Other receivables	636	99	4	2	36	777
Financial assets	30 763	1 037	242	0	—	32 042
Held for trading and derivatives	78	4	46	0	—	128
Held to maturity	22 254	—	—	—	—	22 254
Available for sale ¹	5 626	1 033	196	—	—	6 855
Loans	2 805	0	—	—	—	2 805
Liabilities						
Customer deposits	40 004	330	0	16	6	40 356
Other financial liabilities	567	48	1	2	0	618
Trade accounts payable	319	294	2	5	172	792
Other liabilities	661	28	19	10	28	746

¹ Figures adjusted on the basis of changed IFRS provisions, see Note no. 2, Accounting Principles, p. 19.

Credit risk

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

The credit risks associated with the PostFinance Treasury's investments in the money and capital markets are strictly limited through special investment regulations and prescribed limits. For example, investments are only permitted if the debtor has a first-class credit rating.

Rating structure of fixed-income financial assets¹

	31.12.2005	31.12.2004
Rating category in percent		
AAA	56 %	54 %
AA	34 %	38 %
A	9 %	7 %
< A	< 1 %	< 1 %

¹ Includes the categories "Held for trading", "Held to maturity" and "Available for sale"; based on market values.

Swiss Post deliberately limits the cluster risk by holding financial assets that are broadly diversified in terms of the counterparties.

Breakdown of the largest counterparties¹

	31.12.2005	31.12.2004
CHF m		
Swiss Confederation, Berne	2 306	2 459
Mortgage Bond Bank of the Swiss Mortgage Institutions, Zurich	2 178	2 248
Central Mortgage Bond Institution of the Swiss Cantonal Banks, Zurich	1 438	1 955

¹ Includes amounts due from financial institutions (excluding secured lendings) and financial assets; based on market values.

The credit products offered in cooperation with UBS since May 2003 do not result in any credit risks for PostFinance. These are borne entirely by UBS in accordance with the capital asset transfer model.

Liquidity risk

The term "liquidity risk" refers to the risk that PostFinance may not be able to obtain the funds necessary to settle the obligations it has entered into or that it will be obliged to liquidate financial assets at short notice and at an unfavourable price.

Liquidity risks are managed centrally at PostFinance. Within its Treasury, PostFinance has a professional cash management system with which to manage liquidity. Additionally, it has the option to obtain liquidity at any time due to the large volume of securities eligible as collateral.

For information on the terms to maturity of the financial assets and liabilities, see Note 17, Financial assets, page 40, and Note 26, Financial liabilities, page 50.

32 Scope of consolidation

Acctg. method	Seg.	Company	Domicile	Currency	Endowment or share capital in 000s	Percent equity stake	
						31.12.2005	31.12.2004
Switzerland							
F	1–7	Swiss Post	Berne	CHF	1 300 000		
F	5	Swiss Post International AG	Berne	CHF	63 300	100*	100*
F	5	Swiss Post International Logistics AG	Basel	CHF	1 000	100	100
F	5	Swiss Post International Management AG	Berne	CHF	1 000	100	100
F	2	PostLogistics AG (formerly Setz Gütertransport AG)	Dintikon	CHF	20 000	100*	100*
F	1	Epsilon SA	Lancy	CHF	100	66*	66*
F	1	Bevo AG	Berne	CHF	100	50*	50*
F	2	Swiss Post NET AG	Kestenholz	CHF	1 500	51*	51*
F	1	DCL Data Care AG	Kriens	CHF	280	100*	100*
F	2	yellowworld AG	Berne	CHF	1 500	100*	100*
F	7	MailSource AG	Zurich	CHF	1 000	100*	100*
F	2	ParcelLogistics AG	Kestenholz	CHF	100	100*	100*
F	5	EDS Export & Distribution Services AG	Meilen	CHF	150	100	100
F	2	ExpressPost AG	Berne	CHF	1 000	100*	100*
F	2	BTL Logistics AG	Muri near Berne	CHF	2 000	100*	100*
F	2	Post Transporte AG (formerly PostLogistics AG)	Berne	CHF	100	100*	100*
F	1	Räber Information Management GmbH	Immensee	CHF	20	100	100
F	2	SecurePost AG	Berne	CHF	4 000	100*	100*
F	2	Mobility Solutions AG	Berne	CHF	100	100*	100*
F	5	Swiss Post SAT Holding AG	Berne	CHF	2 000	100*	100*
F	1	DocumentServices AG	Wallisellen	CHF	1 600	100*	100*
F	4	PostBus Switzerland AG	Berne	CHF	100	100*	—
F	1	SwissSign AG	Zurich	CHF	450	100*	—
E	1	Direct Mail Company AG	Basel	CHF	420	50*	50*
E	1	Direct Mail Logistik AG	Basel	CHF	100	50*	50*
E	5	TNT Swiss Post AG	Buchs (AG)	CHF	1 000	50	50
E	4	Sensetalbahn AG	Laupen	CHF	2 890	34*	34*
E	4	Société des Autotransports du Pied du Jura Vaudois	L'Isle	CHF	1 200	35*	35*
E	4	BVZ Zermatt Tours AG (in Liquidation)	Visp	CHF	2 100	—	19*
E	3	SIC Swiss Interbank Clearing AG	Zurich	CHF	1 000	25*	25*
E	1	Scooba GmbH	Immensee	CHF	20	35	35
France							
F	5	Swiss Post International (France) SAS	Chassieu	EUR	300	100	100
F	4	CarPostal France SARL	Dole	EUR	60	100*	100*
F	5	Société d'Affrètement et de Transit S.A.T. SAS	Huningue	EUR	200	100	100
F	5	Société de Transports Internationaux S.T.I. SARL	Huningue	EUR	8	100	100
United Kingdom							
F	5	Swiss Post International (UK) Ltd	Colnbrook	GBP	500	100	100
F	5	GATS UK Ltd	Colnbrook	GBP	200	100	100
F	7	Swiss Post UK Holding Ltd	Richmond	GBP	6 072	100*	100*
F	7	MailSource UK Ltd	Richmond	GBP	70	100	100

Acctg. method	Seg.	Company	Domicile	Currency	Endowment or share capital in 000s	Percent equity stake	
						31.12.2005	31.12.2004
Italy							
F	5	Swiss Post International (Italy) Srl	Fiumicino	EUR	3 560	60	60
F	7	MailSource Italia S.p.A.	Milan	EUR	500	100	100
F	5	Swiss Post Porta a Porta S.p.A.	Milan	EUR	2 000	100 ¹	100 ¹
F	5	SDL Servizi Distribuzione e Logistica Srl	Padua	EUR	50	— ³	100 ²
USA							
F	5	Swiss Post International (USA) Inc.	Jamaica, NY	USD	2 000	100	100
F	5	Priority Post Inc.	Emigsville, PA	USD	3	100	100
Germany							
F	5	Swiss Post Deutschland Holding GmbH	Troisdorf	EUR	3 000	100	100
F	5	Swiss Post Deutschland GmbH & Co. KG	Troisdorf	EUR	3 200	100	100
F	5	Swiss Post Deutschland Verwaltungs GmbH	Troisdorf	EUR	25	100	100
F	5	Swiss Post International Germany GmbH & Co. KG	Troisdorf	EUR	26	100	100
F	5	Swiss Post International Germany Verwaltungs GmbH	Troisdorf	EUR	25	100	100
F	7	MailSource Deutschland GmbH	Cologne	EUR	500	100	100
F	5	Trans-Euro GmbH	Weil am Rhein	EUR	25	100	100
E	3	Swiss Euro Clearing Bank GmbH	Frankfurt a.M.	EUR	9 200	25*	25*
E	5	PrimeMail GmbH	Hamburg	EUR	1 000	50	50
Liechtenstein							
F	4	Postauto Schweiz Regionalzentrum Liechtenstein Anstalt	Vaduz	CHF	30	100*	100*
E	7	Liechtensteinische Post AG	Vaduz	CHF	5 000	25*	—
Netherlands							
F	5	Swiss Post International Netherlands BV	Eindhoven	EUR	20	100	100
Austria							
F	5	Swiss Post International Austria GmbH	Biedermannsdorf	EUR	51	100	100
Belgium							
F	5	Swiss Post International Belgium BVBA	Brussels	EUR	20	100	100
Sweden							
F	5	Swiss Post International Sweden AB	Stockholm	SEK	100	100	—

¹ 100 % held by Swiss Post International (Italy) Srl.

² 100 % held by Swiss Post Porta a Porta S.p.A.

³ Merged with Porta a Porta S.p.A. at end-2005.

Key

* = equity stake is held by the parent, Swiss Post

Accounting method:

F = fully consolidated

E = accounted for under the equity method

Segment:

1 = Mail

2 = Logistics

3 = Financial Services

4 = Passenger Transport

5 = International

6 = Post Office Network

7 = Other

33 Changes to the scope of consolidation

Investments in the reporting year

Swiss Post did not acquire any significant investments in the reporting year.

On 23 June 2005, Swiss Post exercised a call option to acquire a 25 percent stake in Liechtensteinische Post AG. The company will be capitalized as an associate.

On 1 July 2005, Swiss Post acquired 100 percent of the shares in SwissSign AG, based in Zurich. The company is active mainly in developing a legally compliant encoding technology and does not yet generate a significant amount of revenue. Therefore, if the company had been acquired on 1 January 2005, this would not have impacted on earnings.

Investments in 2004

100 percent of the shares in BTL Logistics AG, based in Muri near Berne, were acquired on 1 January 2004. The company operates in the field of transport and warehouse logistics. The transaction resulted in negative goodwill of 14 million francs, which was released to income in 2004.

On 1 April 2004, Swiss Post acquired a 100 percent interest in Räber Information Management GmbH (RIM), based in Immensee. RIM operates the largest Swiss search engine "search.ch", the most widely used electronic telephone directory and one of the most frequently visited websites in Switzerland. RIM's entire share capital was acquired for 7 million francs (incl. purchase price payments falling due at a later date). Goodwill of around 3 million francs was booked for this transaction, taking separable intangible assets into account. Shares in the associate Scooba GmbH were included in the transaction.

In November 2004, SPI purchased Société d'Affrètement et de Transit (SAT), based in Huningue, Alsace. With its companies Swiss Post SAT Holding SA, Société d'Affrètement et de Transit S.A.T. SA, Société de Transports Internationaux S.T.I. SARL and Trans-Euro GmbH, the group offers a wide range of services in the fields of import, export, EU customs clearance, fiscal representation, international forwarding and goods storage. No separable intangible assets were identified as part of the purchase price allocation (in accordance with IFRS 3). Goodwill of around 9 million francs was capitalized, this being justified largely by the purchase of future earnings potential and management capacity.

Also in November 2004, Swiss Post International (Italy) Srl acquired the remaining 70 percent stake in Porta a Porta S.p.A. and its 100 percent holding in the Italian logistics company Servizi Distribuzione e Logistica Srl (SDL Srl). Porta a Porta S.p.A. will be known in future as Swiss Post Porta a Porta S.p.A. In a counter-transaction, 40 percent of Swiss Post International (Italy) Srl was sold to the sellers of the stake in Porta a Porta S.p.A. No separable intangible assets were identified as part of the purchase price allocation (in accordance with IFRS 3). These transactions resulted in goodwill for Swiss Post Porta a Porta S.p.A. totalling 22 million francs, attributable to the purchase of management capacity and future earnings potential.

During the fourth quarter of 2004, DocumentServices AG, based in Wallisellen, was established. Swiss Post holds 100 percent of the shares in this new company. This company then acquired the Document Services division from Telekurs Group and capitalized goodwill of some 20 million francs from this acquisition. This goodwill reflects future earnings potential and could not be reduced by identifying intangible assets.

In 2004, the acquired companies contributed net sales of around 6 million francs and operating profit of 1 million francs to the Group result as of their inclusion in Swiss Post's scope of consolidation. If the companies had been acquired on 1 January 2004, Group sales in 2004 would have been 45 million francs higher and Group profit in 2004 3 million francs higher.

Assets and liabilities arising from acquisitions

The following assets and liabilities were newly consolidated following the acquisition of subsidiaries:

	31 December 2005		31 December 2004	
	Fair Value	Acquired book value before takeover ¹	Fair Value	Acquired book value before takeover ¹
CHF m				
Cash holdings	0	0	0	0
Receivables	0	0	42	42
Property, plant and equipment, intangible assets and investments	5	0	39	37
Other financial liabilities	—	—	–9	–9
Trade accounts payable	0	0	–10	–10
Provisions and other liabilities	–1	0	–39	–39
Fair value of net assets	4	0	23	21
Goodwill	1		50	
Negative goodwill	—		–14	
Acquisition costs	5		59	
Cash and cash equivalents acquired	0		0	
Purchase price payments falling due at a later date (earn-outs)	–5		–14	
Payment of liabilities from acquisitions in previous years	13 ²		0	
Net outflow of money from acquisitions	13		45	

¹ In accordance with IFRS

² Composition: SAT Gruppe, Räber Information Management GmbH, MailSource UK Ltd., BTL AG

Companies founded, renamed and sold in the reporting year

In 2004, Swiss Post International AG in Sweden reserved a company name. The company was renamed Swiss Post International Sweden AB and since January 2005 has been fully consolidated.

The following companies in the Logistics segment were renamed on 1 December 2005: PostLogistics AG became Post Transporte AG and Setz Gütertransport AG became Post-Logistics AG.

In 2005, Société d'Affrètement et de Transit S.A.T. changed its legal form from a Société anonyme (SA) to a Société par actions simplifiée (SAS).

In December, Swiss Post Porta a Porta S.p.A. absorbed SDL Servizi Distribuzione e Logistica Srl by means of a merger taking retroactive effect as of 1 January 2005.

Companies founded in 2004

The following new companies were established in 2004 by Swiss Post in Switzerland: PostLogistics AG, SecurePost AG, Mobility Solutions AG. During the same period, Swiss Post International Belgium BVBA was established in Belgium and CarPostal France SARL was founded in France.

Besides the sale of 40 percent of Swiss Post International (Italy) Srl, no other disposals took place in 2004.

34 Non-current assets held for sale

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

	31 December 2005		
	Operating property	Other property, plant and equipment	Total
CHF m			
As at 1.1.2005	—	—	—
Additions arising from reclassifications in accordance with IFRS 5	11	5	16
Sales	—	-4	-4
As at 31.12.2005	11	1	12

35 Key exchange rates

The following exchange rates are applied in translating the financial statements of foreign subsidiaries into Swiss francs:

Unit	Closing rate as at		Average rate for the period ending	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
1 EUR	1.56	1.54	1.55	1.54
1 USD	1.31	1.13	1.25	1.24
1 GBP	2.26	2.18	2.26	2.28

36 Events after the balance sheet date

Prior to the approval of the 2005 financial statements by the Board of Directors on 22 May 2006, no events came to light which would have resulted in changes to the carrying amount of the Group's assets and liabilities.

Acquisitions of subsidiaries between 1 January and 22 March 2006

In early March 2006, 2006, Swiss Post International AG acquired MDS Media Data Services AG, based in Kriens.

At the beginning of 2006, the MailSource Group made the following acquisitions:

Swiss Post US Holding Inc., based in New York, was founded in January 2006 for the purpose of acquiring Forrest Solutions Inc., or MailSource Inc. as it is now known.

On 24 January 2006, Swiss Post acquired 100 percent of the shares in Forrest Solutions Inc., based in New York City (USA), via its new subsidiary, Swiss Post US Holding Inc. Forrest Solutions provides outsourcing solutions for internal mailing and related services, plus staffing and recruiting solutions. Immediately after the transaction, Forrest Solutions was renamed MailSource Inc. and integrated into the MailSource Group as a subsidiary. This transaction is expected to result in provisional goodwill of 59 million francs, which will be capitalized in 2006. It provides for a maximum of two earn-out payments in favour of the sellers in 2008 and 2009. The sellers have agreed to remain with the company during the three-year earn-out period.

On 21 February 2006, Swiss Post acquired 100 percent of the shares in oneReason AG in Kloten. oneReason is a leading provider of scanning solutions for payment transactions and incoming mail for a number of sectors. The company was absorbed immediately after the acquisition by MailSource AG, a Swiss Post subsidiary. An earn-out agreement was concluded with the sellers, all of whom were employed by the company. As part of this agreement, the current management has undertaken to remain with the company for at least two years. Provisional goodwill of around 5 million francs has been capitalized on this transaction and is stated in the 2006 financial statements. Two earn-out payments expected to be paid to the sellers will be disclosed under Goodwill in 2006.

Effects of the application of IFRSs effective as of 2006

Swiss Post's application of the new or revised IFRSs as of 1 January 2006 will not have a material effect on results posted in 2006. Only the disclosure will be adjusted or expanded in future in accordance with IAS 19 and IFRS 7.

Report of the Group Auditors to the Federal Council

Swiss Post, Berne (Swiss Post Group)

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, changes in equity, cash flow statement and notes, pages 14 to 62) of Swiss Post Group for the year ended 31 December 2005.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRSs) and comply with the Postal Organization Act.

We recommend that the consolidated financial statements submitted to you be approved.

Without limiting the audit assessment we refer to note no. 2 "Accounting principles" in the notes to the consolidated financial statements. In view of the thin capitalization, Swiss Post's status as a going concern is dependent upon the assumption that – in accordance with the state guarantee – the required funds will be provided.

KPMG Fides Peat

Dieter Widmer
Swiss Certified Accountant

Christoph Andenmatten
Swiss Certified Accountant
Auditor in charge

Gümligen-Berne, 22 March 2006

Swiss Post

Income statement

	2005	2004
CHF m		
Net sales from logistics services	5 146	5 176
Income from financial services	1 514	1 417
Other operating income	241	263
Total operating income	6 901	6 856
Staff costs	-3 440	-3 642
Resale merchandise and service expenses	-1 195	-1 114
Expenses for financial services	-263	-220
Other operating expenses	-990	-933
Depreciation	-230	-243
Total operating expenses	-6 118	-6 152
Operating result	783	704
Financial income	21	21
Financial expenses	-20	-55
Earnings before taxes	784	670
Income taxes	—	—
Group profit for the year	784	670

Balance sheet

	31.12.2005	31.12.2004
CHF m		
Assets		
Cash holdings	2 293	1 871
Receivables due from banks	11 890	9 240
Interest-bearing amounts due from customers	81	76
Trade accounts receivable	908	924
Other receivables	737	763
Inventories	54	54
Non-current assets held for sale	12	0
Financial assets	32 001	31 705
Investments	150	120
Property, plant and equipment	1 671	1 620
Intangible assets	7	11
Total assets	49 804	46 384
Liabilities		
Customer deposits	43 642	40 371
Other financial liabilities	435	574
Trade accounts payable	652	776
Other liabilities	680	675
Provisions	575	603
Total debt	45 984	42 999
Endowment capital	1 300	1 300
Free reserves	1 736	1 415
Group profit for the year	784	670
Total equity	3 820	3 385
Total liabilities	49 804	46 384

Notes to the annual financial statements of Swiss Post

1 Accounting principles

The financial statements of Swiss Post were prepared in accordance with generally accepted commercial principles. Furthermore, the accounting records and financial statements and the proposed appropriation of retained earnings comply with the Postal Organization Act.

2 Accounting principles

2a) General information

The financial statements of Swiss Post are based on the financial statements of the legally dependent Accounting Units, which are prepared using consistent, generally accepted principles. Internal transactions among the Accounting Units are eliminated. Swiss Post comprises the following Accounting Units: PostMail, Logistics, ExpressPost, Post Offices & Sales, PostFinance, PostBus, Swiss Post International, Real Estate and Central Services (Stamps & Philately, Corporate Purchasing, Information Technology Services, Service House and the management units of Swiss Post).

The subsidiaries controlled by the parent are not consolidated but taken to the balance sheet under "Investments" at cost minus any necessary writedowns.

2b) Differences in accounting policies compared with the IFRS consolidated financial statements

The financial statements of Swiss Post were prepared in accordance with the accounting policies used in drawing up the consolidated financial statements, with the following exceptions:

Financial assets

Financial assets with a fixed maturity classified as "Available for sale" are measured at amortized cost. Interest rate-related fluctuations in fair value (volatility) do not therefore affect the book value of the financial assets and the reported equity (no fair value reserve). Loans granted by the parent to subsidiaries are carried in the balance sheet at amortized cost less any necessary writedowns.

Provisions for insurance risks

In accordance with the principle of self-insurance, provisions for insurance risks cover future claims that have not yet been incurred. Large claims can therefore be settled via the insurance provisions.

Employee benefits

Pension expenses reported for Swiss Post correspond to the employer contributions transferred to the Swiss Post pension fund.

Long-term benefits due to employees and retirees

The costs of long-term benefits due to employees and retirees such as loyalty bonuses and staff vouchers are recognized when they are incurred; provisions are not made systematically over the years of service of employees.

3 Contingent liabilities

There are guarantees amounting to 1 million francs (2004: 1 million francs).

4 Assets pledged as security for own obligations

Assets with book values totalling some 5,776 million francs (2004: 2,009 million francs) were pledged as collateral for own obligations as at 31 December 2005 (real estate and bonds).

5 Lease obligations

Lease obligations not entered in the balance sheet (operating leases) total 427 million francs at 31 December 2005 (2004: 563 million francs).

6 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment totalled 5,546 million francs at 31 December 2005 (2004: 6,066 million francs).

7 Investments

Please see note 32, Scope of consolidation, in the consolidated financial statements, page 57. Investments in subsidiaries held directly by the parent are carried in the balance sheet at cost less any necessary writedowns.

8 Amounts due to employee pension funds

The amounts due to the Swiss Post pension fund total 3 million francs at 31 December 2005 (2004: 3 million francs).

9 Equity

The Swiss Confederation has provided Swiss Post with interest-free endowment capital of 1,300 million francs.

Proposal of the Board of Directors concerning appropriation of available earnings

According to Article 12 of the Postal Organization Act (POA), the appropriation of profit should be determined by the requirements of the business. The key issues are an appropriate capital structure and the financing of investments. Any profit remaining after transfers to reserves is handed over to the Swiss Confederation.

Based on Article 12 of the POA, the Board of Directors proposes to the Swiss Federal Council that Swiss Post's profit of 784 million francs be allocated as follows:

- 350 million francs to be deposited in the Swiss Post pension fund as the employer's reserve and
- 434 million francs to be allocated to Swiss Post reserves.

Report of the Statutory Auditors to the Federal Council

Swiss Post, Berne

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, notes) of Swiss Post presented on pages 64 to 67 of the Financial Report for the year ended 31 December 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the Postal Organization Act.

We recommend that the financial statements be approved.

Moreover, we would like to point out that the Federal Office for Transport, as the supervisory body pursuant to Art. 70 of the Railways Act, has not yet approved the 2004 and 2005 financial statements of PostBus.

KPMG Fides Peat

Dieter Widmer
Swiss Certified Accountant

Christoph Andenmatten
Swiss Certified Accountant
Auditor in charge

Gümligen-Berne, 22 March 2006

Additional information about PostFinance

The following financial statements of PostFinance were prepared in accordance with the principles of IFRS segment reporting and correspond to the Financial Services segment. In contrast to the presentation in Note 6, Income from financial services, page 33, Group-internal transactions with other segments (including services purchased by the Post Office Network and PostMail) have not been eliminated.

PostFinance – income statement

	2005	2004 ¹
CHF m		
Interest income		
Interest income on amounts due from banks	20	10
Interest income on securities lending and reverse-repurchase transactions	48	18
Interest income on interest-bearing amounts due from customers	9	9
Interest and dividend income on FVTPL ² : held for trading	–	1
Interest and dividend income on financial assets	734	750
Interest expense		
Interest expense for customer deposits	–183	–145
Interest expense for repurchase transactions	–2	–2
Profit/loss on interest business	626	641
Change in value adjustments for financial assets	29	–11
Losses on payment transactions	–6	–7
Interest income after writedowns	649	623
Commission income on lending, securities and investment business	40	30
Commission income on other services	18	16
Income from services	525	516
Expenses from commission and services	–294	–295
Profit/loss on service and commission business	289	267
Trading profit/loss	80	76
Realized profits and losses from financial assets	11	14
Other operating income	1	–3
Total operating income	1 030	977
Staff costs	–277	–250
General overheads	–412	–419
Depreciation	–29	–30
Total business expenses	–718	–699
Operating profit³	312	278
Income from associates financing	2	1
Income from intra-Group financing	5	4
Group profit for the year	319	283

¹ Adjustments owing to changed IAS 39 provisions (revised 2004).

² FVTPL: Fair value through profit or loss (fair value changes are taken to the income statement).

³ Corresponds to the operating result for the financial services segment.

PostFinance – balance sheet

	31.12.2005	31.12.2004 ¹
CHF m		
Assets		
Cash and cash equivalents	2 292	1 869
Receivables due from banks	11 890	9 239
Interest-bearing amounts due from customers	81	76
Securities held for trading	1	78
Derivative financial instruments	10	49
Financial assets	31 964	31 899
Investments	14	14
Property, plant and equipment	57	73
Accrued expenses and deferred income	458	468
Other assets	489	392
Total assets	47 256	44 157
Liabilities		
Due to banks	340	433
Due to customers on Deposito and investment accounts	11 190	9 707
Other amounts due (to customers)	34 565	32 766
Derivative financial instruments	53	40
Accrued expenses and deferred income	27	25
Provisions	4	5
Other liabilities	75	56
Total debt	46 254	43 032
Allocated equity ²	500	500
Fair value reserves	183	342
Group profit for the year	319	283
Total equity	1 002	1 125
Total liabilities	47 256	44 157

¹ Adjustments owing to changed IAS 39 provisions (revised 2004).

² From 1 January 2003 PostFinance has 500 million francs in equity available to cover fair value fluctuations of available-for-sale financial assets.

The 2005 Financial Report of Swiss Post is available in English, German, French and Italian. The printed German version is binding. The Financial Report and other current information about Swiss Post are available on the Internet at www.swisspost.ch.

The 2005 Financial Report of Swiss Post includes statements geared to the future. These statements are based both on assumptions and estimates as well as on information available to Swiss Post at the time of going to press. Unforeseeable events may result in actual trends and results deviating from these statements. Swiss Post is not obliged to update the statements contained in the Annual Report.

Additional copies of the Annual Report are available from the address below or can be ordered on the Internet. Employees of Swiss Post may order additional copies through the usual channels.

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