2016 Annual Report

CONSTANTLY REINVENTING THE FUTURE OF LOGISTICS

Deutsche Post DHL Group

/2016 CONTENT

Cross-references Websites

TO OUR SHAREHOLDERS

» WE ARE COMMITTED TO CONTINUOUSLY REINVENTING OURSELVES FOR THE BENEFIT OF OUR CUSTOMERS «

By FRANK APPEL

Dr Frank Appel has been a member of the Board of Management of Deutsche Post DHL Group since 2002. He became Chief Executive Officer in 2008. Frank Appel has a PhD in neurobiology.

To stand still is to go backwards. I couldn't agree more with this maxim. It applies to everything – to nature, society, economies, companies and our own lives. The world is changing, and it's our responsibility to recognise and seize the opportunities that arise from this change.

As a leading company in a service industry, I believe we have a particular duty to actively shape change. That's why I am so proud of the curiosity and innovative spirit demonstrated by our employees.

What's more, we're networking with partners from industry and research at our Innovation Centers in Germany and Singapore, where we work together on innovative topics.

DHL Innovation Centers provide a place for Deutsche Post DHL Group customers and partners to come together to collaborate on new trends and innovations. Visitors are given a comprehensive insight into present and future logistics solutions and it is here that the DHL Trend Research Team explores topics related to innovation.

Over the next pages, we present a few examples of how Deutsche Post DHL Group optimises business models, applies digital technology and leverages new forms of collaboration. Our "sketch book" shows the breadth of our test projects – from smart glasses and drones to e-mobility and robots. At the heart of it all we are creating added value for our customers.

» FOR US / INNOVATION MEANS / CONTINUOUSLY IMPROVING WHAT WE CAN OFFER OUR CUSTOMERS «

First and foremost, for us, innovation means continuously improving what we can offer our customers – for example, innovative delivery options from Packstations to in-car delivery that are as customised, flexible and convenient as possible. After all, that is what our customers in the booming e-commerce business want – with volumes rising at the same time.

I believe one key to our success is continuing to reduce complexity through new technologies and improved processes. This is how we can simplify and streamline standard activities. New technologies can help people be more productive and they thus play an important role in driving economic growth.

» NEW TECHNOLOGIES CAN HELP PEOPLE BE MORE PRODUCTIVE AND THEY THUS PLAY AN IMPORTANT ROLE IN DRIVING ECONOMIC GROWTH «

The results we achieved in financial year 2016 confirm that we are on the right path. The measures implemented in the prior year served to make our Group more efficient and led to significantly higher margins. Consolidated EBIT rose by around 45 % to €3.5 billion, which is in line with our target.

All our operating divisions contributed to this positive development: Post - eCommerce - Parcel achieved an increase in revenue and earnings, due mainly to the dynamic growth recorded in the parcel business.

In the DHL divisions, the growth trend in the international express business remained intact and the turnaround measures implemented in the Global Forwarding, Freight division, in particular, are taking effect. The Supply Chain operating business continued to perform well.

In addition, we invested substantially in all divisions in sustainable growth and made major progress in the implementation of our Strategy 2020. We are well on our way to becoming the global market leader in e-commerce logistics.

Our "Global E-Tailing 2015" study uses four future scenarios to describe the role which electronic retailing could play in people's lives in the year 2025, how international online retailing will change consumer behaviour and thus the world of retailing as a whole, and the challenges that will subsequently face the logistics industry.

» WE ARE WELL ON OUR WAY / TO BECOMING THE GLOBAL MARKET LEADER IN E-COMMERCE LOGISTICS «

We expect consolidated EBIT to reach around €3.75 billion in financial year 2017. The Post - eCommerce - Parcel division is likely to contribute around €1.5 billion to this figure. Compared with the previous year, we expect an additional improvement in overall earnings to around €2.6 billion in the DHL divisions. The Corporate Center/ Other result is projected to be at the prior-year level of around €–0.35 billion.

The Group's finance strategy, which was presented in 2010, includes a dividend policy to this effect and sets clear priorities regarding the use of excess liquidity.

Against the backdrop of the positive results achieved in the reporting year, the Board of Management and the Supervisory Board will propose a €0.20 increase in the dividend to €1.05 per share to the Annual General Meeting at the end of April. With a planned distribution ratio of 48 %, we remain within our target range of 40 % to 60 % of net profits.

» AS THE DRIVER OF INNOVATION IN OUR INDUSTRY / WE CREATE NEW POSSIBILITIES THAT ALLOW US TO DO OUR JOB JUST A LITTLE BIT BETTER EVERY DAY «

As CEO of a global logistics company, I know that we have to continuously reinvent ourselves in order to seize the opportunities presented by change and remain the driver of innovation in our industry. That is how we create new possibilities that allow us to do our job just a little bit better every day.

LEARN MORE AT:

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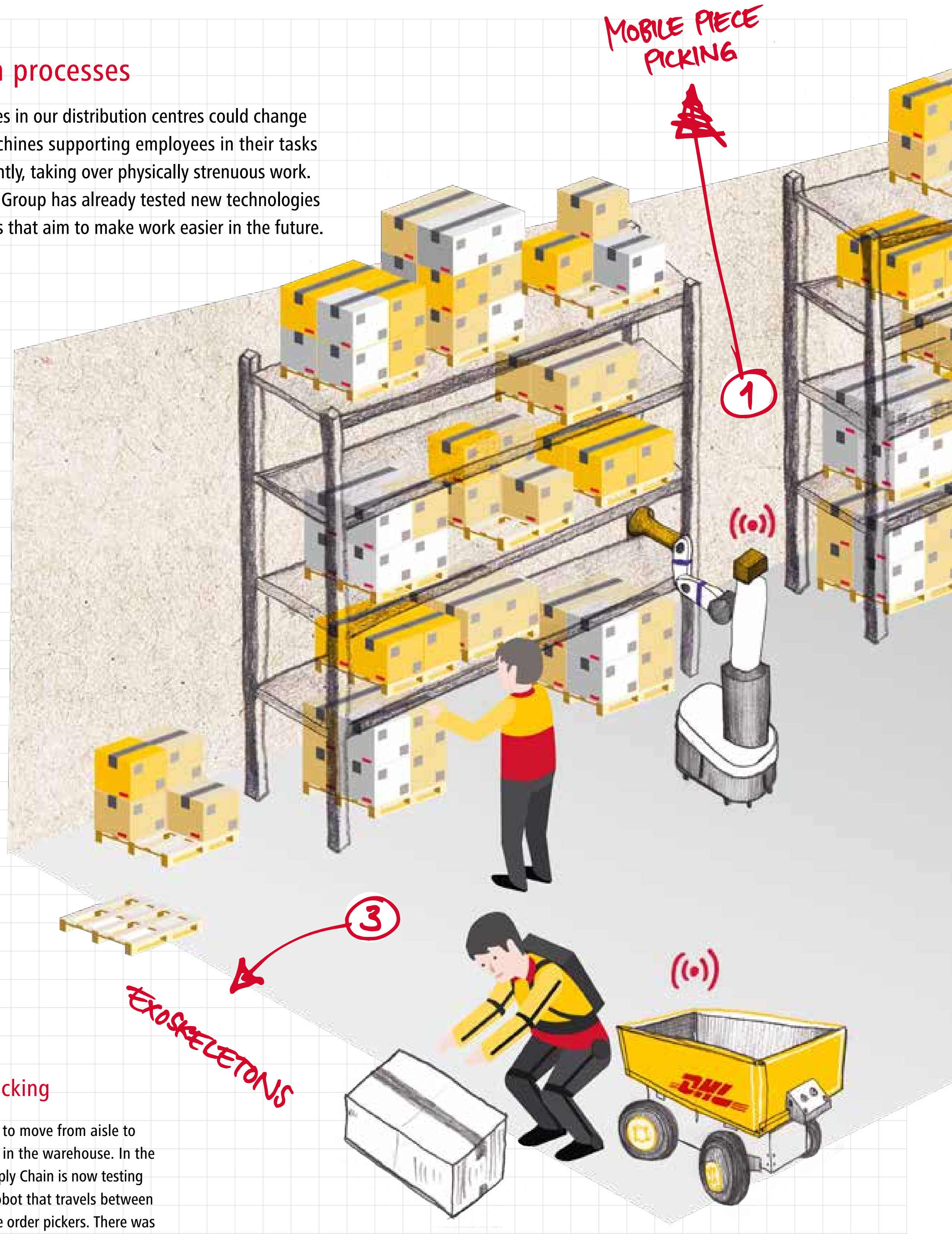
DELIVERING TOMORROW

dialogue on future trends

IT IS ESSENTIAL TO SIMPLIFY OPERATIONS AND INCREASE FLEXIBILITY / BY COMBINING THE STRENGTHS OF HUMANS AND MACHINE

Distribution processes

Numerous processes in our distribution centres could change in future, with machines supporting employees in their tasks and, most importantly, taking over physically strenuous work. Deutsche Post DHL Group has already tested new technologies at various locations that aim to make work easier in the future.



1

Mobile piece picking

Pickers previously had to move from aisle to aisle to retrieve goods in the warehouse. In the United States, DHL Supply Chain is now testing a small autonomous robot that travels between aisles thus relieving the order pickers. There was also another project in our Post - eCommerce - Parcel division.

2 Co-packing

Baxter and Sawyer are two collaborative robots who assist employees with order picking and co-packing – the packaging or repackaging of goods. Taking the weight off our colleagues, they are especially useful in the lifting of heavy objects. The two robots have already been tested by DHL Supply Chain.

3 Exoskeletons

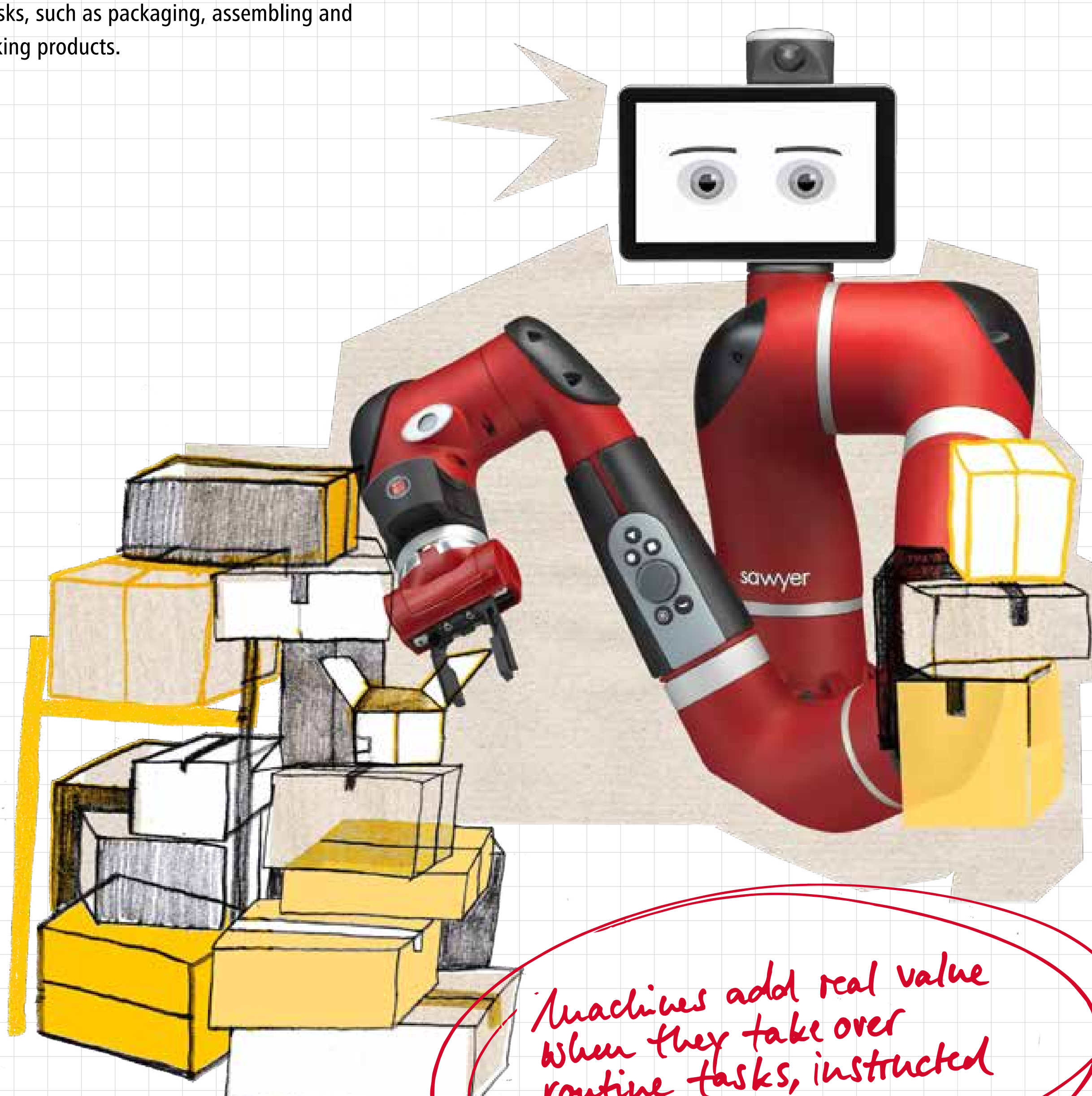
Exoskeletons strengthen movements and support the body. DHL Supply Chain has already tested this technology in its operations and found that it reduces the physical workload for our employees. In future, exoskeletons may also support deliverers along their routes.

4 Automated inventory management

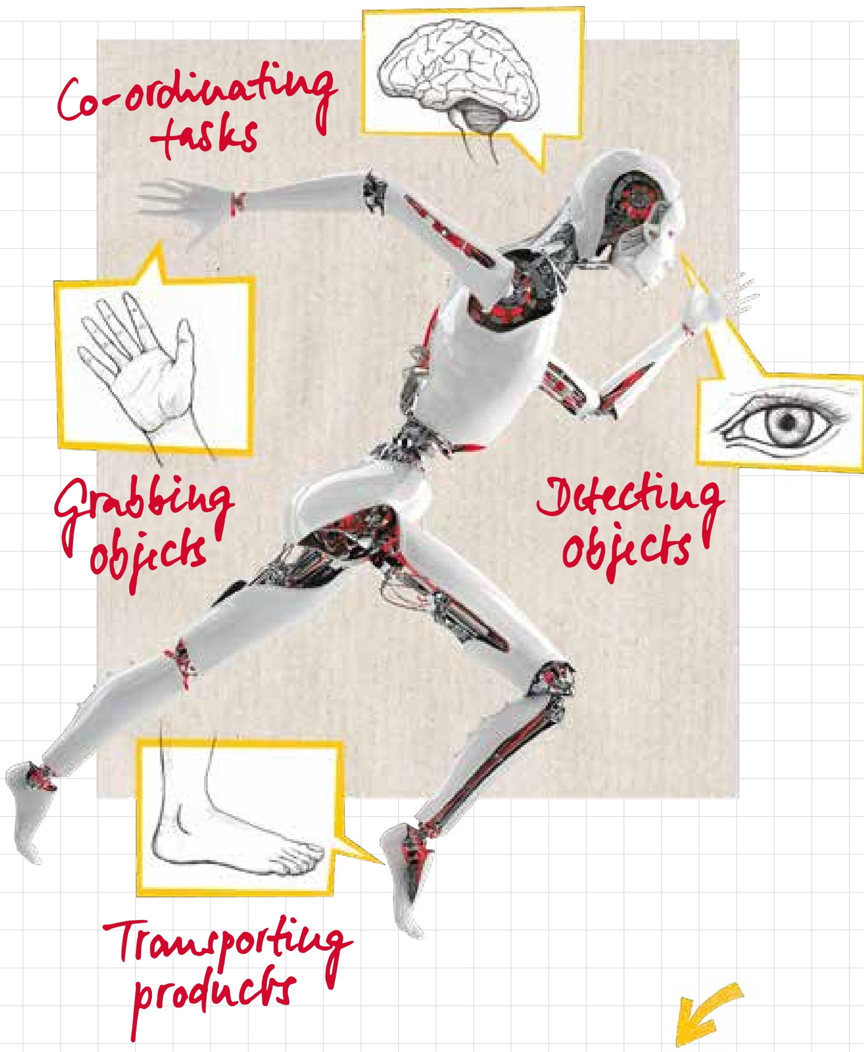
A drone is equipped with a camera that can identify warehouse stock levels from the air – a technology that assists with inventory management. The project has already been tested at the Supply Chain division. In future, drones could be equipped with smart sensors to scan goods directly. The information collected will then be read out in order to deliver precise inventory data.

Collaborative robots in logistics

Whilst industrial robots have been used in manufacturing for years, they have not been considered suitable for complex logistics tasks. Now that's all changing. Baxter and Sawyer are two collaborative robots that use sensors and cameras not only to identify and grab objects, but also to integrate themselves into existing operations and assist staff with tasks, such as packaging, assembling and co-packing products.



Machines add real value when they take over routine tasks, instructed by humans.



Flexible and adaptive

Robots today need to be flexible and adaptive rather than rigid and stationary in order to be able to complete complex logistics tasks.

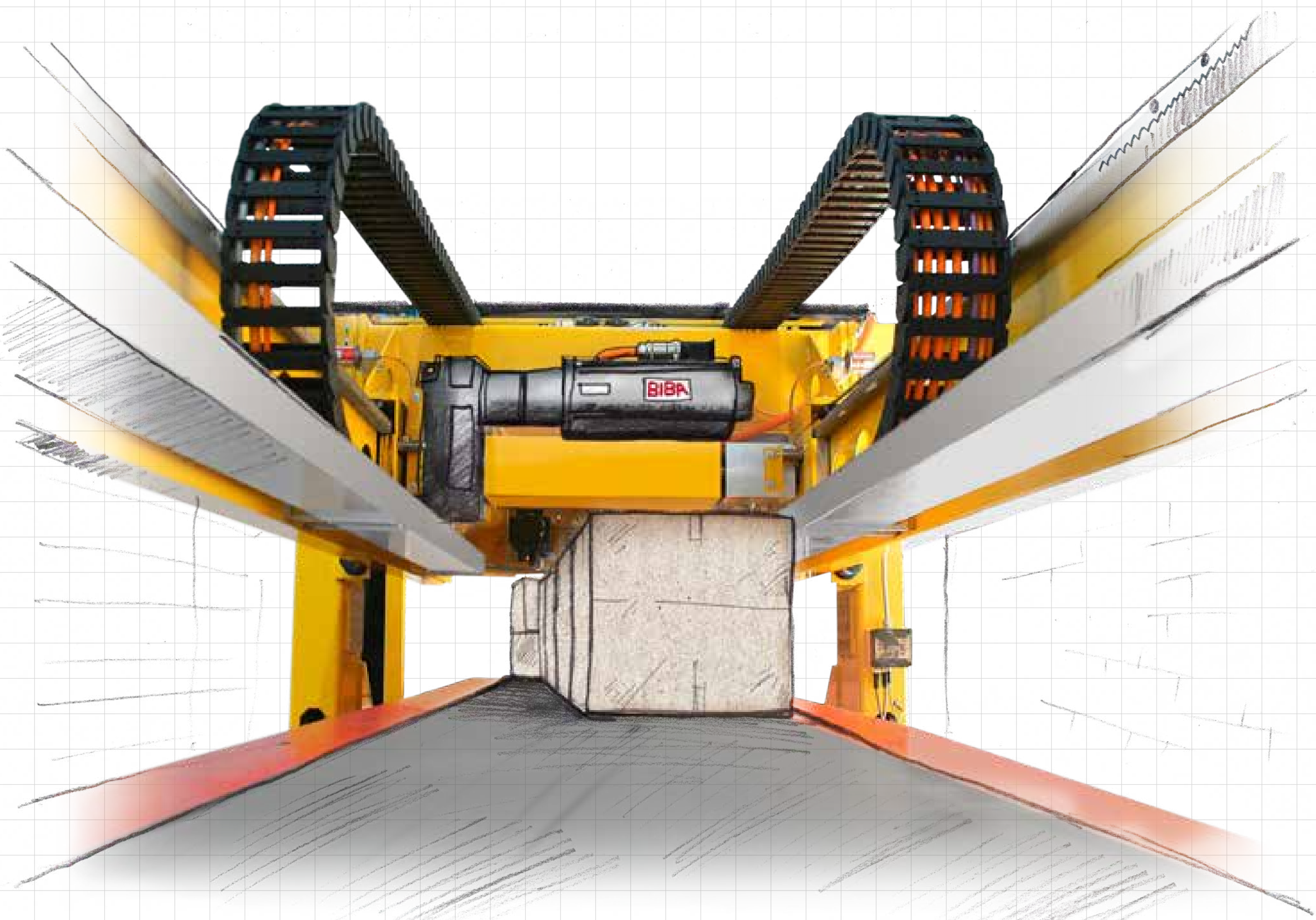
Lightening the load

Fully automated, autonomous trolleys can now follow employees and help with physical work. DHL has tested these rolling assistants in its Supply Chain warehouses. In future, they may also be able to support our mail and parcel delivery operations and are currently being tested in the Post - eCommerce - Parcel division. Delivery robots have to be even more sophisticated – for example, they must be weatherproof, and able to detect and avoid obstacles.

EffiBOT follows the warehouse worker up and down the aisles. Once fully loaded, the trolley goes by itself to the designated drop-off location. A second cart then takes over to assist the picker further.

Automated relief

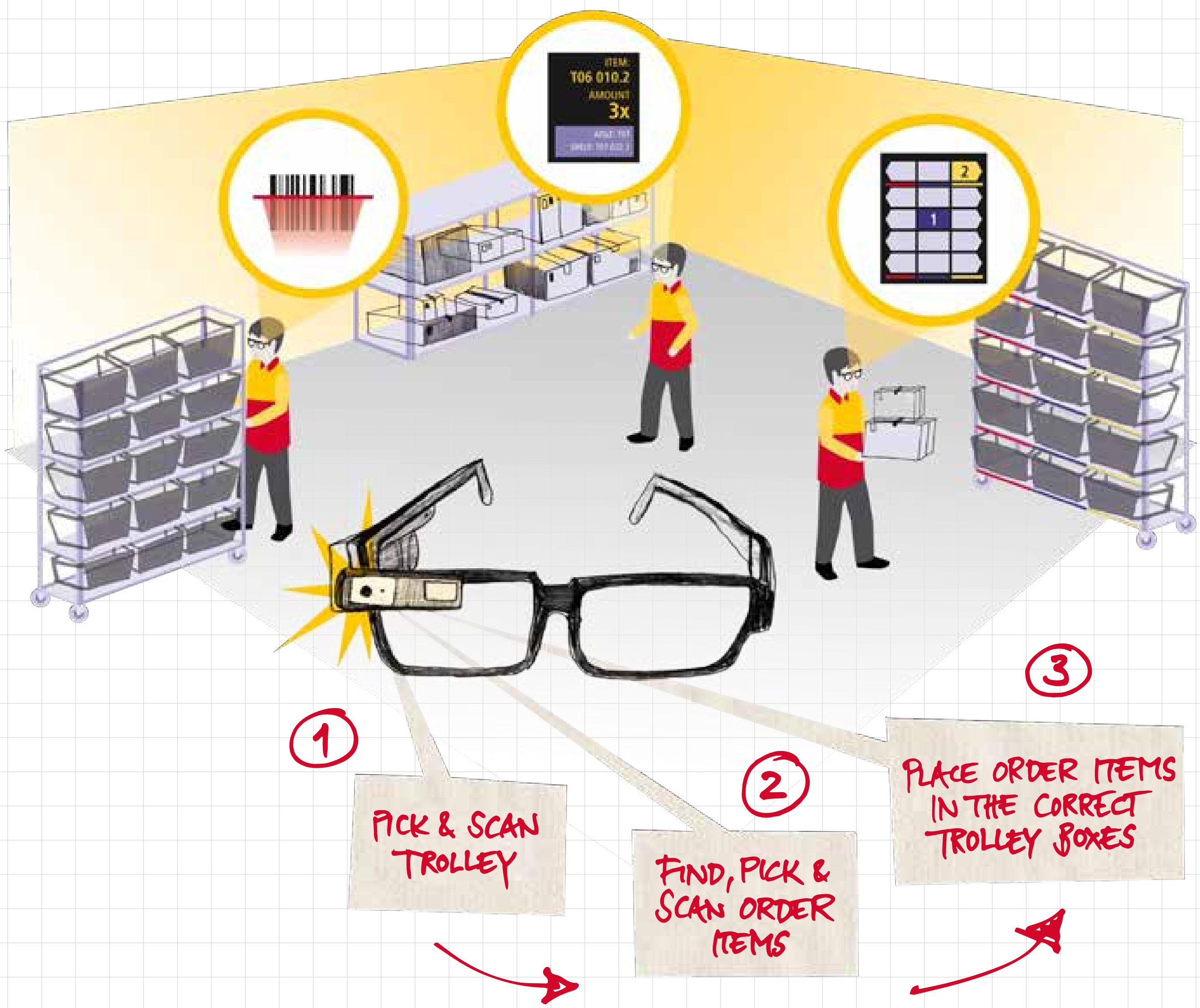
Several years ago, Deutsche Post DHL Group put a system into operation that can autonomously unload containers with loose parcels, thus relieving workers from what was very strenuous manual labour. Guided by custom software and a laser scanner, the parcel robot grabs individual parcels from containers before placing them on a conveyor belt.



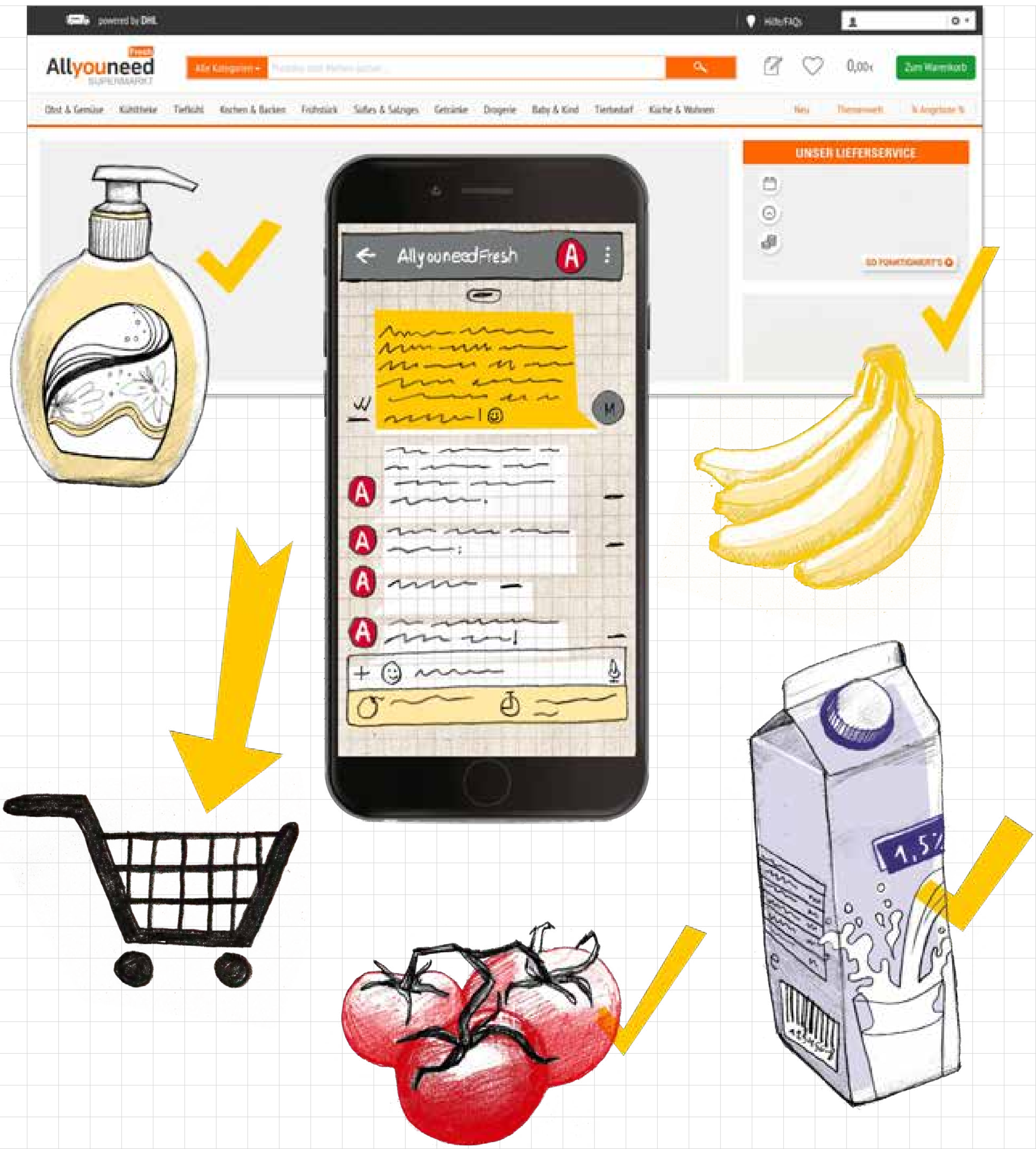
NEW TECHNOLOGIES AS SMART ASSISTANTS IN THE WORKPLACE

With the assistance of smart glasses

In 2015, DHL tested the use of smart glasses and augmented reality for the first time at a distribution centre in the Netherlands. Wearing the glasses, pickers see information that tells them what to do next. This can accelerate the picking process and reduce errors.



The next phase in the project started in the summer of 2016. It is now being expanded to other countries in Europe, as well as the United States, and in new sectors such as Technology, Retail, Consumer and Automotive.



Chatbots go shopping

AllyouneedFresh, Deutsche Post DHL Group's online grocery store, offers a special service to its customers in Germany: customers send a shopping list or photo of a recipe using an instant messenger such as SIMSme. An intelligent computer program known as a chatbot then autonomously creates a shopping list. The customer receives a link, reviews the order and confirms the purchase. DHL then delivers the order within the requested delivery window.

More flexible delivery and optimised routing

The requirements and customer demands placed on delivery are changing rapidly, especially in urban areas. For example, customers increasingly want flexible delivery windows whilst our volumes continue to grow. In order to meet these requirements and be able to offer excellent services in the future, we are developing innovative planning models and, in doing so, are making processes more efficient and flexible. For example, in the Post - eCommerce - Parcel division the research project “Digital Delivery Graph” is aimed at realising flexible planning in real time. In the Express division, new scanners and state-of-the-art route planning tools help us to significantly increase our efficiency by reducing set-up times and optimising routes.

WE MUST CONTINUOUSLY REINVENT OURSELVES / TO KEEP PACE WITH THE CHANGING WORLD AND TAKE ADVANTAGE OF OPPORTUNITIES

carbon-free

Delivery vehicles of the future

Delivery vehicles should be carbon free and quiet whilst meeting the highly specialised requirements of our deliverers: short routes in city traffic with frequent stops and starts. In 2011, the Group worked together with StreetScooter GmbH in Aachen, Germany, to build a custom electric delivery vehicle. The first StreetScooters were successfully tested in our delivery operations in 2013. Starting in 2017, we shall be in a position to produce 10,000 StreetScooters per year. We intend to replace our delivery fleet in Germany with these electric vehicles in the medium term.

The ever-evolving Parcelcopter

The Deutsche Post DHL Group Parcelcopter lifted off for the first time in 2013, flying over the Rhine in Bonn. In a subsequent field test, it delivered medication to the North Sea island of Juist. Afterwards it flew from the Bavarian ski resort Reit im Winkl to the mountain plateau of Winklmoosalm, where it landed, for example, in a specially designed Packstation – the Parcelcopter Skyport – to deliver parcels. By continuously developing this unmanned aircraft we have been able to integrate it into existing logistics processes. The project was awarded the 2016 German Mobility Prize.

Delivering convenience

Together with prominent car manufacturers, DHL Paket is testing in-car delivery. Since the autumn of 2016, DHL and smart have been running a joint test project allowing owners of a smart in select cities to register their cars as mobile delivery addresses for their parcel shipments. Using a smartphone app, deliverers can locate the vehicle and open the boot using a one-time transaction number in order to deposit the shipment. A similar project called Smart Lock is also being tested: customers can give, for example, parcel couriers access to their home using a special electronic lock and app so that they can deposit parcels there. The technology can also be used to open doors for other services, such as cleaning or maintenance personnel.

SELECTED KEY FIGURES

01

EBIT 2016

€3,491 million

Profit from operating activities.
(previous year: €2,411 million)

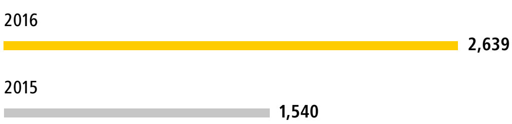
EMPLOYEES

508,036

Headcount at the end of 2016, including trainees.
(previous year: 497,745)

CONSOLIDATED NET PROFIT FOR THE PERIOD

€m



After deduction of non-controlling interests.

RETURN ON SALES 2016

6.1 %

(previous year: 4.1 %)

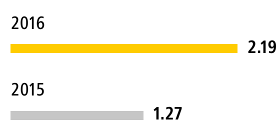
REVENUE 2016

€57,334 million

(previous year: €59,230 million)

EARNINGS PER SHARE

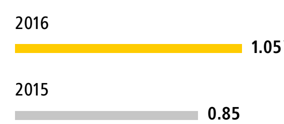
€



Basic earnings per share.

DIVIDEND PER SHARE

€



[1] Proposal.

		2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Revenue	€m	59,230	57,334	–3.2	15,339	15,410	0.5
Profit from operating activities (EBIT)	€m	2,411	3,491	44.8	957	1,111	16.1
Return on sales[1]	%	4.1	6.1	–	6.2	7.2	–
EBIT after asset charge (EAC)	€m	877	1,963	> 100	–	–	–
Consolidated net profit for the period[2]	€m	1,540	2,639	71.4	670	841	25.5
Free cash flow	€m	1,724	444	–74.2	1,705	1,201	–29.6
Net debt[3]	€m	1,093	2,261	> 100	–	–	–
Return on equity before taxes	%	19.7	27.7	–	–	–	–
Earnings per share[4]	€	1.27	2.19	72.4	0.55	0.70	27.3
Dividend per share	€	0.85	1.05[5]	23.5	–	–	–
Number of employees[6]		497,745	508,036	2.1	–	–	–

[1] EBIT/revenue.
[2] After deduction of non-controlling interests.
[3] Calculation Group Management Report, page 58.
[4] Basic earnings per share.
[5] Proposal.
[6] Headcount at the end of the year, including trainees.

/01 GROUP MANAGEMENT REPORT

GENERAL INFORMATION

Business model and organisation

Four operating divisions

Deutsche Post AG is a listed corporation domiciled in Bonn, Germany. The Group is organised into the four operating divisions Post - eCommerce - Parcel, Express, Supply Chain and Global Forwarding, Freight, whose products and services we describe in the Business units and market positions chapter, page 24 ff. Each of them is under the control of its own divisional headquarters and subdivided into functions, business units or regions for reporting purposes.

We consolidate the internal services that support the entire Group in our Global Business Services (GBS). Group management functions are centralised in the Corporate Center.

Organisational structure 01/01

Deutsche Post DHL Group

Corporate Center			Divisions			
CEO, Global Business Services	**Finance**	**Human Resources**	**Post - eCommerce - Parcel**	**Express**	**Global Forwarding, Freight**	**Supply Chain**
Board member • Dr Frank Appel	**Board member** • Melanie Kreis	**Board member** • Melanie Kreis	**Board member** • Jürgen Gerdes	**Board member** • Ken Allen	**Board member** • Dr Frank Appel	**Board member** • John Gilbert
Functions • Board Services • Corporate Legal • Customer Solutions & Innovation • Corporate Office • Corporate Development • Corporate Executives • Corporate Heritage & Industry Associations • Corporate Communications & Responsibility • Corporate Public Policy & Regulation Management • Global Business Services (Corporate Procurement, Corporate Real Estate, IT Services, Insurance & Risk Management etc.)	**Functions** • Corporate Accounting & Controlling • Corporate Finance • Investor Relations • Corporate Audit & Security • Taxes • Divisional Finance Organisations • Legal Services	**Functions** • Corporate HR Germany • Corporate HR Standards & Programs • Corporate HR International • Divisional HR Organisations	**Business units** • Post • eCommerce - Parcel	**Regions** • Europe • Americas • Asia Pacific • MEA (Middle East and Africa)	**Business units** • Global Forwarding • Freight	**Regions** • EMEA (Europe, Middle East and Africa) • Americas • Asia Pacific

Organisational changes

Tim Scharwath was newly appointed as the member of the Group Board of Management for Global Forwarding, Freight in May 2016. He will have assumed office by June 2017.

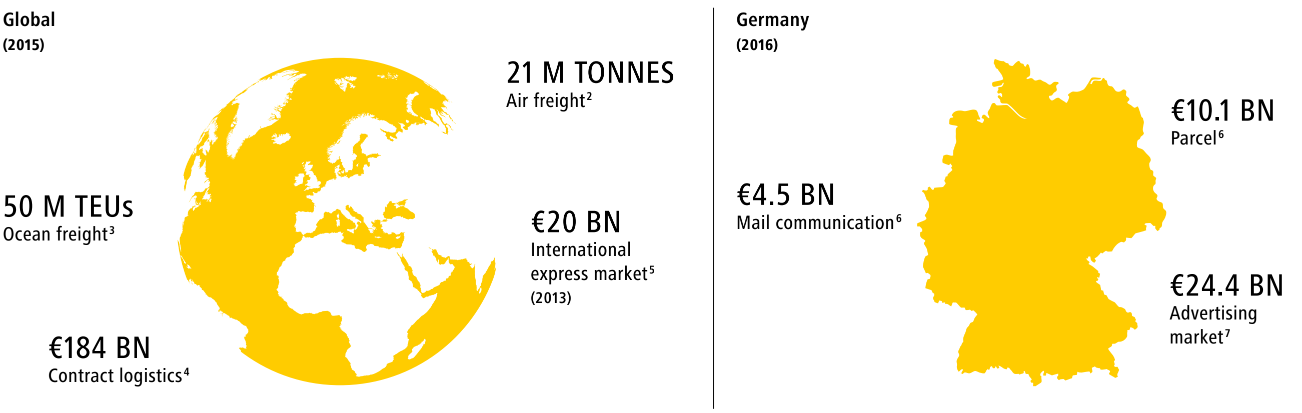
At his own request, Lawrence Rosen retired, resigning as the member of the Group Board of Management responsible for Finance, Global Business Services, on 30 September 2016. Melanie Kreis has been appointed as his successor; she will retain her responsibility as the Board Member for Human Resources and as Group Labour Director until further notice.

Effective 1 January 2017, Frank Appel, as CEO, took over the responsibility for a large part of the functions of Global Business Services until further notice.

A presence that spans the globe

Deutsche Post DHL Group's locations can be found in the list of shareholdings, dpdhl.com/en/investors. Table 01/02 provides an overview of market volumes in key regions. Our market shares are detailed in the business units and market positions chapter below.

Market volumes[1] 01/02



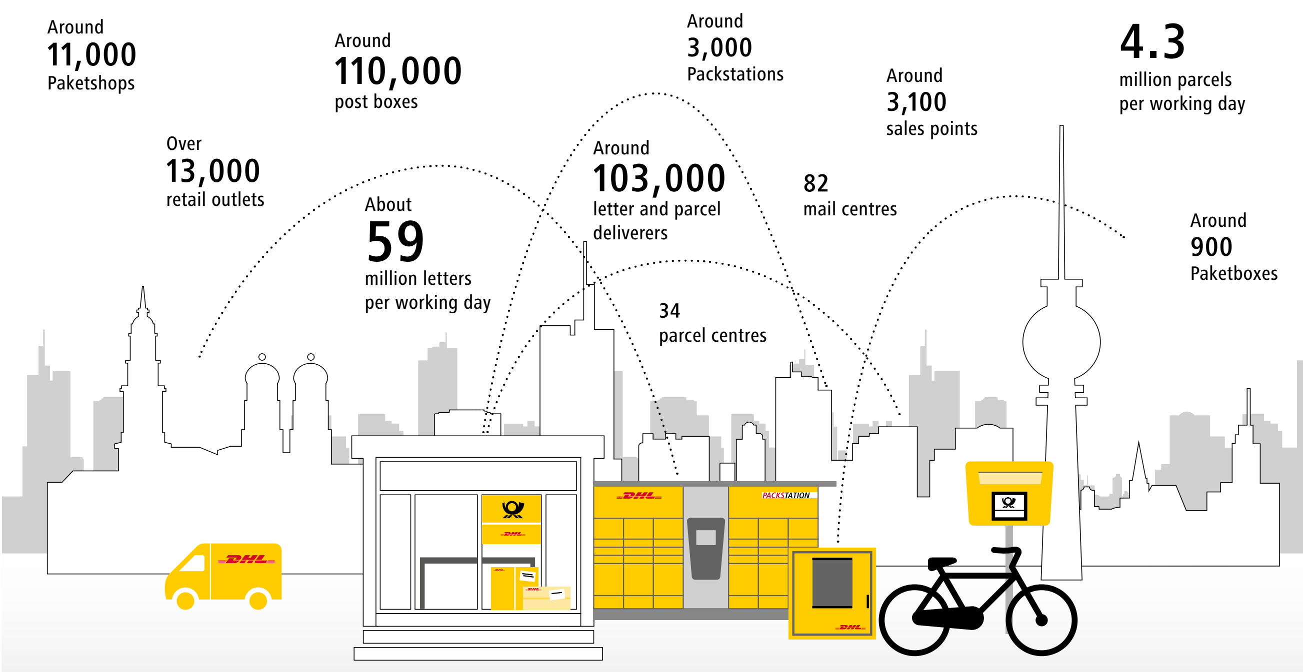
(2015)	Middle East/Africa	Americas	Europe	Asia Pacific
Air freight (m tonnes)[2]	1.3	5.0	5.3	9.6
Ocean freight (m TEUs)[3]	4.8	7.9	6.9	30.2
Contract logistics (€ bn)[4]	5.6	54.3	65.7	59.3
International express market (€ bn)[5]	–	7.2 (2013)	6.0 (2013)	6.5 (2013)
Road transport (€ bn)[8]	–	–	193	–

1 Regional volumes do not add up to global volumes due to rounding.
2 Data based solely upon export freight tonnes. Source: Seabury Cargo Advisory.
3 Twenty-foot equivalent units; estimated part of overall market controlled by forwarders. Data based solely upon export freight tonnes. Source: company estimates, Seabury Cargo Advisory.
4 Based upon Transport Intelligence and company estimates.
5 Includes express product Time Definite International. Country base: Americas, Europe, Asia Pacific, AE, SA, ZA (Global); BR, CA, CL, CO, CR, GT, MX, PA, PE, US (Americas); AT, DE, DK, ES, FR, IT, NL, RU, TR, UK (Europe); CN, HK, IN, JP, KR, SG (Asia Pacific). Source: Market Intelligence, 2014, annual reports and desk research.
6 Source: company estimates.
7 Includes all advertising media with external distribution costs. Source: company estimates.
8 Market volume covers 25 European countries, excluding liquids and bulky goods. Source: Market Intelligence Study DHL 2016, based upon Eurostat, financial publications, IHS [2016]. All rights reserved.

Business units and market positions

POST - ECOMMERCE - PARCEL DIVISION

Nationwide transport and delivery network in Germany, 2016 01/03



The postal service for Germany

We deliver about 59 million letters every working day in Germany, making us Europe's largest postal company. Our products and services are aimed at both private and business customers and range from physical, hybrid and electronic letters and merchandise to additional services such as cash on delivery, registered mail and insured items.

In the reporting year, the domestic market for business communications was around €4.5 billion (previous year: €4.4 billion). We look at the business customer market in which we compete and take into account those companies operating as service providers in this market. These include both companies offering end-to-end services and consolidators offering partial services. Our market share declined slightly to 61.3% compared with the prior year (62.1%).

Domestic mail communication market, business customers, 2016 01/04

Market volume: €4.5 billion

Deutsche Post	61.3%
Competition	38.7%

Source: company estimate.

Targeted and cross-channel advertising

We offer end-to-end dialogue marketing services to advertisers – from address services, design and creative tools to print, shipment and advertising effectiveness measurement. The customer dialogue is cross-channel, personalised and automated so that digital and physical items with interrelated content reach recipients according to a co-ordinated timetable. Our digital services allow companies to determine their target groups by analysing the visits to their websites or online shops.

Due to increasing media convergence, we now include all advertising media with external distribution costs (placement costs) in our domestic advertising market reporting. The domestic advertising market increased by 0.2% in 2016 to a volume of €24.4 billion, primarily because companies reallocated their advertising expenditures. Our share of this highly fragmented and stable market decreased slightly to 8.7% (previous year, adjusted: 8.9%).

Domestic advertising market[1], 2016 01/05

Market volume: €24.4 billion

Competition	91.3%
Deutsche Post	8.7%

[1] Includes all advertising media with external distribution costs; the placement costs are shown as ratios to each other.

Source: company estimate.

Sending mail and merchandise internationally

We carry mail and light-weight merchandise shipments across borders and provide international dialogue marketing services. For business customers in key European mail markets, we offer international shipping services. For the growing e-commerce sector, we develop international shipping solutions to consumers (B2C). Our portfolio also comprises consulting and services for all physical and digital dialogue marketing needs. Furthermore, we offer physical, hybrid and electronic written communications for international business customers.

The global market volume for outbound international mail was around €5.8 billion in 2016 (previous year, adjusted: €5.6 billion). Our market share remained at the prior-year level at 16.3%.

International mail market (outbound), 2016 01/06

Market volume: €5.8 billion

Competition	83.7%
DHL	16.3%

Source: company estimate.

Worldwide portfolio of parcel and e-commerce services

We have a dense network of parcel acceptance and drop-off points in Germany. Recipients can choose whether they wish to receive their parcels during a specific delivery window, on the same day or as quickly as possible. They can decide at short notice whether to have their parcels delivered to an alternative address or a Parcelshop. We help our business customers to grow their online retail businesses. On request, we can cover the entire logistics chain through to returns management.

The German parcel market volume totalled around €10.1 billion in 2016 (previous year: €9.5 billion). We expanded our market share to 45.1% (previous year: 43.7%).

We are also increasingly offering our e-commerce services internationally. In Europe, we continued to expand our B2C network in the reporting year. We are improving our market access in France and the United Kingdom with the acquisition of a minority interest in Relais Colis and the takeover of UK Mail. Furthermore, we expanded our European parcel business to a total of 19 countries, including the German domestic market, through co-operation agreements in Scandinavia, the Baltic states, Hungary and Slovenia. We operate over 20,000 Parcelshops in Europe and have set up the first Packstations.

Outside Europe, we brought another e-commerce delivery network online in Thailand, opened two fulfilment centres Glossary, page 181, in the United States and India respectively as well as one in Mexico. Centrally co-ordinated in Hong Kong, we support FC Bayern Munich's Chinese online fan store. Due to increasing demand, we reinforced our international parcel network by adding two new distribution centres in China and one in the United States.

Domestic parcel market, 2016 01/07

Market volume: €10.1 billion

Competition	54.9%
DHL	45.1%

Source: company estimate.

EXPRESS DIVISION

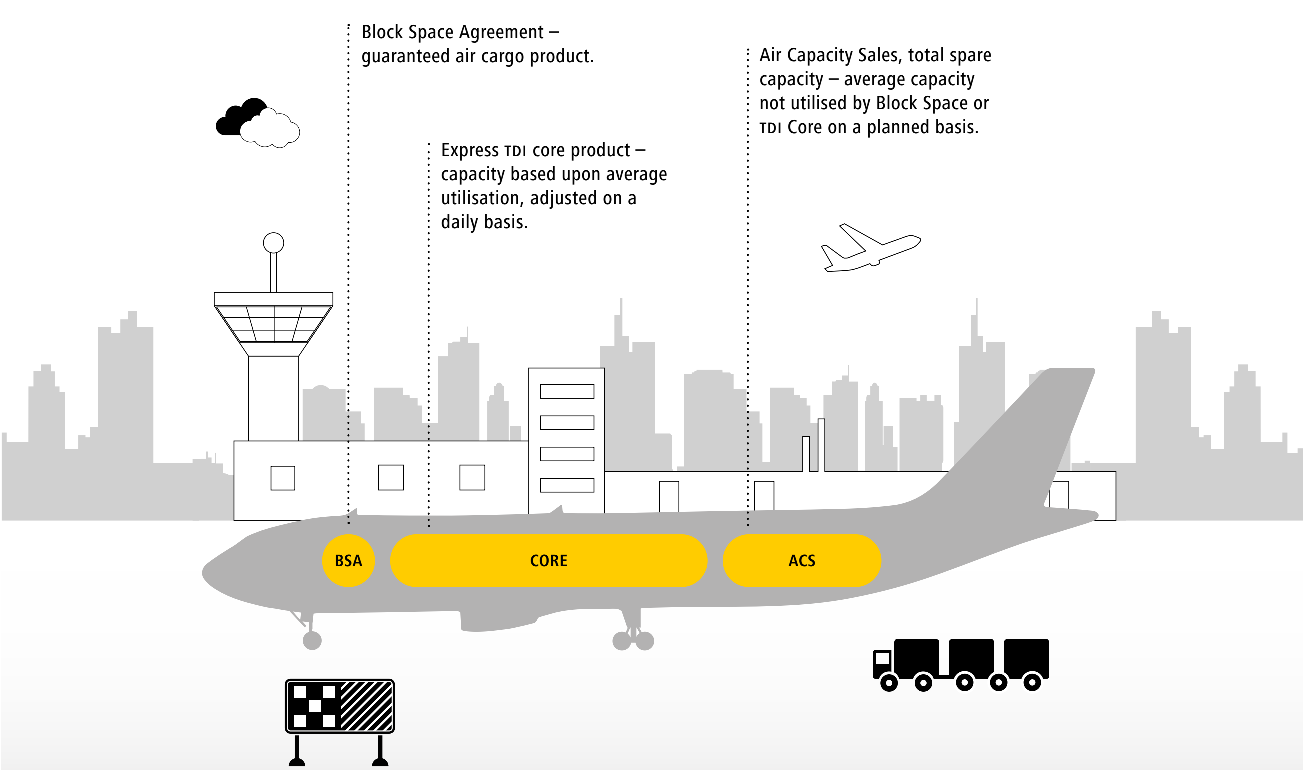
Express services in more than 220 countries and territories
In the Express division, we transport urgent documents and goods reliably and on time from door to door. Our global network spans more than 220 countries and territories, in which some 90,000 employees provide services to more than 2.5 million customers.

Time-definite international shipments as our core business
Our main product is Time Definite International (TDI), which is a service with a pre-defined delivery time. We also provide industry-specific services to complement this product. For example, our Medical Express transport solution, which is tailored specifically to customers in the Life Sciences & Healthcare sector, offers various types of thermal packaging for temperature-controlled, chilled and frozen content. Collect and Return is used predominantly by customers in high-tech industries: technical products are collected from the user, taken in for repairs and then returned.

Our virtual airline
As an express service provider, we operate a global network consisting of several airlines, some of which we own 100%. The combination of our own and purchased capacities, which include varied terms of contract, allows us to respond flexibly to fluctuating demand. Figure 01/08 illustrates how our available capacity is organised and offered on the market. The largest buyer of this freight capacity is the DHL Global Forwarding business unit.

In the reporting year, we signed an agreement with Elbe Flugzeugwerke GmbH to convert four Airbus A 330-300 aircraft from passenger to cargo planes. They will be used predominantly to cover the medium to high demand for cargo space capacity, which will both increase our flexibility and improve our fuel efficiency per kilogram flown. Furthermore, we put additional Boeing 757 aircraft into operation as part of our fleet renewal activities.

Available capacity 01/08



International express business benefits from trade

The international express business is benefiting from cross-border e-commerce and the growing importance of small and medium-sized enterprises in international trade. The strong volume growth of our TDI product compared with the competition indicates that we have maintained our position as global market leader.

Expanding our network in the Europe region

In the Europe region, we have completed the expansion of our global hub in Leipzig. Since beginning expansion activities at the end of 2013, 1,300 new jobs have been created at that location.

Expanding service in the Americas region

In the Americas region, we opened more than 500 new service points in 2016 and, specifically in light of growing e-commerce volumes, hired over 600 new employees. The expansion of our global hub in Cincinnati was also completed, including space for 16 additional aircraft.

Supporting development in Asia

In June 2016, a new gateway in Japan was put into operation in the important Asia Pacific market. In the fourth quarter, we also opened our South Asia Hub in Singapore. It is the first hub in the industry in South Asia to have a fully automated Express parcel sorting and processing system. In order to improve trade relations with Cambodia and better connect the country internationally, a new flight was introduced between Phnom Penh and Bangkok, one of our hubs in the Asia Pacific region.

Reliable partner in the MEA region

In the MEA (Middle East and Africa) region, the Middle East continued to suffer from enormous geopolitical influences in 2016. Despite the situation, we were able to maintain our operations whilst adhering to legal requirements and ensuring the safety of our employees. We opened another facility in Jeddah in order to support global trade to and from Saudi Arabia. We are also the first international logistics provider to offer our customers a direct flight to the harbour city. In the sub-Saharan region, we opened a new facility in Uganda to accommodate the increase in volumes.

GLOBAL FORWARDING, FREIGHT DIVISION

The air, ocean and overland freight forwarder

Our air, ocean and overland freight forwarding services not only include standardised transports but also multimodal and sector-specific solutions as well as individualised industrial projects.

Compared with other divisions, our operating business model is asset-light, as it is based upon the brokerage of transport services between our customers and freight carriers. Our global presence and network allow us to offer efficient routing and multimodal transports.

Air freight market, 2015: top 4 01/09

Thousand tonnes[1]

Panalpina	836
DB Schenker	1,128
Kuehne + Nagel	1,250
DHL	2,109

[1] Data based solely upon export freight tonnes.
Source: annual reports, publications and company estimates.

Air freight market leadership solidified

According to the International Air Transport Association (IATA), the worldwide freight tonne kilometres flown during the reporting year grew by 3.8%. Despite weak demand, capacities continue to grow, especially on passenger planes. Furthermore, low fuel prices are providing an incentive to put former cargo planes back into operation. With around 2.1 million transported export freight tonnes, we remained the air freight market leader in 2015, as shown in table 01/09.

Further consolidation in the ocean freight market

The ocean freight market underwent significant changes in 2016, one of which was the insolvency of the Korean shipping company Hanjin. Nonetheless, the market grew moderately. Volume growth was driven primarily by the routes between the Asia Pacific region and Europe, which experienced capacity problems, particularly towards the end of the year. Overall, surplus capacities continue to shape the container ship market. Freight carriers are attempting to adjust to this situation through mergers and alliances. With around 2.9 million transported twenty-foot equivalent units, we remained the second-largest provider of ocean freight services in 2015, as shown in the following table.

Ocean freight market, 2015: top 4 01/10

Thousand TEUs[1]

Panalpina	1,594
DB Schenker	1,942
DHL	2,930
Kuehne + Nagel	3,820

[1] Twenty-foot equivalent units.

Source: annual reports, publications and company estimates.

European overland freight market grows moderately

The European road transport market grew again slightly in the reporting year, after being virtually stagnant in the prior year. Oil prices fell again, whilst volumes increased in many European countries. In what continues to be a competitive environment, DHL remained the second-largest provider in 2015 with a market share of 2.2%.

European road transport market, 2015: top 5 01/11

Market volume: €193 billion[1]

Kuehne + Nagel	1.3%
DSV	1.7%
Dachser	1.8%
DHL	2.2%
DB Schenker	3.3%

[1] Total market for 25 European countries, excluding bulk goods and specialties transports.

Source: Market Intelligence Study DHL 2016 based upon Eurostat, financial publications, IHS [2016].

SUPPLY CHAIN DIVISION

Customer-centric outsourcing solutions

As the world's leading contract logistics provider, we offer our clients high-quality and customised supply chain solutions based on standardised modular components including warehousing, transport and value-added services.

The supply chain industry is benefiting greatly from technological advances, which provide visibility and efficient logistics operations as well as predictive analytics for standardised warehouse management and transport solutions – the foundation for an integrated supply chain. Planning, sourcing, production, packaging, repairs and returns are core services in contract logistics. We complement these offerings with value-added services and real estate solutions, serving every aspect of the supply chain.

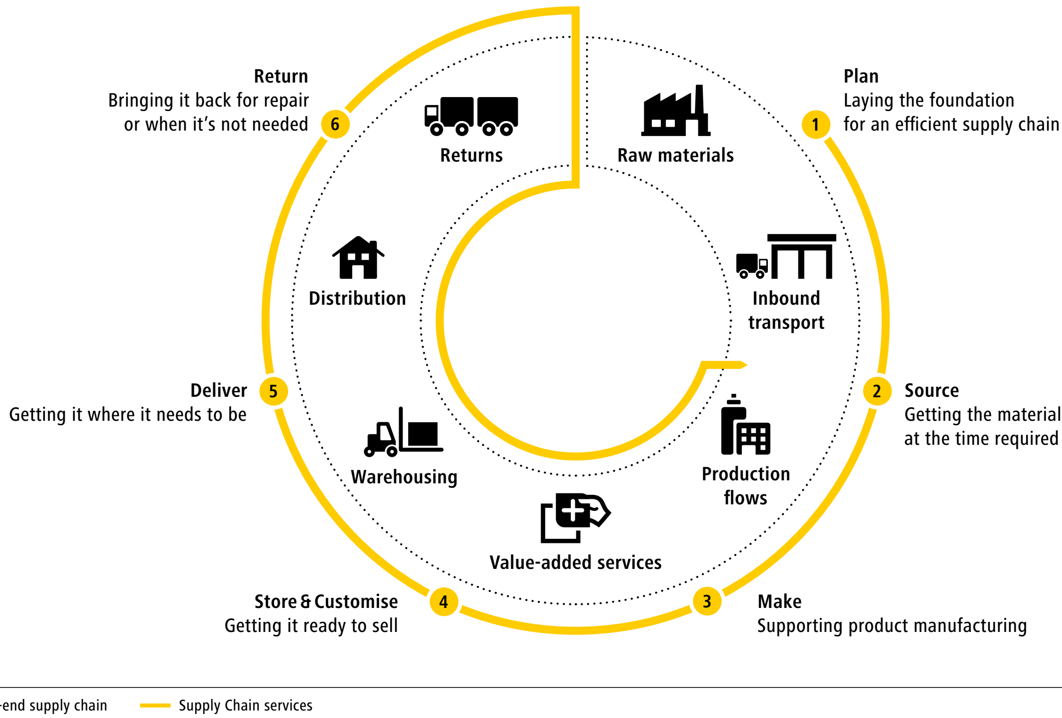
Industry expertise in key sectors

We have in-depth knowledge and experience in a variety of sectors, with a strategic focus on Life Sciences & Healthcare, Automotive and Technology. We grew in the year under review with our acquisition of Mitsafetrans S.r.l. and a subsidiary. The companies provide logistics services for the technology, pharmaceutical and high-tech industries in Italy.

The Life Sciences & Healthcare sector is increasingly outsourcing parts of its supply chains to providers who can ensure compliance with stringent regulatory requirements. Rising demand for packaging services, temperature-controlled transport, warehousing and direct-to-market solutions, Glossary, page 181, is driving growth in this sector.

In the Automotive sector, production is shifting increasingly to emerging markets such as China, India and Mexico. Integrated solutions such as Lead Logistics Provider (LLP), Glossary, page 181, offer growth opportunities in this highly competitive outsourcing sector.

Logistics and value-added services along the supply chain 01/12



Companies in the fast-paced Technology sector require an agile supply chain to handle fast-moving products with short life-cycles quickly and cost-effectively. Flexible solutions that allow our customers to respond to market demand are creating business opportunities in this sector.

Leading position in a fragmented market

DHL remains the global market leader in contract logistics, with a market share of 7.6% (2015) and operations in more than 50 countries. The top ten players only account for around 22% of an estimated €184 billion market. We lead the market in mature regions such as North America and Europe and are well positioned in rapidly growing markets such as India, emerging markets throughout the Asia Pacific region and Latin America.

Contract logistics market, 2015: top 10 01/13

Market volume: €184 billion

DHL	7.6%
XPO Logistics[1]	2.5%
Kuehne + Nagel	2.2%
Ceva	1.8%
Hitachi	1.6%
SNCF Geodis	1.4%
UPS	1.3%
Neovia	1.3%
DB Schenker Logistics	1.3%
Ryder	1.2%

[1] Market position improved through acquisition of Con-way Inc. and Norbert Dentressangle, amongst others.

Source: Transport Intelligence; revenue figures are estimates based upon gross revenue with external customers; exchange rates as at 2015.

Objectives and strategies

CORPORATE STRATEGY

Strategy 2020 sets priorities for our investments and actions

With our "Strategy 2020: Focus.Connect.Grow." Deutsche Post DHL Group underscores its global leadership in the logistics industry. In the year under review, we again took a close look at our initial situation. We reaffirm that increasing digitalisation, accelerated growth in the e-commerce segment and momentum in developing and emerging countries offer us significant opportunities. In line with our strategy, the following priorities for investments and actions have been set to date:

Focus: We are focussing on our core mail and logistics business. In addition to our three goals of being the provider, employer and investment of choice, we are working to become the benchmark for responsible business. In order to deliver consistent, first-class service to our customers, we conduct frequent surveys to determine their needs. Our employees are equipped with the knowledge and tools to enable them to take those customer requirements into account when designing our product offering. We see ourselves as a family of different divisions, each focused upon defined markets and goals.

Connect: We are working to improve cross-divisionally on a continuous basis. In doing so, we are concentrating upon initiatives that create value for various stakeholders, for example, environmentally-friendly solutions and an optimised IT landscape. "Certified" is our Group-wide initiative that enables all employees to gain specific skills and knowledge relevant to their roles. Every employee in the Group is to be certified internally. The employee motivation and customer-centric culture this fosters – not to mention the improved, holistic understanding of operational processes – help to differentiate our services in the market internationally. During the reporting year, we developed new modules and have already succeeded in certifying a great number of employees.

Grow: We intend to benefit from growth in the e-commerce segment and in developing and emerging markets. For instance, we have invested in the domestic and cross-border parcel business in Europe as well as in our already comprehensive Express network. Our general objective is to increase our presence where the long-term growth potential is greatest. Indeed, we aim to generate a minimum of 30% of Group revenue in emerging markets by the year 2020.

Our strategy is designed to establish a unique market presence by the year 2020 – both geographically and in terms of our portfolio's performance. Our aim is to be internationally renowned not only as a highly customer-centric company but also as quality leaders. When people think logistics, we want them to think Deutsche Post DHL Group.

STRATEGY AND GOALS OF THE DIVISIONS

Post - eCommerce - Parcel division

We want to offer our customers the best service at all times, at the highest level of quality and at reasonable prices. Therefore, we extend our offering in the Post business unit based on market demand, continuously expand our range of services in the German parcel business and develop digital service offerings.

As part of our Group-wide "Certified" initiative, we intend to certify all employees in the division by 2020. This is because for us dedicated and happy employees are the key to high-quality performance. In addition, we are systematically driving forwards the networking of our division by co-operating with institutions outside the Group as well as with the other divisions.

In order to benefit from growing e-commerce, we are expanding into new markets and segments. We are also expanding our networks and product offerings in our existing markets. Furthermore, we are engaged in growth areas such as electric mobility and food logistics.

In order to continue to grow profitably, we are designing a market-based cost structure by adapting our networks to the dynamic market conditions and shipment structures. We are also cutting costs wherever possible and sensible, whilst investing in technologies, automation, innovation and growth areas.

EXPRESS division

Our return on sales rises when growing volumes lead to economies of scale in the network, innovation and automation improve productivity and costs are strictly managed. We optimise indirect costs through standardised processes. For example, we are streamlining our IT system architecture step by step, whilst ensuring adherence to global standards and quality requirements, especially as regards facilities and operating materials.

We concentrate upon items whose size and weight optimally match our network and thereby create economies of scale. In terms of our pricing policy, we encourage global co-ordination and discipline. At the same time, we continuously improve our customer approach. Using global campaigns, we specifically target small and medium-sized businesses which could benefit the most from increasing exports.

Most of our costs are attributable to the air and ground network. We replace old aeroplanes with newer, more efficient, and thus more cost-effective aircraft. We sell available cargo space to freight and forwarding companies, especially to DHL Global Forwarding, improving our network utilisation and reducing costs in the process. On the ground, processes are automated and standardised.

Our Certified International Specialist (CIS) training programme ensures that our employees have the requisite knowledge of the international express business at their disposal. Training is both functional and cross-functional, and it is carried out by our own employees. This adds to mutual understanding whilst reinforcing a team atmosphere and loyalty within the division. We want to sustainably motivate our employees around the world and systematically recognise outstanding performance.

GLOBAL FORWARDING, FREIGHT division

We aim to increase the gross profit, page 63, of the Global Forwarding business unit, whereby we shall improve the profitability of contracts through optimised end-to-end management coupled with improved revenue management. In addition, we intend to bring costs in line with our business performance. Ultimately, we aim to bring productivity back to or beyond the level achieved in previous years.

IT in the Global Forwarding business unit will be renewed in accordance with the IT Renewal Roadmap adopted in October 2015. This will rely on a flexible IT architecture that leverages and enhances existing systems whilst incorporating advanced “off-the-shelf” solutions that have been proven within the industry. In future, we shall focus on improved shipment visibility, exception management and electronic document management.

We are working continuously to improve our customer orientation and expand our range of services. For example, in the Freight business unit we introduced a virtual overland transport marketplace, where companies can match their transport needs with transport providers’ capacities and thereby find the appropriate provider online.

SUPPLY CHAIN division

We want to be the Supply Chain solutions company for the world, capitalise on market opportunities and grow faster. To achieve this, we are implementing our Supply Chain Strategy 2020 along the three pillars of Focus, Connect and Grow.

With Focus, we are increasing our efficiency and quality by standardising processes worldwide and reducing complexity, thus facilitating innovative and customer-centric solutions.

The Connect pillar is about connecting people and processes. A lean management structure and the use of Centres of Excellence will improve our cost structure and establish proven structures. The Certified Supply Chain Specialist programme empowers and motivates our employees worldwide to perform at their best and harmonises our company culture.

Finally, the Grow pillar focuses on those market segments that offer higher profitability and stronger growth. A clear set of global products and key sectors as well as a geographical shift towards fast-growing markets will be key drivers to accelerate future growth.

Group management

FINANCIAL PERFORMANCE INDICATORS

Impact on management compensation

Deutsche Post DHL Group uses both financial and non-financial performance indicators in its management of the Group. The monthly, quarterly and annual changes in these indicators are compared with the prior-year data and the forecast data to assist in making management decisions. The year-to-year changes in financial and non-financial performance metrics portrayed here are also particularly relevant for calculating management remuneration. The Group's financial performance indicators are intended to preserve a balance between profitability, an efficient use of resources and sufficient liquidity. The performance of these indicators in the reporting year is described in the Report on economic position on page 47 ff.

Profit from operating activities measures earnings power

The profitability of the Group's operating divisions is measured as profit from operating activities (EBIT). EBIT is calculated by deducting materials expense and staff costs, depreciation, amortisation and impairment losses, as well as other operating expenses from revenue and other operating income, and adding net income from investments accounted for using the equity method. Interest and other finance costs/other financial income are shown in net financial income/net finance costs. To enable a comparison of divisions, return on sales is calculated as the ratio of EBIT to revenue.

EBIT after asset charge promotes efficient use of resources

An additional key performance indicator for the Group is EBIT after asset charge (EAC). EAC is calculated by subtracting the cost of capital component, or asset charge, from EBIT. Making the asset charge a part of business decisions encourages the efficient use of resources and ensures that the operating business is geared towards increasing value sustainably whilst generating increasing cash flow.

The asset charge is calculated on the basis of the weighted average cost of capital, or WACC, which is defined as the weighted average net cost of interest-bearing liabilities and equity, taking into account company-specific risk factors in accordance with the Capital Asset Pricing Model.

A standard WACC of 8.5% is applied across the divisions and this figure also represents the minimum target for projects and investments within the Group. The WACC is generally reviewed once annually on the basis of the current situation on the financial markets. To ensure better comparability with previous figures, in 2016 the WACC was maintained at a constant level compared with the previous years.

The asset charge calculation is performed each month so that fluctuations in the net asset base can also be taken into account during the year. Table 01/14 shows the composition of the net asset base.

Free cash flow facilitates liquidity management

Along with EBIT and EAC, cash flow is another key performance metric used by Group management. This is targeted at maintaining sufficient liquidity to cover all of the Group's financial obligations from debt repayment and dividends, in addition to operating payment commitments and investments. Cash flow is calculated using the cash flow statement. Operating cash flow (OCF) includes all items that are related directly to operating value creation. OCF is calculated by adjusting EBIT for changes in non-current assets (depreciation, amortisation and (reversals of) impairment losses, net income/loss from disposals), other non-cash income and expense, dividends received, taxes paid, changes in provisions and other non-current assets and liabilities. Another key parameter of OCF is net working capital. Effective management of net working capital is an important way for the Group to improve cash flow in the short to medium term. Free cash flow (FCF) as a management-related performance indicator is calculated on the basis of OCF by adding/subtracting the cash flows from capital expenditure, acquisitions and divestitures as well as net interest paid. Free cash flow is regarded as an indicator of how much cash is available to the company at the end of a reporting period for paying dividends or repaying debt.

Calculations

01/14

Revenue

- \+ Other operating income
- − Materials expense
- − Staff costs
- − Depreciation, amortisation and impairment losses
- − Other operating expenses
- ± Net income from investments accounted for using the equity method

= EBIT
Profit from operating activities

EBIT

- − Asset charge
  - = Net asset base
  - × Weighted average cost of capital (WACC)

= EAC
EBIT after asset charge

Operating assets

- Intangible assets
- Property, plant and equipment
- Goodwill
- Trade receivables (included in net working capital)[1]
- Other non-current operating assets[2]

− Operating liabilities

- Operating provisions (not including provisions for pensions and similar obligations)
- Trade payables (included in net working capital)[1]
- Other non-current operating liabilities[2]

= Net asset base

EBIT

- \+ Depreciation, amortisation and impairment losses
- ± Net income/loss from disposal of non-current assets
- ± Non-cash income and expense
- ± Change in provisions
- ± Change in other non-current assets and liabilities
- \+ Dividends received
- ± Income taxes paid
- **= Operating cash flow before changes in working capital (net working capital)**
- ± Changes in net working capital
- **= Net cash from/used in operating activities (operating cash flow – OCF)**
- ± Cash inflow/outflow arising from change in property, plant and equipment and intangible assets
- ± Cash inflow/outflow arising from acquisitions/divestitures
- ± Net interest paid

= FCF
Free cash flow

[1] Includes EBIT-related current assets and liabilities. Not included are assets and liabilities related to taxes, financing and cash and cash equivalents, for example.
[2] Includes EBIT-related other non-current assets and liabilities. Not included are assets and liabilities related to taxes or bonds, for example.

NON-FINANCIAL PERFORMANCE INDICATORS

Results of Employee Opinion Survey used as a management indicator

Our annual worldwide Employee Opinion Survey shows us how we are perceived as a group from the perspective of our employees. We place particular significance on the survey's indication of Employee Engagement and of how employees rate the leadership behaviour of their superiors. The Active Leadership indicator is thus used in the calculation of bonuses for our executives. The results of the Employee Opinion Survey carried out in the reporting year can be found in the Employees section on page 67.

Reducing dependency upon fossil fuels

We aim to reduce our dependency upon fossil fuels, improve our carbon efficiency and lower costs. The corresponding target of our GoGreen environmental protection programme is greenhouse gas efficiency, which we measure using a carbon efficiency index (CEX). CEX is based upon the business unit-specific emission intensity figures, which are indexed to the base year. We quantify the greenhouse gas emissions upon which our CEX is based in accordance with the Greenhouse Gas Protocol Standards and DIN EN 16258; those attributable to our European air freight business are calculated in accordance with the requirements of the European Union Emissions Trading System (EU ETS). Pursuant to DIN EN 16258, all gases that are harmful to the environment must be disclosed in the form of CO_2 equivalents (CO_2e). This indicates the ratio of the respective emissions to a matching performance indicator in the Group. CEX is a management indicator of non-financial performance. The figures obtained for the reporting year are provided in the section on Corporate responsibility on page 69 f.

Disclosures required by takeover law

Disclosures required under sections 289 (4) and 315 (4) of the *Handelsgesetzbuch* (HGB – German Commercial Code) and explanatory report

Composition of issued capital, voting rights and transfer of shares

As at 31 December 2016, the company's share capital totalled €1,240,915,883 and was composed of the same number of no-par value registered shares. Each share carries the same statutory rights and obligations and entitles the holder to one vote at the Annual General Meeting (AGM). No individual shareholder or group of shareholders is entitled to special rights, particularly rights granting powers of control.

The exercise of voting rights and the transfer of shares are based upon the general legal requirements and the company's Articles of Association, which do not restrict either of these activities. Article 19 of the Articles of Association sets out the requirements that must be met in order to attend the AGM as a shareholder and exercise a voting right. Only persons entered in the share register shall be recognised as shareholders by the company. The Board of Management is not aware of any agreements between shareholders that would limit voting rights or the transfer of shares.

In 2016, members of the Board of Management again received stock appreciation rights (SARs) as a long-term remuneration component under the Long-Term Incentive Plan provided that they invest in each tranche of the plan, preferably in Deutsche Post AG shares but alternatively in cash. If a Board of Management member sells the shares included in their personal investment for the tranche or disposes of their personal cash investment before the scheduled waiting period of four years has expired, all SARs from that tranche will be forfeited.

As part of the Share Matching Scheme, one of the company's share-based payment schemes, some Group executives authorised to participate must, and others may, use a portion of their annual bonus to purchase shares within the scheme. According to the underlying terms, these shares are subject to a four-year lock-up period.

Shareholdings exceeding 10% of voting rights

KfW Bankengruppe (KfW), Frankfurt am Main, is our largest shareholder, holding 20.5% of the share capital. The Federal Republic of Germany holds an indirect stake in

Deutsche Post AG via KfW. According to the notifications we have received pursuant to sections 21 et seq. of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act), no other direct or indirect shareholders own more than 10% of the share capital.

Appointment and replacement of members of the Board of Management

The members of the Board of Management are appointed and replaced in accordance with the relevant legal provisions (sections 84 and 85 of the *Aktiengesetz* (AktG – German Stock Corporation Act) and section 31 of the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act)). In accordance with section 84 of the AktG and section 31 of the MitbestG, appointments by the Supervisory Board shall be for a maximum term of five years. Re-appointments or extensions of the term of office are permitted for a maximum of five years in each case. Article 6 of the Articles of Association stipulates that the Board of Management must have at least two members. Beyond that, the number of board members is determined by the Supervisory Board, which may also appoint a chairman and deputy chairman of the Board of Management.

Amendments to the Articles of Association

In accordance with section 119 (1), number 5 and section 179 (1), sentence 1 of the AktG, amendments to the Articles of Association are adopted by resolution of the AGM. In accordance with article 21 (2) of the Articles of Association in conjunction with sections 179 (2) and 133 (1) of the AktG, such amendments generally require a simple majority of the votes cast and a simple majority of the share capital represented on the date of the resolution. In such instances where the law requires a greater majority for amendments to the Articles of Association, that majority is decisive. Under article 14 (7) of the Articles of Association, the Supervisory Board has the authority to approve amendments to the Articles of Association in cases where the amendments affect only the wording.

Board of Management authorisation, particularly regarding issue and buy-back of shares

The Board of Management is authorised, subject to the consent of the Supervisory Board, to issue up to 236,267,019 new, no-par value registered shares on or before 28 May 2018 in exchange for cash and/or non-cash contributions and thereby increase the company's share capital by up to €236,267,019.00 (Authorised Capital 2013, article 5 (2) of the Articles of Association). When new shares are issued on the basis of Authorised Capital 2013, the shareholders are entitled in principle to subscription rights. Such rights may only be disapplied subject to the requirements specified in article 5 (2) of the Articles of Association and subject to the consent of the Supervisory Board. Details may be found in article 5 (2) of the Articles of Association of the company.

Authorised Capital 2013 is a financing and acquisition instrument in accordance with international standards that allows the company to increase equity quickly, flexibly and cost-effectively. The authorised capital is equivalent to less than 20% of the share capital. Authorised Capital 2013, which originally amounted to €240 million, was used in a total amount of €3,732,981.00 in financial years 2014 and 2015 in order to finance a share buy-back to settle share-based payments due to executives in these years.

The Board of Management utilised the authorisation it received in an AGM resolution passed on 25 May 2011, subject to the consent of the Supervisory Board, in the full amount in December 2012 by issuing a convertible bond in the aggregate principal amount of €1 billion. By 31 December 2016, a total of 28,167,028 shares had been issued to holders of bonds after exercise of their conversion options. As at 31 December 2016, the share capital had been increased on a contingent basis by up to €46,832,972.00 for the purpose of granting shares to the holders or creditors of the convertible bond after exercise of their rights in order to settle these rights or to fulfil the conversion obligations (Contingent Capital 2011, article 5 (3) of the Articles of Association).

An AGM resolution was passed on 29 May 2013 authorising the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds as well as profit participation certificates, or a combination thereof (hereinafter referred to collectively as "bonds"), in an aggregate principal amount of up to €1.5 billion, on one or more occasions on or before 28 May 2018, thereby granting options or conversion rights for up to 75 million shares with a total share in the share capital not to exceed €75 million. The bond conditions may also stipulate an obligation to exercise options or conversion rights or may entitle the company to grant the bond holders or creditors shares in the company in lieu of payment of all or part of the sum of money owed, either at the time of maturity of the bonds or at another time. The share capital was increased on a contingent basis by up to €75 million in order to grant shares to the holders or creditors of the bonds after exercise of their options or conversion rights or to fulfil their option or conversion obligations, or to grant them shares in lieu of monetary payment in accordance with the bond conditions (Contingent Capital 2013, article 5 (4) of the Articles of Association). When issuing bonds, shareholders' subscription rights may only be disapplied subject to the terms of the aforementioned resolution and subject to the consent of the Supervisory Board. Further details may be found in the motion adopted by the AGM under agenda item 7 of the AGM of 29 May 2013.

Authorisation to issue bonds is standard practice amongst publicly listed companies. This allows the company to finance its activities flexibly and promptly and gives it the financial leeway necessary to take advantage of favourable market conditions at short notice, for example by offering bonds with options or conversion rights, or conversion obligations on shares in the company as a consideration within the context of company mergers, and when acquiring companies or shareholdings in companies. To date, the Board of Management has not exercised this authority.

An AGM resolution was passed on 27 May 2014 authorising the Board of Management to issue up to 40 million Performance Share Units with pre-emptive subscription rights to a total of up to 40 million shares with a total share in the share capital not to exceed €40 million, subject to the provisions of the authorisation resolution, on or before 26 May 2019 to members of the management of entities in which the company is the majority shareholder and to executives of the company and the entities in which it is a majority shareholder. The Performance Share Units may also be issued by entities in which the company is the majority shareholder with the consent of the Board of Management. The issue of shares arising from the subscription rights associated with the Performance Share Units depends upon certain performance targets being met after expiry of a four-year waiting period, with it being possible to issue up to four shares for every six subscription rights granted, if and insofar as performance targets for the share price, which have been specified in detail, are met, and up to two shares if and insofar as certain outperformance targets based upon the percentage change of the STOXX Europe 600 Index are met. The share capital was increased on a contingent basis by up to €40 million in order to grant shares in the company to the executives entitled to subscription rights, in accordance with the provisions of the authorisation resolution (Contingent Capital 2014, article 5 (5) of the Articles of Association). Further details may be found in the motion adopted by the AGM under agenda item 8 of the AGM of 27 May 2014.

As at 31 December 2016, 11,808,168 Performance Share Units, which were issued in financial years 2014 to 2016, were outstanding.

Finally, the AGM of 27 May 2014 authorised the company to buy back shares on or before 26 May 2019 up to an amount not to exceed 10% of the share capital existing as at the date of the resolution. Such authorisation is subject to the proviso that at no time should the shares thus acquired, together with the shares already held by the company, account for more than 10% of the share capital. The shares may be purchased through the stock market, a public offer, a public call for offers of sale from the company's shareholders or by some other means in accordance with section 53a of the AktG. The shares purchased may be used for any legally permissible purpose. In addition to a sale via the stock exchange or by public offer to all shareholders, it is permitted in particular to use the shares with pre-emptive subscription rights disapplied in accordance with the provisions of the authorisation resolution or to call in the shares without an additional resolution of the AGM. Further details may be found in the motion adopted by the AGM under agenda item 6 of the AGM of 27 May 2014.

In addition to this, the AGM of 27 May 2014 also authorised the Board of Management, within the scope specified in agenda item 6, to buy back shares, including through the use of derivatives. This is to occur by servicing options that, upon their exercise, require the company to repurchase shares (put options), by exercising options that, upon their exercise, grant the company the right to buy back shares (call options), as a result of purchase agreements where there are more than two trading days between conclusion of the purchase agreement for Deutsche Post shares and servicing by way of the delivery of Deutsche Post shares (forward purchases) or by servicing or exercising a combination of put options, call options and/or forward purchases. All share acquisitions using the aforementioned derivatives are limited to a maximum of 5% of the share capital existing on the date of the resolution. The term of the individual derivatives may not exceed 18 months, must expire by no later than 26 May 2019 and be selected such that shares may not be repurchased by exercising the derivatives after 26 May 2019. Further details may be found in the motion adopted by the AGM under agenda item 7 of the AGM of 27 May 2014.

It is standard business practice amongst publicly listed companies in Germany for the AGM to authorise the company to buy back shares. The authorisation to repurchase shares using derivatives is merely intended to supplement share buy-back as a tool and give the company the opportunity to structure share repurchase in an advantageous manner.

Utilising part of the authorisation to repurchase shares it received from an AGM resolution passed on 27 May 2014, the Board of Management resolved on 1 March 2016 a share buyback programme for up to 60 million shares at a total purchase price (not including transaction costs) of up to €1 billion. The purchased shares were to be either retired, used to service long-term remuneration plans or used to meet potential obligations if rights accruing under the 2012/2019 convertible bond are exercised. The buyback programme began on 1 April 2016 and will end no later than 6 March 2017. By 31 December 2016, 29,587,229 shares had been repurchased through the programme. A portion of the purchased shares have been designated for use as matching shares from 2017 to 2021 as part of the Share Matching Scheme. On 25 October 2016, the Board of Management of Deutsche Post AG resolved to implement another share buyback programme for up to 3 million shares after the current programme ends. The shares purchased as part of this programme will be used exclusively for the purpose of making them available as investment shares for the 2017 tranche as part of the Share Matching Scheme. As at 31 December 2016, the company held 29,587,229 treasury shares.

Any public offer to acquire shares in the company is governed solely by law and the Articles of Association, including the provisions of the *Wertpapiererwerbs- und Übernahmegesetz* (WpÜG – German Securities Acquisition and Takeover Act). The AGM has not authorised the Board of Management to undertake actions within its sphere of competence to block possible takeover bids.

Significant agreements that are conditional upon a change in control following a takeover bid and agreements with members of the Board of Management or employees providing for compensation in the event of a change in control

Deutsche Post AG holds a syndicated credit facility with a volume of €2 billion that it has taken out with a consortium of banks. If a change in control within the meaning of the contract occurs, each member of the bank consortium is entitled under certain conditions to cancel its share of the credit line as well as its share of outstanding loans and to request repayment. The terms and conditions of the bonds issued under the Debt Issuance Programme established in March 2012 and of the convertible bond issued in December 2012 also contain change-in-control clauses. In the event of a change in control within the meaning of the terms and conditions, creditors are, under certain conditions, granted the right to demand early redemption of the respective bonds. Furthermore, a framework agreement exists concerning the supply of fuel, based upon which fuel in the value of a high double-digit million amount was obtained in the reporting year and which, in the event of a change in control, grants the supplier the right to bring the business relationship to a close without notice.

In the event of a change in control, any member of the Board of Management is entitled to resign their office for good cause within a period of six months following the change in control after giving three months' notice to the end of a given month, and to terminate their Board of Management contract (right to early termination). If the right to early termination is exercised or a Board of Management contract is terminated by mutual consent within nine months of the change in control, the Board of Management member is entitled to payment to compensate the remaining term of their Board of Management contract. Such payment is limited to the cap pursuant to the recommendation of No. 4.2.3 of the German Corporate Governance Code, subject to the specifications outlined in the remuneration report. With respect to options from the Long-Term Incentive Plan, the Board of Management member will be treated as if the waiting period for all options had already expired upon cessation of the Board of Management contract. The options eligible for exercise may then be exercised within six months of cessation of the contract. With regard to the Share Matching Scheme for executives, the holding period for the shares will become invalid with immediate effect in the event of a change in control of the company. The participating executives will receive the total number of matching shares corresponding to their investment in due course. In such case, the employer will be responsible for any tax disadvantages resulting from reduction of the holding period. Exempt from this are taxes normally incurred after the holding period.

Research and development

As a service provider, the Group does not engage in research and development activities in the narrower sense and therefore has no significant expenses to report in this connection.

Remuneration of the Board of Management and Supervisory Board

Remuneration structure of the Group Board of Management in financial year 2016

The remuneration paid to individual Board of Management members for financial year 2016 was determined by the Supervisory Board, which held consultations to resolve on the total remuneration to be paid to the individual members of the Board of Management, including the main contractual elements. In so doing, it obtained advice from an independent remuneration consultant.

The Board of Management remuneration reflects the size and global reach of the company, its economic and financial situation and the roles and achievements of the individual members. It is set to ensure competitiveness with comparable German and international companies, thus incentivising the Board of Management members to deliver maximum performance and achieve results.

The remuneration paid to the Board of Management for 2016 is in line with standard market practice, appropriate to the tasks involved and designed to reward performance; it comprises fixed (non-performance-related) elements and variable (performance-related) elements, which include short, medium and long-term incentives. The remuneration as a whole as well as its variable components have been capped.

Non-performance-related components are the annual base salary (fixed annual remuneration), fringe benefits and pension commitments. The annual base salary is paid in twelve equal monthly instalments retroactively at the end of each month. Fringe benefits mainly comprise the use of company cars, supplements for insurance premiums and special allowances and benefits for assignments outside the home country.

The variable remuneration paid to the Board of Management is almost entirely medium and long-term based. More than half of the variable target remuneration consists of a long-term incentive plan (LTIP) with a four-year calculation period; the rest is made up of an annual bonus linked to the company's yearly profits, with 50% of the annual bonus flowing into a medium-term component with a three-year calculation period (deferral). Thus less than a quarter of the variable remuneration component is granted on the basis of a one-year calculation. The amount of the annual bonus is set at the due discretion of the Supervisory Board on the basis of the company's performance. The individual annual bonus amounts reflect the extent to which predefined targets are achieved, missed or exceeded. The maximum amount of the annual bonus may not exceed 100% of the annual base salary.

The same criteria were used to calculate the amount of the annual bonus for the reporting year as for the previous year. A key parameter for all Board of Management members is the Group's EBIT after asset charge performance metric, including the asset charge on goodwill before goodwill impairment (EAC). For the Board of Management members in charge of the Post - eCommerce - Parcel, Express, Global Forwarding, Freight and Supply Chain divisions, the EAC of their respective division is also a key parameter. The Group's reported free cash flow is one of the targets applicable to all members of the Board of Management. Furthermore, an employee-related target is agreed with all Board of Management members based upon the annual Employee Opinion Survey, as are additional targets.

Achievement of the upper targets for the financial year that have been agreed based upon demanding objectives is rewarded with the maximum annual bonus. If the targets specified for the financial year are only partially reached or completely missed, the annual bonus will be paid on a pro-rata basis or not at all.

Even if the agreed targets are reached, the annual bonus is not paid out in full in a single instalment. Instead, 50% of the annual bonus flows into a medium-term component with a three-year calculation period (performance phase of one year, sustainability phase of two years). That medium-term component will be paid out after expiry of the sustainability phase subject to the condition that EAC – an indicator of sustainability – be reached during the sustainability phase. Otherwise, payment of the medium-term component is forfeited without compensation. This demerit system puts greater emphasis on sustainable company development in determining Board of Management remuneration and sets long-term incentives.

Stock appreciation rights (SARs) were also granted in 2016 as a long-term remuneration component based upon the LTIP authorised by resolution of the Supervisory Board (2006 LTIP).

Each SAR entitles the holder to receive a cash settlement equal to the difference between the average closing price of Deutsche Post shares for the five trading days preceding the exercise date and the exercise price of the SAR. In 2016, the members of the Board of Management each made a personal financial investment consisting of 10% of their annual base salary. The waiting period for the stock appreciation rights is four years from the date on which they were granted. After expiration of the waiting period, and provided an absolute or relative performance target has been achieved, some or all of the SARs can be exercised for a period of two years. Any SARs not exercised during the two-year period will expire.

To determine how many, if any, of the SARs granted can be exercised, the average share price or the average index value for the reference period is compared with that of the performance period. The reference period comprises the last 20 consecutive trading days prior to the issue date. The performance period is the last 60 trading days before the end of the waiting period. The average (closing) price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system.

A maximum of four out of every six SARs can be earned via the absolute performance target, and a maximum of two via the relative performance target. If neither an absolute nor a relative performance target is met by the end of the waiting period, the SARs attributable to the related tranche will expire without replacement or compensation.

One SAR is earned each time the closing price of Deutsche Post shares exceeds the issue price by at least 10, 15, 20 or 25%. The relative performance target is tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). It is met if the share price equals the index performance or if it outperforms the index by at least 10%.

The proceeds from stock appreciation rights are limited to a maximum amount. The individual amount limits for the 2016 tranche can be seen in tables 01/15 and 01/16. The remuneration from stock appreciation rights may be limited by the Supervisory Board in the event of extraordinary circumstances.

Provisions to cap severance payments pursuant to the Corporate Governance Code recommendation, change-of-control provisions and post-contractual non-compete clauses

In accordance with the recommendation of the German Corporate Governance Code (DCGK), Board of Management contracts contain a provision stipulating that in the event of premature termination of a Board of Management member's contract, the severance payment may compensate no more than the remaining term of the contract. The severance payment is limited to a maximum amount of two years' remuneration including fringe benefits (severance payment cap). The severance payment cap is calculated exclusive of any special remuneration or the value of rights allocated from LTIPs.

In the event of a change in control, any member of the Board of Management is entitled to resign from office for good cause within a period of six months following the change in control, after giving three months' notice by the end of a given month, and to terminate their Board of Management contract (right to early termination).

The contractual provisions stipulate that a change in control exists if a shareholder has acquired control within the meaning of section 29 (2) of the *Wertpapiererwerbs- und Übernahmegesetz* (WpÜG – German Securities Acquisition and Takeover Act) via possession of at least 30% of the voting rights, including the voting rights attributable to such shareholder by virtue of acting in concert with other shareholders as set forth in section 30 of the WpÜG or if a control agreement has been concluded with the company as a dependent entity in accordance with section 291 of the AktG and such agreement has taken effect or if the company has merged with another legal entity outside of the Group pursuant to section 2 of the *Umwandlungsgesetz* (UmwG – German Reorganisation and Transformation Act), unless the value of such other legal entity, as determined by the agreed conversion rate, is less than 50% of the value of the company.

In the event the right to early termination is exercised or a Board of Management contract is terminated by mutual consent within nine months of the change in control, the Board of Management member is entitled to payment to compensate the remaining term of their Board of Management contract. Such payment is limited to 150% of the severance payment cap pursuant to the DCGK recommendation. The amount of the payment is reduced by 25% if the

Board of Management member has not reached the age of 60 upon leaving the company. If the remaining term of the Board of Management contract is less than two years and the Board of Management member has not reached the age of 62 upon leaving the company, the payment will correspond to the severance payment cap. The same applies if a Board of Management contract expires prior to the Board of Management member's reaching the age of 62 because less than nine months remained on the term of the contract at the time of the change in control and the contract was not renewed.

Board of Management members are also subject to a non-compete clause, taking effect on the cessation of their contracts. During the one-year non-compete period, former Board of Management members receive 100% of their last contractually stipulated annual base salary on a pro-rata basis as compensation each month. Any other income earned during the non-compete period is subtracted from the compensation paid. The amount of the compensation payment itself is deducted from any severance payments or pension payments. Prior to, or concurrent with, cessation of the Board of Management contract, the company may declare its waiver of adherence to the non-compete clause. In such a case, the company will be released from the obligation to pay compensation due to a restraint on competition six months after receipt of such declaration.

Apart from the aforementioned arrangements, no member of the Board of Management has been promised any further benefits after leaving the company.

Amount of remuneration paid to members of the Group Board of Management in financial year 2016

The remuneration paid to members of the Board of Management in financial year 2016 totalled €12.26 million (previous year: €10.70 million) in accordance with the applicable international accounting standards. That amount comprised €6.63 million in non-performance-related components (previous year: €7.05 million) and €5.63 million in paid-out performance-related components (previous year: €3.65 million). An additional €3.01 million of the performance-related component was transferred to the medium-term component and will be paid out in 2019 subject to the condition that the required EAC, an indicator of sustainability, be reached.

The members of the Board of Management were granted a total of 1,202,376 SARs in financial year 2016 with a total value of €6.25 million (previous year: €6.66 million) at the time of issue (1 September 2016). The total remuneration paid to Board of Management members is presented individually in the tables below. In addition to the applicable accounting principles, the DCGK recommendations were also taken into account.

In accordance with the recommendations, the "target remuneration" tables (01/15 and 01/16, or "benefits granted" in DCGK terminology) do not show any actual payments of performance-based remuneration. By contrast with the payment amount stated, the figures stated for the one-year variable remuneration and the portion of the one-year variable remuneration to be deferred (the deferral) reflect the target amount (i.e., the amount when achieving 100% of the target) that was granted for financial year 2016 or for the previous year. In addition, the long-term remuneration (LTIP with a four-year waiting period) granted in the reporting year or in the previous year is reported at the fair value at the time granted. With respect to pension commitments, the pension expense, i.e., the service cost in accordance with IAS 19, is presented. The presentation is supplemented by the minimum and maximum values that can be achieved.

Target remuneration for the Board of Management members active as at 31 December 2016

01/15

€	Dr Frank Appel Chairman				Ken Allen Express			
	2015	2016	Min. 2016	Max. 2016	2015	2016	Min. 2016	Max. 2016
a) Non-performance-related remuneration								
Base salary	1,962,556	1,962,556	1,962,556	1,962,556	968,750	976,500	976,500	976,500
Fringe benefits	34,801	35,099	35,099	35,099	102,252	102,375	102,375	102,375
Total (lit. a)	**1,997,357**	**1,997,655**	**1,997,655**	**1,997,655**	**1,071,002**	**1,078,875**	**1,078,875**	**1,078,875**
b) Performance-related remuneration								
One-year variable remuneration	785,022	785,022	0	981,278	387,500	390,600	0	488,250
Multi-year variable remuneration	2,747,597	2,747,596	0	5,887,668	1,364,020	1,367,129	0	4,394,250
LTIP with four-year waiting period	1,962,575	1,962,574	0	4,906,390	976,520	976,529	0	3,906,000
Deferral with three-year waiting period	785,022	785,022	0	981,278	387,500	390,600	0	488,250
Total (lit. a and b)	**5,529,976**	**5,530,273**	**1,997,655**	**8,866,601**	**2,822,522**	**2,836,604**	**1,078,875**	**5,961,375**
c) Pension expense (service cost)	**1,094,399**	**899,257**	**899,257**	**899,257**	**321,537**	**337,497**	**337,497**	**337,497**
Total DCGK remuneration (lit. a to c)	**6,624,375**	**6,429,530**	**2,896,912**	**9,765,858**	**3,144,059**	**3,174,101**	**1,416,372**	**6,298,872**
d) Variable cash remuneration pursuant to DRS 17								
One-year variable remuneration (payment amount)	288,300	950,662			203,680	482,147		
Payout from medium-term component	834,086	928,682			453,375	447,935		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**3,119,743**	**3,876,999**			**1,728,057**	**2,008,957**		

	Jürgen Gerdes Post - eCommerce - Parcel				John Gilbert Supply Chain			
	2015	2016	Min. 2016	Max. 2016	2015	2016	Min. 2016	Max. 2016
a) Non-performance-related remuneration								
Base salary	991,148	1,005,795	1,005,795	1,005,795	715,000	823,750	823,750	823,750
Fringe benefits	31,399	35,011	35,011	35,011	168,110	174,576	174,576	174,576
Total (lit. a)	**1,022,547**	**1,040,806**	**1,040,806**	**1,040,806**	**883,110**	**998,326**	**998,326**	**998,326**
b) Performance-related remuneration								
One-year variable remuneration	396,459	402,318	0	502,898	286,000	329,500	0	411,875
Multi-year variable remuneration	1,402,267	1,408,144	0	4,526,078	1,001,011	1,189,528	0	3,851,875
LTIP with four-year waiting period	1,005,808	1,005,826	0	4,023,180	715,011	860,028	0	3,440,000
Deferral with three-year waiting period	396,459	402,318	0	502,898	286,000	329,500	0	411,875
Total (lit. a and b)	**2,821,273**	**2,851,268**	**1,040,806**	**6,069,782**	**2,170,121**	**2,517,354**	**998,326**	**5,262,076**
c) Pension expense (service cost)	**325,592**	**277,604**	**277,604**	**277,604**	**253,470**	**239,316**	**239,316**	**239,316**
Total DCGK remuneration (lit. a to c)	**3,146,865**	**3,128,872**	**1,318,410**	**6,347,386**	**2,423,591**	**2,756,670**	**1,237,642**	**5,501,392**
d) Variable cash remuneration pursuant to DRS 17								
One-year variable remuneration (payment amount)	167,256	478,406			156,406	389,263		
Payout from medium-term component	457,274	470,331			–	277,726		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**1,647,077**	**1,989,543**			**1,039,516**	**1,665,315**		

	Melanie Kreis Finance[1]			
	2015	2016	Min. 2016	Max. 2016
a) Non-performance-related remuneration				
Base salary	715,000	739,167	739,167	739,167
Fringe benefits	22,596	18,990	18,990	18,990
Total (lit. a)	**737,596**	**758,157**	**758,157**	**758,157**
b) Performance-related remuneration				
One-year variable remuneration	286,000	295,667	0	369,584
Multi-year variable remuneration	1,001,011	1,010,677	0	3,229,584
LTIP with four-year waiting period	715,011	715,010	0	2,860,000
Deferral with three-year waiting period	286,000	295,667	0	369,584
Total (lit. a and b)	**2,024,607**	**2,064,501**	**758,157**	**4,357,325**
c) Pension expense (service cost)	**70,207**	**241,937**	**241,937**	**241,937**
Total DCGK remuneration (lit. a to c)	**2,094,814**	**2,306,438**	**1,000,094**	**4,599,262**
d) Variable cash remuneration pursuant to DRS 17				
One-year variable remuneration (payment amount)	120,656	364,964		
Payout from medium-term component	–	58,056		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**858,252**	**1,181,177**		

[1] Responsible for Finance since 1 October 2016 and, until further notice, also responsible for Human Resources.

Target remuneration for the Board of Management members who left the company in financial year 2016

01/16

€

	Lawrence Rosen Finance, Global Business Services (until 30 September 2016)			
	2015	2016	Min. 2016	Max. 2016
a) Non-performance-related remuneration				
Base salary	945,500	732,375	732,375	732,375
Fringe benefits	24,985	20,832	20,832	20,832
Total (lit. a)	**970,485**	**753,207**	**753,207**	**753,207**
b) Performance-related remuneration				
One-year variable remuneration	378,200	292,950	0	366,188
Multi-year variable remuneration	1,354,720	1,025,339	0	3,295,688
LTIP with four-year waiting period	976,520	732,389	0	2,929,500
Deferral with three-year waiting period	378,200	292,950	0	366,188
Total (lit. a and b)	**2,703,405**	**2,071,496**	**753,207**	**4,415,083**
c) Pension expense (service cost)	**332,971**	**341,735**	**341,735**	**341,735**
Total DCGK remuneration (lit. a to c)	**3,036,376**	**2,413,231**	**1,094,942**	**4,756,818**
d) Variable cash remuneration pursuant to DRS 17				
One-year variable remuneration (payment amount)	100,459	345,608		
Payout from medium-term component	453,375	434,264		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**1,524,319**	**1,533,079**		

The "payments" tables (01/17 and 01/18) below include the same figures for fixed remuneration and fringe benefits as in the "target remuneration" tables (01/15 and 01/16). By contrast with the presentation in the target remuneration tables, the one-year variable remuneration paid out in financial year 2016 or in the previous year (the payment amount) is stated; the presentation therefore does not include the share of the annual bonus transferred to the medium-term component in these years. With regard to the medium-term component (the deferral), the payment amount of the deferral whose calculation period ended upon expiry of the reporting year or the previous year is reported. The tables also reflect the amount paid (the payment amount) from the tranches of the long-term components that were exercised in financial year 2016 or in the previous year. In addition, the pension expense (service cost in accordance with IAS 19) is stated pursuant to the DCGK recommendations. Although the pension expense does not represent an actual payment per se, it is included in the presentation for the purpose of illustrating the total remuneration.

Payments made to the Board of Management members active as at 31 December 2016 01/17

€	Dr Frank Appel Chairman		Ken Allen Express		Jürgen Gerdes Post - eCommerce - Parcel	
	2015	2016	2015	2016	2015	2016
Payments						
Base salary	1,962,556	1,962,556	968,750	976,500	991,148	1,005,795
Fringe benefits	34,801	35,099	102,252	102,375	31,399	35,011
Total	**1,997,357**	**1,997,655**	**1,071,002**	**1,078,875**	**1,022,547**	**1,040,806**
One-year variable remuneration	288,300	950,662	203,680	482,147	167,256	478,406
Multi-year variable remuneration	5,436,086	6,086,462	5,305,016	3,637,093	5,703,809	3,479,244
Medium-term component 2013	834,086	–	453,375	–	457,274	–
Medium-term component 2014	–	928,682	–	447,935	–	470,331
LTIP (2011 tranche)	4,602,000	5,157,780	4,851,641	–	5,246,535	–
LTIP (2012 tranche)	–	–	–	3,189,158	–	3,008,913
Miscellaneous	–	–	–	–	–	–
Total	**7,721,743**	**9,034,779**	**6,579,698**	**5,198,115**	**6,893,612**	**4,998,456**
Pension expense (service cost)	1,094,399	899,257	321,537	337,497	325,592	277,604
Total	**8,816,142**	**9,934,036**	**6,901,235**	**5,535,612**	**7,219,204**	**5,276,060**

	John Gilbert Supply Chain		Melanie Kreis Finance[1]	
	2015	2016	2015	2016
Payments				
Base salary	715,000	823,750	715,000	739,167
Fringe benefits	168,110	174,576	22,596	18,990
Total	**883,110**	**998,326**	**737,596**	**758,157**
One-year variable remuneration	156,406	389,263	120,656	364,964
Multi-year variable remuneration	–	277,726	–	58,056
Medium-term component 2013	–	–	–	–
Medium-term component 2014	–	277,726	–	58,056
LTIP (2011 tranche)	–	–	–	–
LTIP (2012 tranche)	–	–	–	–
Miscellaneous	–	–	–	–
Total	**1,039,516**	**1,665,315**	**858,252**	**1,181,177**
Pension expense (service cost)	253,470	239,316	70,207	241,937
Total	**1,292,986**	**1,904,631**	**928,459**	**1,423,114**

[1] Responsible for Finance since 1 October 2016 and, until further notice, also responsible for Human Resources.

Payments made to the Board of Management members who left the company in financial year 2016

01/18

€	Lawrence Rosen Finance, Global Business Services (until 30 September 2016)	
	2015	2016
Payments		
Base salary	945,500	732,375
Fringe benefits	24,985	20,832
Total	**970,485**	**753,207**
One-year variable remuneration	100,459	345,608
Multi-year variable remuneration	5,305,016	4,136,970
Medium-term component 2013	453,375	–
Medium-term component 2014	–	434,264
LTIP (2011 tranche)	4,851,641	–
LTIP (2012 tranche)	–	3,702,706
Miscellaneous	–	–
Total	**6,375,960**	**5,235,785**
Pension expense (service cost)	332,971	341,735
Total	**6,708,931**	**5,577,520**

Share-based component with long-term incentive effect

01/19

Number of shares	Number of SARS 2015 tranche	Number of SARS 2016 tranche
Dr Frank Appel, Chairman	570,516	377,418
Ken Allen	283,872	187,794
Jürgen Gerdes	292,386	193,428
John Gilbert	207,852	165,390
Melanie Kreis	207,852	137,502
Lawrence Rosen (until 30 September 2016)	283,872	140,844

Pension commitments under the previous system

Dr Frank Appel and Jürgen Gerdes have direct, final-salary-based pension commitments on the basis of their individual contracts, providing for benefits in case of permanent disability, death or retirement. If the contract of a member ends after at least five years of service on the Board of Management, the entitlements they have acquired will vest in full. Members become entitled to benefits due to permanent disability after at least five years of service. Eligibility for retirement benefits begins at the earliest at the age of 55, or at the age of 62 in the case of Jürgen Gerdes. The pensions are generally geared towards annuity payments. However, the members of the Board of Management have the option of choosing a lump sum payment instead of the annuity payment. The benefit amount depends on the pensionable income and the pension level derived from the years of service.

Pensionable income consists of the annual base salary (fixed annual remuneration) computed on the basis of the average salary over the last twelve calendar months of employment. Members of the Board of Management attain a pension level of 25% after five years of service. The maximum pension level of 50% is attained after ten years of service. Subsequent pension benefits increase or decrease to reflect changes in the consumer price index in Germany.

Pension commitments under the previous system 01/20

	Pension commitments				
	Pension level on 31 Dec. 2015 %	Pension level on 31 Dec. 2016 %	Maximum pension level %	Present value (DBO) on 31 Dec. 2015 €	Present value (DBO) on 31 Dec. 2016 €
Dr Frank Appel, Chairman	50	50	50	15,922,337	18,606,680
Jürgen Gerdes	25	25	50	6,863,181	8,366,436
Total				**22,785,518**	**26,973,116**

Pension commitments under the new system
Since 4 March 2008, newly appointed Board of Management members have been granted pension commitments based upon a defined contribution plan. Under the defined contribution pension plan, the company credits an annual amount of 35% of the annual base salary to a virtual pension account for the Board of Management member concerned. The maximum contribution period is 15 years. The pension capital accrues interest at an annual rate equal to the "iBoxx Corporates AA 10+ Annual Yield" rate, or at an annual rate of 2.25% at minimum, and will continue to do so until the pension benefits fall due. The pension benefits are paid out in a lump sum in the amount of the value accumulated in the pension account. The benefits fall due when the Board of Management member reaches the age of 62 or in the case of invalidity or death whilst in office. In the event of benefits falling due, the pension beneficiary may opt to receive an annuity payment in lieu of a lump sum payment. If this option is exercised, the capital is converted to an annuity payment, taking into account the average "iBoxx Corporates AA 10+ Annual Yield" for the past ten full calendar years as well as the individual data of the surviving dependants and a future pension increase of 1% per year.

Board of Management pension commitments under the new system: individual breakdown 01/21

€	Total contribution for 2015	Total contribution for 2016	Present value (DBO) as at 31 Dec. 2015	Present value (DBO) as at 31 Dec. 2016
Ken Allen	325,500	341,775	2,125,947	2,506,156
John Gilbert	250,250	250,250	445,742	704,837
Melanie Kreis	250,250	250,250	783,552	1,049,012
Lawrence Rosen (until 30 September 2016)	325,500	256,331	3,179,558	3,387,970
Total	**1,151,500**	**1,098,606**	**6,534,799**	**7,647,975**

Benefits for former Board of Management members
Benefits paid to former members of the Board of Management or their surviving dependants amounted to €5.4 million in financial year 2016 (previous year: €25.3 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSs was €97 million (previous year: €94 million).

Remuneration of the Supervisory Board

Remuneration for the members of the Supervisory Board is governed by article 17 of the Articles of Association of Deutsche Post AG, according to which Supervisory Board members receive a fixed annual remuneration in the amount of €70,000 (as in the previous year).

The Supervisory Board chairman and the Supervisory Board committee chairs receive an additional 100% of the remuneration, and the Supervisory Board deputy chair and committee members receive an additional 50%. This does not apply to the Mediation or Nomination Committees. Those who only serve on the Supervisory Board or its committees, or act as chair or deputy chair, for part of the financial year are remunerated on a pro-rata basis.

As in the previous year, Supervisory Board members receive an attendance allowance of €1,000 for each plenary meeting of the Supervisory Board or committee meeting that they attend. They are entitled to the reimbursement of out-of-pocket cash expenses incurred in the exercise of their office. Any value added tax charged on Supervisory Board remuneration or out-of-pocket expenses is reimbursed.

The remuneration for 2016 totalled €2,622,000 (previous year: €2,682,000). Table 01/22 shows both totals, broken down as the remuneration paid to each Supervisory Board member.

Remuneration paid to Supervisory Board members

01/22

€	2015			2016		
Board members	Fixed component	Attendance allowance	Total	Fixed component	Attendance allowance	Total
Prof. Dr Wulf von Schimmelmann (Chair)	315,000	25,000	**340,000**	315,000	20,000	**335,000**
Andrea Kocsis (Deputy Chair)	245,000	21,000	**266,000**	245,000	19,000	**264,000**
Rolf Bauermeister	140,000	18,000	**158,000**	140,000	15,000	**155,000**
Dr Nikolaus von Bomhard (since 18 May 2016)	–	–	**–**	43,750	3,000	**46,750**
Ingrid Deltenre (since 18 May 2016)	–	–	**–**	43,750	2,000	**45,750**
Jörg von Dosky	70,000	8,000	**78,000**	70,000	5,000	**75,000**
Werner Gatzer	140,000	18,000	**158,000**	140,000	16,000	**156,000**
Prof. Dr Henning Kagermann	105,000	11,000	**116,000**	105,000	7,000	**112,000**
Thomas Koczelnik	175,000	24,000	**199,000**	175,000	21,000	**196,000**
Anke Kufalt	70,000	8,000	**78,000**	70,000	5,000	**75,000**
Thomas Kunz (until 18 May 2016)	70,000	6,000	**76,000**	26,250	1,000	**27,250**
Simone Menne	105,000	12,000	**117,000**	105,000	11,000	**116,000**
Roland Oetker	140,000	18,000	**158,000**	140,000	15,000	**155,000**
Andreas Schädler	70,000	8,000	**78,000**	70,000	5,000	**75,000**
Sabine Schielmann	70,000	8,000	**78,000**	70,000	4,000	**74,000**
Dr Ulrich Schröder	105,000	9,000	**114,000**	105,000	6,000	**111,000**
Dr Stefan Schulte	140,000	15,000	**155,000**	140,000	12,000	**152,000**
Stephan Teuscher	105,000	15,000	**120,000**	105,000	12,000	**117,000**
Helga Thiel	105,000	15,000	**120,000**	105,000	11,000	**116,000**
Elmar Toime (until 18 May 2016)	70,000	8,000	**78,000**	26,250	2,000	**28,250**
Stefanie Weckesser	105,000	13,000	**118,000**	105,000	10,000	**115,000**
Prof. Dr-Ing. Katja Windt	70,000	7,000	**77,000**	70,000	5,000	**75,000**

ANNUAL CORPORATE GOVERNANCE STATEMENT

You can find the Annual Corporate Governance Statement, which is also part of the Group Management Report, at dpdhl.com/en/investors and in the Corporate Governance Report, page 93 ff.

REPORT ON ECONOMIC POSITION

Overall Board of Management assessment of the Group's economic position

In financial year 2016, Deutsche Post DHL Group increased EBIT to €3.5 billion. All divisions contributed to the increase. The measures implemented in the prior year served to make the Group more efficient and led to significantly higher margins. In the Post - eCommerce - Parcel (PeP) division, the dynamic growth recorded in the parcel business more than compensated for the decline in revenue in the Post business unit. In the DHL divisions, the growth trend in the international Express business remained intact and the turnaround measures implemented in the Global Forwarding, Freight division in particular are taking effect. Consolidated revenue remained below the prior-year level, due in part to negative currency effects. Capital expenditure increased. Excluding the further funding of pension obligations, free cash flow registered a positive development. From the perspective of the Board of Management, this testifies to the continuing sound financial position of the Group.

Forecast/actual comparison

Forecast/actual comparison 01/23

	Targets 2016	Results 2016	Targets 2017
EBIT	• Group: €3.4 billion to €3.7 billion. • PeP division: more than €1.3 billion. • DHL divisions: €2.45 billion to €2.75 billion. • Corporate Center/Other: €–0.35 billion.	• Group: €3.49 billion. • PeP division: €1.44 billion. • DHL divisions: €2.41 billion. • Corporate Center/Other: €–0.36 billion.	• Group: around €3.75 billion. • PeP division: around €1.5 billion. • DHL divisions: around €2.6 billion. • Corporate Center/Other: €–0.35 billion.
EAC	Will develop in line with EBIT and increase substantially.	Developed in line with EBIT and increased substantially.	Will develop in line with EBIT and increase.
Cash flow	Free cash flow to more than cover dividend payment in May 2016, excluding the further funding of pension obligations in the amount of €1 billion[1].	At €1.4 billion free cash flow significantly exceeded dividend payment in May 2016, excluding the further funding of pension obligations in the amount of €1 billion.	Free cash flow over €1.4 billion.
Capital expenditure (capex)	Increase investments to around €2.2 billion.	Invested: €2.1 billion.	Increase investments to around €2.3 billion.
Dividend distribution	Pay out 40% to 60% of net profit as dividend.	Proposal: pay out 48% of net profit as dividend.	Pay out 40% to 60% of net profit as dividend.
Employee Opinion Survey	Increase approval rating of key performance indicator Active Leadership by one percentage point.	Approval rating of key performance indicator Active Leadership increased by one percentage point to 74%.	Increase approval rating of key performance indicator Active Leadership by one percentage point.
Greenhouse gas efficiency	CEX will increase by one index point.	(Greenhouse gas efficiency[2]) CEX improved to 30 index points (previous year, adjusted: 29).	CEX will increase by one index point.

[1] Forecast adjusted during the year.
[2] Adjusted weighting of the divisions' carbon efficiencies page 70.

Economic parameters

Global economy continues to record weak growth

Growth of the global economy slowed slightly in 2016. The reason for the decline was softening economic momentum in the industrial countries, where average GDP growth decreased to 1.6%. In the emerging markets, growth remained at 4.1%, moderate on a long-term comparison – especially since the stable result was also attributable to weakening recessions in a number of major threshold economies. On the whole, global economic output grew by 3.1% (previous year: 3.2%) after adjusting for purchasing power. The increase in global trade was even more cautious (IMF: 1.9%; OECD: 1.9%).

Global economy: growth indicators, 2016 01/24

%	Gross domestic product (GDP)	Exports	Domestic demand
China	6.7	−7.7	n.a.
Japan	1.0	0.3	0.5
USA	1.6	0.4	1.7
Euro zone	1.7	2.3	1.9
Germany	1.9	2.5	2.2

Some data estimated, as at 7 February 2017.
Source: Postbank, national statistics.

The Asian threshold economies again provided the strongest economic momentum. At 6.3%, GDP growth fell well below the 6.7% recorded in the prior year. The Chinese economy continued to weaken, with exports registering a sharp fall. At the same time, however, industrial manufacturing growth stabilised, albeit at a relatively low level for China. GDP growth declined to 6.7% (previous year: 6.9%). The Japanese economy recorded only minimal growth. Moderate increases were seen in private consumption and gross fixed capital formation, whilst exports increased only very slightly. All in all, GDP growth declined to 1.0% (previous year: 1.2%).

In the United States, the economic upturn lost notable momentum, with the pronounced decrease in corporate investment supplying the main reason for the decline. However, private consumption expanded markedly once more and remained the key driver of growth. Foreign trade had no major impact on growth. GDP rose by just 1.6% overall (previous year: 2.6%), and the unemployment rate continued to fall.

In the euro zone, the economic recovery continued in the year under review driven, above all, by domestic demand. Pronounced increases were seen in private consumption, government spending and gross fixed capital formation. By contrast, growth in exports declined substantially. This ultimately resulted in GDP growth of 1.7% (previous year: 2.0%). Although the individual countries reported great variations in performance, they all registered positive growth rates. As a result, the average unemployment rate dropped significantly to 10.0%, which is, however, still quite high.

The German economy grew steadily in 2016, albeit subject to greater fluctuation. Domestic demand provided for strong momentum. Private consumption increased substantially thanks to rising real incomes. Government spending recorded an above-average rise. Gross fixed capital formation experienced a somewhat more significant increase, above all due to increased residential construction. By contrast, investments in machinery and equipment expanded only slightly and the referendum in the UK to leave the European Union may have played a part in the current environment of corporate uncertainty. Exports increased only moderately. GDP growth nonetheless rose to 1.9% (previous year: 1.7%) and the unemployment rate fell to 6.1% on an annual average (previous year: 6.4%). At the same time, the average number of employed persons rose to 43.5 million (previous year: 43.1 million).

Rise in crude oil prices over the course of 2016

At the end of 2016, the price for one barrel of Brent Crude was US$55.21 (previous year: US$36.43). However, the average price of oil for the year declined by around 16% on the previous year to just under US$44 per barrel. Oil prices fluctuated between US$26 and US$56 over the course of the year, whereby prices rose significantly in the months following the low recorded in January.

Euro weakens on the back of Brexit and monetary policies

The European Central Bank (ECB) further expanded its monetary policy efforts in 2016. Against the backdrop of the very low inflation rate, which even dropped below zero at the start of the year, March saw the ECB lower its key refinancing rate by 0.05 percentage points to 0.00% and its deposit rate by 0.10 percentage points to –0.40%. Moreover, in April, the bank increased the monthly volumes of its bond-buying programme by €20 billion to €80 billion. In June, the ECB began buying bonds from companies outside of the banking sector for the first time. By contrast, the US Federal Reserve increased its key interest rate by 0.25 percentage points to 0.50% to 0.75% last December, due to solid growth in the labour market and the gradual rise in inflation.

The euro managed to gain on the US dollar in the first few months of 2016, but again came under downward pressure in the ensuing period. The vote in favour of Brexit in the UK was a major blow for the euro. Later in the year, the US dollar benefited from expectations of an additional increase in key interest rates in the USA, whilst the ECB signalled sustained expansionary monetary policies beyond 2016. At the end of the year, the euro listed at just over US$1.05, a drop of 3.0% year-on-year. Measured against the pound sterling, the euro posted a gain of 15.9%.

Slight decline in risk premiums for corporate bonds

The euro zone bond markets were impacted during the first half of the year by the ECB's expansionary monetary policies in addition to economic concerns resulting from the Brexit vote. Capital market interest rates decreased sharply. Yields on ten-year German government bonds reached a historic low in July, having fallen to 0.21% at the end of the year (previous year: 0.63%). By the end of 2016, yields on ten-year US government bonds had risen by 0.17 percentage points year-on-year to 2.44%. Initially, risk premiums for corporate bonds with good ratings saw a significant decrease. Although they registered an upwards trend as the year progressed, by the end of the year they had fallen below the 2015 year-end level.

Listings on the German stock market dropped sharply at the start of the year driven by increasing concern regarding a notable downturn in global growth. After a period of stabilisation, the Brexit vote led to another relapse. However, rising economic optimism resulted in a strong increase in equities prices, especially towards the end of the year. The DAX ended 2016 at 11,481 points, a year-on-year gain of 6.9%. The EURO STOXX 50 registered growth of only 0.7% year-on-year.

Regional variations in growth of international trade

The global trade movements of relevance to us – air and ocean freight sent in containers, excluding liquids and bulk goods – grew by a total of 1.7% in the reporting year. Intra-regional volumes remained stable or grew. By contrast, exports to North and Latin America fell from almost all regions.

Trade volumes: compound annual growth rate, 2015 to 2016 01/25

%

Export / Import	Asia Pacific	Europe	Latin America	MEA (Middle East and Africa)	North America
Asia Pacific	4.4	3.9	−6.7	−1.0	−0.3
Europe	1.2	9.6	−6.9	−4.7	−1.8
Latin America	7.9	8.5	1.0	3.3	2.2
MEA (Middle East and Africa)	3.3	3.9	−7.7	0.2	−4.7
North America	4.9	0.1	−3.4	−2.4	5.8

Source: Seabury Cargo Advisory, as at 13 January 2017; based upon all relevant ocean and air freight trading volumes in tonnes, excluding liquids and bulk goods.
Excluding shipments within the European Union free trade zone.

Legal environment

In view of our leading market position, a large number of our services are subject to sector-specific regulation under the *Postgesetz* (PostG – German Postal Act). Further information regarding this issue and legal risks is contained in note 48 to the consolidated financial statements.

Significant events

At the end of January 2016, we sold the remaining shares in UK property development companies King's Cross Central Property Trust and King's Cross Central General Partner Ltd.

On 1 April, the Group placed two bonds with a total volume of €1.25 billion on the capital market. Of the capital raised, €1 billion was used for the further funding of pension obligations.

Pension provisions declined in the reporting year despite decreasing discount rates, which was largely as a result of further funding of pension obligations. A measurement-related reversal had already been recognised in the first quarter due to changes in the occupational retirement arrangement in Germany. This was offset by a number of other human resources measures including the early retirement scheme for civil servants, with the result that, overall, there was no effect on earnings.

Given that the state aid decision, notes 46 and 48 to the consolidated financial statements, set aside on 14 July 2016 has become null and void with final effect, there are no longer any grounds for the obligation to repay the alleged state aid, and the amount of €378 million deposited in a trustee account was released.

At the end of September, we submitted a takeover offer for the entire share capital of UK Mail Group plc, United Kingdom. The transaction was completed on 22 December following approval by the shareholders and the competent authorities.

Results of operations

Selected indicators for results of operations 01/26

		2015	2016
Revenue	€m	59,230	57,334
Profit from operating activities (EBIT)	€m	2,411	3,491
Return on sales[1]	%	4.1	6.1
EBIT after asset charge (EAC)	€m	877	1,963
Consolidated net profit for the period[2]	€m	1,540	2,639
Earnings per share[3]	€	1.27	2.19
Dividend per share	€	0.85	1.05[4]

[1] EBIT/revenue.
[2] After deduction of non-controlling interests.
[3] Basic earnings per share.
[4] Proposal.

Changes in portfolio

In the first quarter of 2016, we acquired 27.5% of the shares in French logistics provider Relais Colis SAS. The company is accounted for using the equity method. In addition, we sold all of the shares in nugg.ad GmbH.

In the third quarter of 2016, we sold the joint ventures Güll GmbH, Germany, and Presse-Service Güll GmbH, Switzerland, which were accounted for using the equity method. The Supply Chain division acquired Italian logistics service provider Mitsafetrans S.r.l., including a subsidiary, in its entirety. In the Post - eCommerce - Parcel division, we sold our entire interest in German e-mail and marketing services provider optivo GmbH.

In the fourth quarter of 2016, we withdrew from the coach market. Our acquisition of UK Mail Group plc, the British postal and parcel services provider, closed at the end of December.

There were no changes in reporting.

Consolidated revenue falls to €57.3 billion

Consolidated revenue in financial year 2016 fell by €1,896 million to €57,334 million. Negative currency effects led to a drop of €1,494 million. The change to the way in which revenue and expenses are reported as a result of the revised terms of the UK National Health Service (NHS) contract reduced revenue by a further €1,435 million. Excluding these effects, revenue growth was 1.7%. The proportion of revenue generated abroad declined from 70.5% to 68.8%. Revenue for the fourth quarter of 2016 was up 0.5% year-on-year, at €15,410 million. The increase excluding negative currency effects (€372 million) was 2.9%.

Other operating income dropped by €238 million to €2,156 million. The prior-year figure included income from the sale of equity interests in Sinotrans and King's Cross as well as from the remeasurement of assets from the hub in Cincinnati. The figure for the reporting year includes a gain of €63 million on the disposal of the remaining shares in King's Cross.

Changes in revenue, other operating income and operating expenses, 2016 01/27

	€m	+/– %	
Revenue	57,334	–3.2	• Growth trends in the German parcel and international express businesses remain intact • Currency effects lead to fall of €1,494 million • Revised NHS contract reduced revenue by €1,435 million
Other operating income	2,156	–9.9	• Prior-year figure included higher income from the sale of equity interests
Materials expense	30,620	–7.7	• Drop of €1,421 million in cost of goods purchased and held for resale due to revised NHS contract • Lower transport and fuel costs • Positive currency effects
Staff costs	19,592	–0.2	• At prior-year level
Depreciation, amortisation and impairment losses	1,377	–17.3	• Prior-year figure included impairment losses of €310 million on NFE
Other operating expenses	4,414	–6.9	• Lower, mainly due to positive currency effects

Materials expense markedly lower

Materials expense showed a marked fall of €2,550 million to €30,620 million. The cost of goods purchased and held for resale dropped considerably as a result of the revised NHS contract. Materials expense was also reduced by lower transport and fuel costs as well as currency effects. The increase in headcount at the Express division was the main factor raising staff costs, whereas positive exchange rate effects led to a slight overall decrease in this item. Depreciation, amortisation and impairment losses declined significantly, falling by €288 million to €1,377 million: the prior-year figure included impairment losses of €310 million for NFE. Mainly positive currency effects reduced other operating expenses from €4,740 million to €4,414 million.

Consolidated EBIT up 44.8%

At €3,491 million, profit from operating activities (EBIT) exceeded the prior-year figure of €2,411 million by 44.8%. Fourth-quarter EBIT rose by 16.1% to €1,111 million. At €359 million, net finance costs in the reporting period were similar to the previous year (€354 million). Profit before income taxes climbed substantially by €1,075 million to €3,132 million. Income taxes rose by €13 million to €351 million.

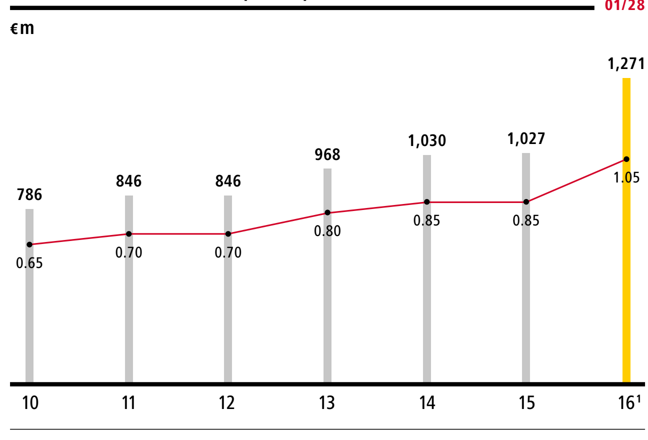
Sharp improvement in consolidated net profit

Consolidated net profit showed a sharp improvement, rising from €1,719 million to €2,781 million. Of this amount, €2,639 million is attributable to shareholders of Deutsche Post AG and €142 million to non-controlling interest holders. Basic earnings per share improved from €1.27 to €2.19 and diluted earnings per share from €1.22 to €2.10.

Dividend of €1.05 per share proposed

Our finance strategy calls for a payout of 40% to 60% of net profits as dividends as a general rule. The Board of Management and the Supervisory Board will therefore propose a dividend of €1.05 per share for financial year 2016 (previous year: €0.85) to shareholders at the Annual General Meeting on 28 April 2017. The distribution ratio based upon net profit, which is defined as consolidated net profit for the period after deduction of non-controlling interests, amounts to 48.2%. The net dividend yield based upon the year-end closing price of our shares is 3.4%. The dividend will be distributed on 4 May 2017 and is tax-free for shareholders resident in Germany. It does not entitle recipients to a tax refund or a tax credit.

Total dividend and dividend per no-par value share 01/28



¹ Proposal.

EBIT after asset charge (EAC) increases substantially

In 2016, EBIT after asset charge (EAC) climbed from €877 million to €1,963 million, mainly as a result of the strong increase in the company's profitability. The imputed asset charge remained stable year-on-year, with larger investments in property, plant and equipment and lower provisions being offset by a decline in average net working capital.

EBIT after asset charge (EAC) 01/29

€m	2015	2016	+/– %
EBIT	2,411	3,491	44.8
– Asset charge	–1,534	–1,528	0.4
= EAC	877	1,963	> 100

The net asset base increased by €730 million to €17,539 million as at the reporting date. Investments in IT systems, the purchase of freight aircraft, and replacement and expansion investments in warehouses, sorting systems and the vehicle fleet increased year-on-year, as did intangible assets. Net working capital remained more or less stable.

Both operating provisions and other non-current assets and liabilities declined year-on-year.

Net asset base (non-consolidated)[1] 01/30

€m	31 Dec. 2015 adjusted	31 Dec. 2016	+/– %
Intangible assets and property, plant and equipment	20,296	20,943	3.2
± Net working capital	–1,024	–1,043	1.9
– Operating provisions (excluding provisions for pensions and similar obligations)	–2,471	–2,321	–6.1
± Other non-current assets and liabilities	8	–37	>–100
= Net asset base	16,809	17,539	4.3

[1] Assets and liabilities are defined as described in the segment reporting, note 10 to the consolidated financial statements. Consolidation produces an amount of €–71 million (previous year: €–191 million).

Financial position

Selected cash flow indicators 01/31

€m	2015	2016
Cash and cash equivalents as at 31 December	3,608	3,107
Change in cash and cash equivalents	615	–437
Net cash from operating activities	3,444	2,439
Net cash used in investing activities	–1,462	–1,643
Net cash used in financing activities	–1,367	–1,233

Financial management is a centralised function in the Group

The Group's financial management activities include managing liquidity along with hedging against fluctuations in interest rates, currencies and commodity prices, arranging Group financing, issuing guarantees and letters of comfort and liaising with rating agencies. Responsibility for these activities rests with Corporate Finance at Group headquarters in Bonn, which is supported by three Regional Treasury Centres in Bonn (Germany), Weston (USA) and Singapore. The regional centres act as interfaces between Group headquarters and the operating companies, advise the companies on financial management issues and ensure compliance with Group-wide requirements.

Corporate Finance's main task is to minimise financial risk and the cost of capital in addition to preserving the Group's financial stability and flexibility over the long term. In order to maintain its unrestricted access to the capital markets, the Group continues to aim for a credit rating appropriate to the sector. We therefore monitor the ratio of our operating cash flow to our adjusted debt particularly closely. Adjusted debt refers to the Group's net debt, allowing for unfunded pension obligations and liabilities under operating leases.

Maintaining financial flexibility and low cost of capital

The Group's finance strategy builds upon the principles and aims of financial management. In addition to the interests of shareholders, the strategy also takes creditor requirements into account. The goal is for the Group to maintain its financial flexibility and low cost of capital by ensuring a high degree of continuity and predictability for investors.

A key component of this strategy is having a target rating of "BBB+", which is managed via a dynamic performance metric known as funds from operations to debt (FFO to debt). Our strategy additionally includes a sustained dividend policy and clear priorities regarding the use of excess liquidity, which is to be used to gradually increase plan assets of our German pension plans, to distribute special dividends and to buy back shares.

Finance strategy 01/32

Credit rating

- Maintain "BBB+" and "Baa1" ratings, respectively.
- FFO to debt used as dynamic performance metric.

Dividend policy

- Pay out 40% to 60% of net profit.
- Consider cash flows and continuity.

Excess liquidity

- Increase plan assets of German pension plans.
- Pay out special dividends or execute share buy-back programme.

Debt portfolio

- Syndicated credit facility taken out as liquidity reserve.
- Debt Issuance Programme established for issuing bonds.
- Issue bonds to cover long-term capital requirements.

Investors

- Reliable and consistent information from the company.
- Predictability of expected returns.

Group

- Preserve financial and strategic flexibility.
- Assure low cost of capital.

FFO to debt 01/33

€m	2015 adjusted[1]	2016
Operating cash flow before changes in working capital	2,656	2,514
+ Interest received	47	50
– Interest paid	76	138
+ Adjustment for operating leases	1,413	1,569
+ Adjustment for pensions	239	1,003
= Funds from operations (FFO)	**4,279**	**4,998**
Reported financial liabilities	5,178	6,035
– Financial liabilities at fair value through profit or loss	125	121
+ Adjustment for operating leases	6,394	7,166
+ Adjustment for pensions	6,103	5,467
– Surplus cash and near-cash investments[2]	2,641	2,239
= Debt	**14,909**	**16,308**
FFO to debt (%)	**28.7**	**30.6**

[1] Non-recurring income or expense is no longer reported separately since it is no longer generated or incurred in a relevant scope.
[2] Reported cash and cash equivalents and investment funds callable at sight, less cash needed for operations.

Funds from operations (FFO) represents operating cash flow before changes in working capital plus interest received less interest paid and adjusted for operating leases and pensions, as shown in the following calculation. In addition to financial liabilities and surplus cash and near-cash investments, the figure for debt also includes operating lease liabilities as well as unfunded pension liabilities.

Due to funds from operations increasing strongly, the FFO to debt performance metric increased in the reporting year compared with the previous year despite the increase in debt.

Funds from operations saw an increase of € 719 million to a total of €4,998 million. The rise was due primarily to the significant increase in the adjustment for pensions, which resulted from pension obligation funding. The pension obligation funding is shown in operating cash flow. The increase in the adjustment for operating leases is the result of higher lease payments in 2016 and 2017. The interest paid is higher in the reporting year as a result of the interest income generated from unwinding interest rate swaps related to outstanding bonds in the first quarter of 2015.

Debt rose by €1,399 million to €16,308 million compared with the previous year. The main cause of this was the rise in reported financial liabilities as a result of the April bond issues in the amount of €1.25 billion as well as the remaining obligations from the share buy-back programme in the amount of €0.2 billion. The increase in reported financial liabilities was partially offset by the conversion of shares in the convertible bond, note 41 to the consolidated financial statements, occurring in the reporting year in the amount of €0.6 billion. In addition, the adjustment for operating leases rose because of the increase in lease obligations and the lower interest rate. The adjustment for pensions declined. This is attributable to the increase in plan assets as a result of further funding of pension obligations. Further information on pensions can be found in note 39 to the consolidated financial statements. Payments made in connection with the share buyback programme reduced surplus cash and near cash investments by €0.8 billion.

Cash and liquidity managed centrally

The cash and liquidity of our globally operating subsidiaries is managed centrally by Corporate Treasury. More than 80% of the Group's external revenue is consolidated in cash pools and used to balance internal liquidity needs. In countries where this practice is ruled out for legal reasons, internal and external borrowing and investment are managed centrally by Corporate Treasury. In this context, we observe a balanced banking policy in order to remain independent of individual banks. Our subsidiaries' intra-group revenue is also pooled and managed by our in-house bank in order to avoid external bank charges and margins through inter-company clearing. Payment transactions are executed in accordance with uniform guidelines using standardised processes and IT systems. Many Group companies pool their external payment transactions in the intra-group Payment Factory, which executes payments on behalf of the respective companies via Deutsche Post AG's central bank accounts.

Limiting market risk

The Group uses both primary and derivative financial instruments to limit market risk. Interest rate risk is managed exclusively via swaps. Currency risk is additionally hedged using forward transactions, cross-currency swaps and options. We pass on most of the risk arising from commodity fluctuations to our customers and, to some extent, use commodity swaps to manage the remaining risk. The parameters, responsibilities and controls governing the use of derivatives are laid down in internal guidelines.

Flexible and stable financing

The Group covers its long-term financing requirements by means of equity and debt. This ensures our financial stability and also provides adequate flexibility. Our most important source of funds is net cash from operating activities.

We also have a syndicated credit facility in a total volume of €2 billion that guarantees us favourable market conditions and acts as a secure, long-term liquidity reserve. The facility matures in 2020, and does not contain any covenants concerning the Group's financial indicators. In view of our solid liquidity, the syndicated credit facility was not drawn down during the year under review.

As part of our banking policy, we spread our business volume widely and maintain long-term relationships with the financial institutions we entrust with our business. In addition to credit lines, we meet our borrowing requirements through other independent sources of financing, such as bonds and operating leases. Most debt is taken out centrally in order to leverage economies of scale and specialisation benefits and hence minimise borrowing costs.

In April 2016, we issued two bonds in a volume of €0.75 billion and €0.5 billion as part of the Debt Issuance Programme established in 2012 with a volume of up to €8 billion. The cash funds received that same month were utilised for the further funding of pension obligations in Germany in the amount of €1 billion.

No bonds were redeemed in the year under review. A total of €0.6 billion of the convertible bond issued in 2012 in the amount of €1 billion was converted in 2016. Further information on the existing bonds is contained in note 41 to the consolidated financial statements.

Group issues sureties, letters of comfort and guarantees

Deutsche Post AG provides security for the loan agreements, leases and supplier contracts entered into by Group companies, associates or joint ventures by issuing sureties, letters of comfort or guarantees as needed. This practice allows better conditions to be negotiated locally. The sureties are provided and monitored centrally.

No change in the Group's credit rating

The ratings of "A3" issued by Moody's Investors Service (Moody's) and "BBB+" issued by Fitch Ratings (Fitch) remain in effect with regard to our credit quality. The stable outlook from both rating agencies is also still applicable. We remain well positioned in the transport and logistics sector with these ratings. The following table shows the ratings as at the reporting date and the underlying factors. The complete and current analyses by the rating agencies and the rating categories can be found at dpdhl.com/en/investors.

Agency ratings 01/34

Fitch Ratings

Long-term: BBB+
Short-term: F2
Outlook: stable

+ Rating factors

- Balanced business risk profile.
- Stable contribution of core mail products.
- Growth in internet-led domestic parcel volumes.
- Strong global footprint in the Express, Global Forwarding, Freight and Supply Chain businesses.
- Fairly stable credit metrics for the current rating and adequate financial flexibility.

– Rating factors

- Structural mail volume decline in the Post - eCommerce - Parcel division due to secular changes in the industry (i.e., competition from electronic communication and digitalisation).
- Exposure to global market volatility and competitiveness through the DHL divisions.

Moody's Investors Service

Long-term: A3
Short-term: P–2
Outlook: stable

+ Rating factors

- Scale and global presence as the world's largest logistics company.
- Large and robust mail business in Germany.
- Expectations of profitability recovery through its network investments and restructuring programme.
- Appropriate financial metrics, conservative financial policy and sound liquidity profile.

– Rating factors

- Exposure to global macroeconomic trends in the logistics businesses.
- Structural decline of traditional postal services.

Liquidity and sources of funds

As at the balance sheet date, the Group had cash and cash equivalents of €3.1 billion (previous year: €3.6 billion) at its disposal. A large portion of that amount is held directly by Deutsche Post AG. The cash is either invested centrally on the money market or deposited in existing bank accounts. These central, short-term financial investments had a volume of €1.7 billion as at the balance sheet date. In addition, €0.2 billion has been invested in a money market fund. The following table gives a breakdown of the financial liabilities reported in our balance sheet. Further information on recognised financial liabilities is contained in note 41 to the consolidated financial statements.

Financial liabilities 01/35

€m

	2015	2016
Bonds	4,304	4,990
Due to banks	166	158
Finance lease liabilities	167	209
Liabilities to Group companies	26	28
Financial liabilities at fair value through profit or loss	125	121
Other financial liabilities	390	529
	5,178	**6,035**

Operating leases remain an important source of funding for the Group. We mainly use operating leases to finance real estate, although we also finance aircraft, vehicle fleets and IT equipment.

Operating lease liabilities by asset class 01/36

€m

	2015	2016
Land and buildings	5,929	6,657
Aircraft	1,072	909
Transport equipment	472	495
Technical equipment and machinery	70	79
Other equipment, operating and office equipment, miscellaneous	39	48
	7,582	8,188

Operating lease obligations increased significantly year-on-year to €8.2 billion, with new long-term agreements – primarily for real estate – overcompensating considerably for the reduction in the remaining terms of legacy agreements.

Capital expenditure above prior-year level

Investments in property, plant and equipment and intangible assets (not including goodwill) amounted to €2,074 million in the reporting year, 2.5% above the prior year's figure of €2,024 million. Please refer to notes 10, 21 and 22 to the consolidated financial statements for a breakdown of capital expenditure (capex) into regions and asset classes.

Capex and depreciation, amortisation and impairment losses, full year 01/37

	PeP		Express		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1]		Group	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Capex (€m)	533	590	856	902	123	55	318	328	192	199	2	0	**2,024**	**2,074**
Depreciation, amortisation and impairment losses (€m)	319	334	404	469	396	79	313	294	233	201	0	0	**1,665**	**1,377**
Ratio of capex to depreciation, amortisation and impairment losses	1.67	1.77	2.12	1.92	0.31	0.70	1.02	1.12	0.82	0.99	–	–	**1.22**	**1.51**

[1] Including rounding.

Capex and depreciation, amortisation and impairment losses, Q4 01/38

	PeP		Express		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1]		Group	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Capex (€m)	209	264	360	280	22	18	98	73	91	75	2	–1	**782**	**709**
Depreciation, amortisation and impairment losses (€m)	86	95	121	149	24	19	89	75	59	50	1	0	**380**	**388**
Ratio of capex to depreciation, amortisation and impairment losses	2.43	2.78	2.98	1.88	0.92	0.95	1.10	0.97	1.54	1.50	–	–	**2.06**	**1.83**

[1] Including rounding.

In the Post - eCommerce - Parcel division, the largest capex portion was attributable to the expansion of our domestic and international parcel network and production of our StreetScooter electric vehicle.

In the Express division, investments were made in expanding our hubs, especially in Leipzig, East Midlands, Brussels and Cincinnati. Continuous maintenance and renewal of our aircraft fleet represented an additional focus of investment spending.

In the Global Forwarding, Freight division, we continued to invest in turnaround measures. We also modernised and refurbished warehouses and office buildings across all regions.

In the Supply Chain division, the majority of funds was used to support new business, mostly in the Americas and EMEA regions where we made notable investments in the Consumer and Retail sectors.

Cross-divisional capital expenditure increased due to higher vehicle replacement and expansion in our fleet.

Funding of pension obligations impacts operating cash flow

At €2,439 million in financial year 2016, net cash from operating activities was down €1,005 million on the figure for the previous year, although EBIT was €1,080 million higher. The decrease was due to the funding of pension obligations in the amount of €1 billion. Excluding this, net cash from operating activities was €3,439 million, in line with the prior-year figure. The depreciation, amortisation and impairment losses contained in EBIT are non-cash effects and are therefore eliminated. In the previous year, they were characterised primarily by impairment losses on NFE. The income from the sale of equity interests contained in EBIT has also been eliminated in net cash from operating activities and is instead reported in cash flow from investing activities. In the previous year, this item comprised €261 million, mainly from the sale of equity interests in Sinotrans and King's Cross; in the reporting year it includes, amongst other things, €63 million from the sale of the remaining shares in King's Cross. The change in provisions widened from €–495 million to €–1,799 million mainly as a result of the funding of pension obligations. The change in current assets and liabilities led to a net cash outflow of €75 million as opposed to a net cash inflow of €788 million in the previous year. The increase in receivables and other assets was the main driver behind this development.

Net cash used in investing activities increased to €1,643 million (previous year: €1,462 million). The prior-year figure was lower due to the sale of the equity interests mentioned above. The figure for the reporting year was reduced by the repayment from the state aid proceedings, which led to €378 million in proceeds from the disposal of non-current assets. The acquisition of UK Mail is reflected mainly in cash paid to acquire subsidiaries and other business units. Cash paid to acquire property, plant and equipment and intangible assets decreased by €138 million year-on-year, to €1,966 million. Outflows of cash and cash equivalents of €200 million were incurred for current financial assets in connection with the acquisition of money market funds.

At €1,233 million, net cash used in financing activities was lower than in the previous year (€1,367 million). Through our bond placement in April, we issued non-current financial liabilities and raised capital in the amount of €1.239 billion. Net cash used to purchase treasury shares rose from €70 million to €836 million on account of our share buyback programme. At €1,027 million, the dividend paid to our shareholders was the largest payment item. In addition, in the previous year our unwinding of interest rate swaps on outstanding bonds reduced interest payments.

Cash and cash equivalents declined from €3,608 million as at 31 December 2015 to €3,107 million as at 31 December 2016.

Calculation of free cash flow 01/39

€m

	2015	2016	Q4 2015	Q4 2016
Net cash from operating activities	**3,444**	**2,439**	**2,307**	**1,925**
Sale of property, plant and equipment and intangible assets	175	265	97	141
Acquisition of property, plant and equipment and intangible assets	–2,104	–1,966	–660	–545
Cash outflow arising from change in property, plant and equipment and intangible assets	**–1,929**	**–1,701**	**–563**	**–404**
Disposals of subsidiaries and other business units	15	35	16	10
Disposals of investments accounted for using the equity method and other investments	223	82	0	0
Acquisition of subsidiaries and other business units	0	–304	0	–270
Acquisition of investments accounted for using the equity method and other investments	0	–19	0	0
Cash inflow/outflow arising from divestitures/acquisitions	**238**	**–206**	**16**	**–260**
Interest received	47	50	14	7
Interest paid	–76	–138	–69	–67
Net interest paid	**–29**	**–88**	**–55**	**–60**
Free cash flow	**1,724**	**444**	**1,705**	**1,201**

Free cash flow as a management-related performance indicator decreased significantly from €1,724 million to €444 million, due primarily to the decline in net cash from operating activities to €2,439 million (previous year: €3,444 million). Excluding the funding of pension obligations, free cash flow was €1,444 million, a clear improvement.

Net assets

Selected indicators for net assets 01/40

		31 Dec. 2015	31 Dec. 2016
Equity ratio	%	29.8	29.6
Net debt	€m	1,093	2,261
Net interest cover		83.1	39.7
Net gearing	%	8.8	16.6
FFO to debt[1]	%	28.7	30.6

[1] For the calculation Financial position, page 53.

Increase in consolidated total assets

The Group's total assets amounted to €38,295 million as at 31 December 2016, €425 million higher than at 31 December 2015 (€37,870 million).

Intangible assets rose from €12,490 million to €12,554 million in the reporting year, mainly because the acquisition of UK Mail led to an increase in goodwill. Property, plant and equipment also increased by €594 million to €8,389 million as a result of investments. We initially reclassified €378 million paid to a trustee in connection with the state aid proceedings, note 48 to the consolidated financial statements, from non-current to current financial assets and then derecognised this amount following receipt. The short-term investment of excess cash in a money market fund increased the current financial assets item by €200 million. At €222 million, other non-current assets were on a level with the previous year. Trade receivables rose from €7,694 million to €7,965 million. The €501 million decrease in cash and cash equivalents to €3,107 million is described in the section entitled Financial position, page 57 f.

On the equity and liabilities side of the balance sheet, equity attributable to Deutsche Post AG shareholders rose by €53 million to €11,087 million: while consolidated net profit for the period and the capital increase related to the convertible bond increased equity, actuarial losses on pension obligations, the dividend payment and effects associated with the purchase of treasury shares were key items decreasing it. Provisions for pensions and similar obligations declined significantly from €6,221 million to €5,580 million, with actuarial losses increasing this item and the partial funding of pension obligations in particular serving to reduce it. Financial liabilities rose from €5,178 million to €6,035 million, primarily as a result of the bond placement in April.

Net debt increases to €2,261 million

Our net debt rose considerably from €1,093 million as at 31 December 2015 to €2,261 million as at 31 December 2016, mainly because we issued bonds in a total principal amount of €1.25 billion. At 29.6%, the equity ratio – the ratio of equity to total assets – was at the level of that at 31 December 2015 (29.8%). The net interest cover ratio – the extent to which net interest obligations are covered by EBIT – was 39.7 as at 31 December. The net gearing ratio is the ratio of net debt to total equity and net debt and amounted to 16.6% as at 31 December.

Net debt 01/41

€m

	31 Dec. 2015	31 Dec. 2016
Non-current financial liabilities	4,578	4,516
+ Current financial liabilities	440	1,381
= **Financial liabilities[1]**	**5,018**	**5,897**
– Cash and cash equivalents	3,608	3,107
– Current financial assets	179	374
– Positive fair value of non-current financial derivatives[2]	138	155
= **Financial assets**	**3,925**	**3,636**
Net debt	**1,093**	**2,261**

[1] Less financial liabilities with an operational nature note 33.4.
[2] Reported in non-current financial assets in the balance sheet.

Business performance in the divisions

POST - ECOMMERCE - PARCEL DIVISION

Key figures Post - eCommerce - Parcel division 01/42

€m	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Revenue	16,131	16,797	4.1	4,513	4,640	2.8
of which Post	9,784	9,742	–0.4	2,650	2,582	–2.6
eCommerce - Parcel	6,347	7,055	11.2	1,863	2,058	10.5
Profit from operating activities (EBIT)	1,103	1,443	30.8	487	489	0.4
of which Germany	1,089	1,448	33.0	488	496	1.6
International Parcel and eCommerce	14	–5	<–100	–1	–7	<–100
Return on sales (%)[1]	6.8	8.6	–	10.8	10.5	–
Operating cash flow	1,337	361	–73.0	797	603	–24.3

[1] EBIT/revenue.

Revenue increases by 4.1%

In the reporting year, with one additional working day in Germany, revenue in the division was €16,797 million, 4.1% above the prior-year figure of €16,131 million. Most of the growth originated in the eCommerce - Parcel business unit. Excluding negative currency effects of €38 million, the revenue increase was 4.4% in the reporting year. In the fourth quarter of 2016, despite 0.8 fewer working days, revenue in the division increased year-on-year by 2.8%.

Price increases compensate decline in volume in the Post business unit

In the Post business unit, revenue was €9,742 million in the reporting year, 0.4% below the prior-year figure of €9,784 million. Volumes witnessed a more significant decline, falling by 3.6%. In the fourth quarter of 2016, revenue was €2,582 million (previous year: €2,650 million).

The price increases for *Standardbrief* and *Maxibrief* letter items and for additional services on 1 January 2016 more than offset the decrease in revenue resulting from the overall decline in Mail Communication volumes. Furthermore, compared with the previous year, 2016 included additional mail volumes as a result of regional parliamentary elections.

The cross-border mail business saw a slight decline in 2016. The increase in small-goods shipments and the price increases for the *Standardbrief* and *Großbrief International* products at the beginning of the year were unable to offset the effects of the decline in volumes experienced, in particular, in the sending of documents and dialogue marketing products.

Revenue in the Dialogue Marketing business was below the prior-year level. Volumes fell by 3.7%, especially in unaddressed advertising mail.

Post: revenue 01/43

€m	2015 adjusted	2016	+/– %	Q4 2015 adjusted	Q4 2016	+/– %
Mail Communication	6,537	6,597	0.9	1,768	1,757	–0.6
Dialogue Marketing	2,200	2,154	–2.1	613	586	–4.4
Other	1,047	991	–5.3	269	239	–11.2
Total	**9,784**	**9,742**	**–0.4**	**2,650**	**2,582**	**–2.6**

Post: volumes 01/44

Mail items (millions)	2015 adjusted	2016	+/– %	Q4 2015 adjusted	Q4 2016	+/– %
Total	19,320	18,628	–3.6	5,216	4,987	–4.4
of which Mail Communication	8,552	8,242	–3.6	2,231	2,189	–1.9
of which Dialogue Marketing	8,846	8,521	–3.7	2,473	2,320	–6.2

eCommerce - Parcel business unit continues to grow

Revenue in the eCommerce - Parcel business unit was €7,055 million in the reporting year, exceeding the prior-year figure of €6,347 million by a robust 11.2%. The fourth quarter also saw double-digit revenue growth.

The Parcel business in Germany continued to grow steadily due to the strong e-commerce trend. Revenue in the Parcel Germany business increased by 10.1% to €4,814 million in the reporting year (previous year: €4,372 million). Volumes rose by 9.3% to 1,227 million parcels.

Our domestic and cross-border parcel business in Europe is continuing to perform well. In the Parcel Europe business, revenue grew by 15.1% to €856 million in the reporting year (previous year: €744 million).

Revenue in the DHL eCommerce business was up by 12.5% to €1,385 million in 2016 (previous year: €1,231 million), due to strong performance in the US domestic business as well as cross-border business in Asia. Excluding currency effects, growth was 14.1%.

eCommerce - Parcel: revenue 01/45

€m	2015 adjusted	2016	+/– %	Q4 2015 adjusted	Q4 2016	+/– %
Parcel Germany	4,372	4,814	10.1	1,315	1,421	8.1
Parcel Europe[1]	744	856	15.1	206	240	16.5
DHL eCommerce[2]	1,231	1,385	12.5	342	397	16.1
Total	**6,347**	**7,055**	**11.2**	**1,863**	**2,058**	**10.5**

[1] Excluding Germany.
[2] Outside Europe.

Parcel Germany: volumes 01/46

Parcels (millions)	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Total	1,123	1,227	9.3	338	368	8.9

EBIT substantially exceeds prior-year figure

EBIT in the division improved by a substantial 30.8% to €1,443 million in the reporting year (previous year: €1,103 million). Higher revenue and strict cost management contributed to this EBIT performance. In addition, the strike and one-time effects in Germany had a negative impact on the prior-year figure. The majority of our EBIT is still generated in Germany; earnings in our international business reflect the investments in the expansion of the European and worldwide parcel business. Return on sales for the reporting year rose from 6.8% to 8.6%. Fourth-quarter EBIT was €489 million (previous year: €487 million).

Operating cash flow decreased from €1,337 million to €361 million, mainly as a result of a payment of €955 million made to further fund pension obligations.

EXPRESS DIVISION

Key figures EXPRESS division

01/47

€m	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Revenue	13,661	14,030	2.7	3,638	3,830	5.3
of which Europe	6,045	6,317	4.5	1,637	1,716	4.8
Americas	2,559	2,741	7.1	698	757	8.5
Asia Pacific	4,995	5,194	4.0	1,317	1,407	6.8
MEA (Middle East and Africa)	1,039	1,054	1.4	268	274	2.2
Consolidation/Other	–977	–1,276	–30.6	–282	–324	–14.9
Profit from operating activities (EBIT)	1,391	1,548	11.3	319	435	36.4
Return on sales (%)[1]	10.2	11.0	–	8.8	11.4	–
Operating cash flow	1,761	1,927	9.4	671	727	8.3

[1] EBIT/revenue.

Momentum in international business continues

Revenue in the division improved by 2.7% to €14,030 million in the reporting year (previous year: €13,661 million). As a significant portion of our business activities take place outside the euro zone, we recorded negative currency effects of €440 million. Excluding these effects, revenue growth was 5.9%. This also reflects the fact that fuel surcharges were lower in all regions as the price of crude oil fell compared with the previous year. Revenue increased by 6.3% excluding the negative effects resulting from both foreign currency losses and lower fuel surcharges.

In the Time Definite International (TDI) product line, revenues per day increased by 6.1% and per-day shipment volumes by 7.6% in the reporting year. Revenues per day for the fourth quarter were up by 9.2% and per-day shipment volumes by 7.4%.

In the Time Definite Domestic (TDD) product line, revenues per day increased by 10.3% and per-day shipment volumes by 9.9% in the reporting year. Growth in the fourth quarter amounted to 9.3% for revenues per day and 10.6% for per-day volumes.

EXPRESS: revenue by product

01/48

€m per day[1]	2015 adjusted	2016	+/– %	Q4 2015 adjusted	Q4 2016	+/– %
Time Definite International (TDI)	40.8	43.3	6.1	43.3	47.3	9.2
Time Definite Domestic (TDD)	3.9	4.3	10.3	4.3	4.7	9.3

[1] To improve comparability, product revenues were translated at uniform exchange rates. Those revenues are also the basis for the weighted calculation of working days.

EXPRESS: volumes by product

01/49

Thousands of items per day[1]	2015 adjusted	2016	+/– %	Q4 2015 adjusted	Q4 2016	+/– %
Time Definite International (TDI)	752	809	7.6	819	880	7.4
Time Definite Domestic (TDD)	395	434	9.9	435	481	10.6

[1] To improve comparability, product revenues were translated at uniform exchange rates. Those revenues are also the basis for the weighted calculation of working days.

Double-digit volume growth in Europe region

Revenue in the Europe region increased by 4.5% in the reporting year to €6,317 million (previous year: €6,045 million). This included negative currency effects of €184 million, which related mainly to the UK and Russia. Excluding these effects, revenue growth was 7.5%. TDI revenues per day rose by 7.2% and per-day TDI shipment volumes by 10.3% in the reporting year. International per-day shipment revenues were up by 11.6% and per-day shipment volumes by 12.9% in the fourth quarter of 2016.

Strong growth in the Americas region

Revenue in the Americas region increased by 7.1% to €2,741 million in the reporting year (previous year: €2,559 million). This figure included negative currency effects of €141 million, which resulted primarily from Mexico and South America. Excluding these effects, revenue growth was 12.6% compared with the previous year. In the TDI area, revenues per day increased by 8.8% in the reporting year and per-day volumes by 8.7%. Revenues per day for the fourth quarter were up by 10.0% and per-day shipment volumes by 7.0%.

Moderate volume increases in Asia Pacific region

Revenue in the Asia Pacific region rose by 4.0% to €5,194 million in the reporting year (previous year: €4,995 million). This included negative currency effects of €67 million that related primarily to China as well as other countries in the region. Excluding these effects, the revenue increase was 5.3% in the reporting period. Revenues per day in the TDI area improved by 3.9%, due primarily to the 4.7% increase in per-day shipment volumes. Growth in the fourth quarter amounted to 7.0% for revenues per day and 2.4% for per-day volumes.

Increased revenues per day in the MEA region

Revenue in the MEA region (Middle East and Africa) was up by 1.4% to €1,054 million in the reporting year (previous year: €1,039 million). This included negative currency effects of €47 million, which resulted mainly from South Africa and Egypt. Excluding these effects, revenue increased by 6.0%. In the TDI area, revenues per day were up by 6.1% and per-day volumes by 4.7%. Growth in the fourth quarter of 2016 amounted to 7.5% for revenues per day and 4.0% for per-day volumes.

EBIT and return on sales see sizable improvement

EBIT in the division rose by 11.3% to €1,548 million in financial year 2016 (previous year: €1,391 million). Return on sales rose from 10.2% to 11.0%. Network improvement, strong international business growth and pricing initiatives all contributed to this positive development. In the fourth quarter of 2016, EBIT improved by 36.4% to €435 million and return on sales increased from 8.8% to 11.4%. Operating cash flow rose by 9.4% to €1,927 million in the reporting year (previous year: €1,761 million).

GLOBAL FORWARDING, FREIGHT DIVISION

Key figures GLOBAL FORWARDING, FREIGHT division 01/50

€m

	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Revenue	14,890	13,737	–7.7	3,736	3,623	–3.0
of which Global Forwarding	10,827	9,626	–11.1	2,673	2,566	–4.0
Freight	4,238	4,274	0.8	1,113	1,098	–1.3
Consolidation/Other	–175	–163	6.9	–50	–41	18.0
Profit from operating activities (EBIT)	–181	287	> 100	99	104	5.1
Return on sales (%)[1]	–1.2	2.1	–	2.6	2.9	–
Operating cash flow	487	248	–49.1	384	206	–46.4

[1] EBIT/revenue.

Freight forwarding revenues remain under pressure on the whole

Impacted by negative currency effects, lower fuel surcharges and the generally low level of air and ocean freight rates, division revenue decreased by 7.7% to €13,737 million in the reporting year (previous year: €14,890 million). Excluding negative currency effects of €330 million, revenue fell year-on-year by 5.5%. In the fourth quarter of 2016, revenue was down year-on-year by 3.0% to €3,623 million – a decline of 1.2% excluding negative currency effects of €67 million.

In the Global Forwarding business unit, revenue in the reporting year fell significantly by 11.1% to €9,626 million (previous year: €10,827 million). Excluding negative currency effects of €295 million, the decline was 8.4%. Gross profit is defined as revenue from transport or other services less directly attributable costs. These include transport costs for air and ocean freight, road and rail transport, expenses for commissions, insurances, customs clearance and other revenue-related expenses. Gross profit declined by 0.6% to €2,419 million (previous year: €2,434 million).

Revenue decline in air freight business continues, ocean freight records increasing volumes

Although air freight volumes for 2016 as a whole again declined by 1.7% compared with the previous year, they experienced an increase of 7.0% in the fourth quarter, new business acquired in the first half of the year having had a positive effect on volumes. Air freight prices are under substantial pressure due to surplus capacities and low fuel costs, which reduced our air freight revenue by 12.0% and gross profit by 5.9% in the reporting year. In the fourth quarter, revenue declined by 4.2%.

Ocean freight volumes exceeded the prior-year level by 4.4% to reach over three million TEUs in 2016, due primarily to growth on both the trade lanes between Asia and Europe as well as in intra-Asia volumes. Our ocean freight revenues fell by 10.2% in the reporting year. However, gross profit increased by 9.7%. Turnaround measures and transport cost controls are yielding positive results but are being partially offset by the continued weak market environment. In the fourth quarter, volumes were 8.4% above and revenue 3.5% below the prior-year figures.

The performance of our industrial project business (shown in the following table, reported as part of Other in the Global Forwarding business unit) was significantly weaker than in the previous year, due in part to the conclusion of projects started in previous years and in part to low oil prices curbing customer demand for new projects, particularly in the Oil & Energy sector. Gross profit thus declined by 24.0% compared with the previous year.

Global Forwarding: revenue

01/51

€m

	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Air freight	4,990	4,391	–12.0	1,247	1,195	–4.2
Ocean freight	3,685	3,309	–10.2	882	851	–3.5
Other	2,152	1,926	–10.5	544	520	–4.4
Total	**10,827**	**9,626**	**–11.1**	**2,673**	**2,566**	**–4.0**

Global Forwarding: volumes

01/52

Thousands

		2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Air freight	tonnes	3,712	3,648	–1.7	948	1,014	7.0
of which exports	tonnes	2,109	2,081	–1.3	547	578	5.7
Ocean freight	TEUS[1]	2,930	3,059	4.4	722	783	8.4

[1] Twenty-foot equivalent units.

Slight revenue growth in European overland transport business

In the Freight business unit, revenue rose by 0.8% to €4,274 million in 2016 (previous year: €4,238 million), slowed by negative currency effects of €38 million. Transport volumes increased by 7.5%, driven by e-commerce business in Sweden and less-than-truckload business in Germany. Business restrictions with some members of the CIS region as well as uncertainties in the Middle East continue to impact our performance. Gross profit remained at the prior-year level at €1,101 million.

EBIT improves despite stagnating business performance

EBIT in the division improved significantly in the reporting year, rising from €–181 million to €287 million. In the previous year, EBIT was largely impacted by one-time effects related to NFE totalling €371 million. Gross profit margins in air and ocean freight continued to improve. Positive effects from our strategic initiatives contributed to the increase in earnings. Return on sales rose to 2.1% (previous year: –1.2%). In the fourth quarter of 2016, EBIT increased by 5.1% to €104 million and return on sales to 2.9%.

Net working capital declined in the reporting year thanks to a sustainable improvement in receivables management. Operating cash flow amounted to €248 million (previous year: €487 million).

SUPPLY CHAIN DIVISION

Key figures SUPPLY CHAIN division 01/53

€m

	2015	2016	+/– %	Q4 2015	Q4 2016	+/– %
Revenue	15,791	13,957	–11.6	3,799	3,607	–5.1
of which EMEA (Europe, Middle East and Africa)	9,474	7,336	–22.6	2,152	1,853	–13.9
Americas	4,323	4,454	3.0	1,128	1,170	3.7
Asia Pacific	2,035	2,200	8.1	528	592	12.1
Consolidation/Other	–41	–33	19.5	–9	–8	11.1
Profit from operating activities (EBIT)	449	572	27.4	176	206	17.0
Return on sales (%)[1]	2.8	4.1	–	4.6	5.7	–
Operating cash flow	611	658	7.7	588	520	–11.6

[1] EBIT/revenue.

Revenue impacted by change in NHS recognition and currency effects

Revenue in the division decreased by 11.6% to €13,957 million in the reporting year (previous year: €15,791 million). This decline was due mainly to the change in revenue recognition in connection with the UK National Health Service (NHS) in the fourth quarter of 2015 as a result of the revised terms of the contract. This reporting change reduced revenue by €1,435 million in the year under review. Furthermore, negative currency effects decreased revenue in the reporting period by €707 million. Excluding these effects, revenue growth was 2.0%. Compared with the previous year, the Consumer and Technology sectors achieved the highest revenue growth. Revenue for the fourth quarter declined by 5.1%, from €3,799 million to €3,607 million, impacted by the negative currency effects.

In the EMEA region, revenue increased in the Automotive sector in the reporting year, driven by both higher volumes and new business. By contrast, revenue in the Life Sciences & Healthcare sector declined, reflecting the change in NHS revenue reporting in the UK.

In the Americas region, we gained revenue from new business in the United States, driven predominantly by the Consumer sector.

The highest regional revenue growth was posted in the Asia Pacific region, from both new and additional business. In Australia, Life Sciences & Healthcare sector revenue improved substantially. Revenue also increased in Japan, Hong Kong and Thailand, notably in the Retail and Technology sectors. Growth in Indonesia and Vietnam came primarily from the Consumer and Technology sectors.

SUPPLY CHAIN: revenue by sector and region, 2016 01/54

Total revenue: €13,957 million

of which Retail	25%
Consumer	24%
Automotive	13%
Technology	12%
Life Sciences & Healthcare	10%
Others	7%
Engineering & Manufacturing	5%
Financial Services	4%
of which Europe/Middle East/Africa/Consolidation	52%
Americas	32%
Asia Pacific	16%

New business worth around €1,503 million secured

In 2016, the division concluded additional contracts worth around €1,503 million in annualised revenue with both new and existing customers. The Consumer, Retail, Life Sciences & Healthcare and Automotive sectors accounted for the majority of the gains. The annualised contract renewal rate remained at a consistently high level.

Strategic initiatives stimulate EBIT growth

EBIT in the division was €572 million in the reporting year (previous year: €449 million). The strong EBIT growth was due mainly to positive effects from our strategic initiatives. Return on sales rose to 4.1% (previous year: 2.8%). EBIT was €206 million in the fourth quarter of 2016 (previous year: €176 million).

Operating cash flow increased to €658 million in the reporting year (previous year: €611 million), due principally to a net improvement in EBIT adjusted for non-cash items and working capital levels.

DEUTSCHE POST SHARES

Deutsche Post shares: seven-year overview 01/55

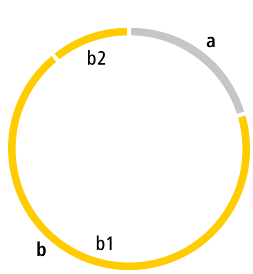
		2010	2011	2012	2013	2014	2015	2016
Year-end closing price	€	12.70	11.88	16.60	26.50	27.05	25.96	31.24
High	€	14.46	13.83	16.66	26.71	28.43	31.08	31.35
Low	€	11.18	9.13	11.88	16.51	22.30	23.15	19.73
Number of shares as at 31 December	millions	1,209.0	1,209.0	1,209.0	1,209.0	1,211.2	1,212.8	1,240.9
Market capitalisation as at 31 December	€m	15,354	14,363	20,069	32,039	32,758	31,483	38,760
Average trading volume per day[1]	shares	5,329,779	4,898,924	4,052,323	4,114,460	4,019,689	4,351,223	3,497,213
Annual performance including dividends	%	−1.4	−1.3	45.6	63.9	5.1	−0.9	23.6
Annual performance excluding dividends	%	−5.9	−6.5	39.7	59.6	2.1	−4.0	20.3
Beta factor[2]		0.95	1.19	0.88	0.86	0.94	0.95	0.97
Earnings per share[3]	€	2.10	0.96	1.36[7]	1.73	1.71	1.27	2.19
Cash flow per share[4]	€	1.59	1.96	−0.17	2.47	2.51	2.84	2.03
Price-to-earnings ratio[5]		6.0	12.4	12.2[7]	15.3	15.8	20.4	14.3
Price-to-cash flow ratio[4,6]		8.0	6.1	−97.6	10.7	10.8	9.1	15.4
Dividend	€m	786	846	846	968	1,030	1,027[8]	1,271[10]
Payout ratio	%	30.9	72.7	51.6	46.3	49.7	66.7[9]	48.2
Dividend per share	€	0.65	0.70	0.70	0.80	0.85	0.85	1.05[10]
Dividend yield	%	5.1	5.9	4.2	3.0	3.1	3.3	3.4

[1] Volumes traded via the Xetra trading venue. [2] Three-year beta; Source: Bloomberg. 3 Based upon consolidated net profit after deduction of non-controlling interests note 19.
[4] Cash flow from operating activities. [5] Year-end closing price/earnings per share. [6] Year-end closing price/cash flow per share. [7] Adjusted to reflect the application of IAS 19R.
[8] Reduction due to the share buyback. [9] Excluding one-off effects (NFE and strike-related effects, disposals and other one-off effects, some of which are based upon assumptions by management): 45.8%. [10] Proposal.

Free float increased

The investment share of our largest investor – KfW Bankengruppe – is 20.5% (previous year: 20.9%) and the free float is 79.5%. Based upon our share register's figures, the share of outstanding stock held by private investors is 10.8% (previous year: 11.3%). In terms of the regional distribution of identified institutional investors, the highest percentage of shares (13.9%) is held by US investors (previous year: 13.5%), followed by the United Kingdom with a share of 12.6% (previous year: 13.3%). The share of institutional investors in Germany increased to 12.4% (previous year: 11.7%). Our 25 largest institutional investors held a total of 41.3% of all issued shares (previous year: 38.2%).

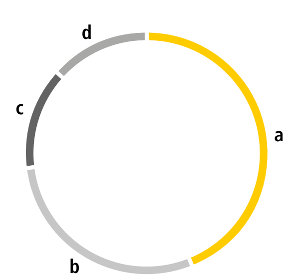
Shareholder structure[1] 01/56



a	KfW Bankengruppe	20.5%
b	Free float	79.5%
b1	Institutional investors	68.7%
b2	Private investors	10.8%

[1] As at 31 December 2016.

Shareholder structure by region[1] 01/57



a	Germany	43.7%
b	Other	29.8%
c	USA	13.9%
d	UK	12.6%

[1] As at 31 December 2016.

NON-FINANCIAL FIGURES

Employees

Human Resources contributes to company success

The primary goal of Human Resources at Deutsche Post DHL Group is to harness the potential of our employees and hire suitable candidates in all countries. In a nurturing work environment we offer our employees a competitive system of reward and recognition. It is in this way that we are able to boost their motivation and thus contribute to the company's long-term success.

Employee Opinion Survey

Our annual Group-wide Employee Opinion Survey comprises 41 questions categorised in ten key performance indicators and one index. The results in all areas showed a positive trend for the year 2016, with scores at or above external benchmarks in nearly all instances. The response rate to this anonymous survey was 74% in the reporting year, one percentage point higher than the prior year.

Selected results from the Employee Opinion Survey 01/58

%

	2015	2016
Response rate	73	74
KPI Active Leadership	73	74
KPI Employee Engagement	73	75

Number of employees continues to rise slightly

As at 31 December 2016, we employed 459,262 full-time equivalents, 1.9% more than in the previous year. The headcount at the end of the year was 508,036.

In the Post - eCommerce - Parcel division, we hired new employees to support the continued strong growth in the parcel business primarily in Germany, Europe, Asia and the USA. In addition to organic growth, the acquisition of UK Mail in particular led to an increase in our workforce in Europe. The number of employees in the Express division increased compared with the previous year. This was necessary mainly in operations, due to the increase in shipment volumes. In the Global Forwarding, Freight division, our workforce declined slightly in the Global Forwarding business unit, primarily in Europe and Asia. The number of employees in the Supply Chain division increased due to new and additional business.

Staff levels were up in nearly all regions. We saw the largest percentage increase in our workforce in the Americas. However, we continue to employ most of our personnel in Germany.

The opportunity for part-time employment was taken by 18% of all employees (previous year: 18%). Over the course of the year, 7.6% of employees left the Group unplanned (previous year: 7.0%).

Our current planning foresees another slight increase in the number of employees in financial year 2017.

Number of employees 01/59

	2015	2016	+/– %
Full-time equivalents			
At year-end[1]	**450,508**	**459,262**	**1.9**
of which Post - eCommerce - Parcel	170,549	175,700	3.0
Express	82,127	84,398	2.8
Global Forwarding, Freight	42,200	41,886	–0.7
Supply Chain	145,032	146,739	1.2
Corporate Center/Other	10,600	10,539	–0.6
of which Germany	173,042	174,537	0.9
Europe (excluding Germany)	109,646	113,104	3.2
Americas	76,666	79,347	3.5
Asia Pacific	72,723	73,979	1.7
Other regions	18,431	18,295	–0.7
Average for the year[2]	**449,910**	**453,990**	**0.9**
Headcount			
At year-end[2]	**497,745**	**508,036**	**2.1**
Average for the year	**492,865**	**498,459**	**1.1**
of which hourly workers and salaried employees	451,882	459,990	1.8
Civil servants	35,669	32,976	–7.5
Trainees	5,314	5,493	3.4

[1] Excluding trainees.
[2] Including trainees.

Staff costs at prior-year level

At €19,592 million, staff costs were at the prior-year level (€19,640 million). Details can be found in note 14 to the consolidated financial statements.

Adequately compensating performance

One key factor for us as an attractive employer is our performance-related and market-based compensation which supports the company's long-term requirements. For example, in many countries we provide supplements for defined benefit and defined contribution retirement plans and enable access to health insurance.

Using a job grading system, we ensure that our remuneration structures are fair and balanced. Position grades are based exclusively upon job category and responsibilities.

Age-based and secure working conditions

In response to the rising average age in Germany, the Generations Pact was concluded between Deutsche Post AG and the trade unions in 2011. The pact was again a success in the reporting year: 22,801 employees now have the required working-time accounts and 3,718 have entered partial retirement. Since 2016, we have been offering comparable arrangements for civil servants, 2,923 of whom have established a lifetime working account and 589 have entered partial retirement.

In addition, a collective agreement for modifying the retirement plan was reached at Deutsche Post AG during the reporting year: we are introducing pension fund components for around 130,000 employees subject to collective agreements, which in future will offer the option of receiving an annuity or a lump-sum payment.

Targeted employee development

We are developing our employees into certified specialists through our Group initiative "Certified". The modular programme ranges from basic Group and industry knowledge to specific skills associated with a division and function. By 2020, we aim to have certified around 80% of our workforce.

Our cross-divisional Certified Logistics Leader Programme is specially designed for managers. It promotes the exchange of dialogue about the future challenges of the company as well as the role the managers play in shaping the future.

Deutsche Post DHL Group offers young people in Germany training opportunities in over 15 state-accredited apprenticeship schemes as well as twelve dual-study programmes. In 2016, we offered 2,458 apprenticeships and study opportunities; in 2017, we shall increase this offer to 2,472.

Living diversity

People from various cultures, with different points of view and skills, work together at all levels of our Group. This diversity makes us attractive for customers and employees and bolsters our innovative strength. As set out in our Code of Conduct, we place value on inclusion and equal opportunity.

In the reporting year, we enhanced our diversity KPI monitoring system and illustrated the contribution diversity makes to our company's success by means of individual examples. The Diversity Council met regularly and, amongst other things, discussed measures that are suitable for increasing the number of women in executive positions.

As at 31 December 2016, the proportion of women in management worldwide was 21.1% (previous year: 20.7%), a figure we intend to raise continuously. Divisional programmes, the annual process to identify high-potential individuals, women's networks as well as options for improving work-family balance, will contribute to this.

Health and safety

Bolstering health

Our business success depends largely on the potential of our employees to perform to the best of their abilities. Therefore, we want to strengthen their physical, mental and social well-being, above all through prevention.

The Group-wide employee benefits programme offers supplements to state health insurance in many countries. In some cases it even enables initial access to affordable healthcare.

The worldwide illness rate was 5.1% in the reporting year (previous year: 5.1%).

Ensuring occupational safety

In order to create a culture in the workplace where safety always comes first, we implemented a series of preventive measures in the reporting year. Executives received training, employees were instructed in occupational safety, and overall awareness was raised regarding safety risks and hazard potential.

The OHSAS 18001 standard is our Group-wide guideline for the implementation of occupational health and safety conditions in the workplace, and we are continuously increasing the number of certified locations.

Workplace accidents 01/60

	2015	2016
Accident rate (number of accidents per 200,000 hours worked)[1]	4.0	4.0
Working days lost per accident[1]	15.6	14.8
Number of fatalities due to workplace accidents	6	4
of which as a result of traffic accidents	1	2

[1] Coverage: around 96%.

Corporate responsibility

Responsibility as a guiding principle

As part of our corporate strategy, we have made it our goal to be a benchmark company for responsible business. We have codified responsibility in our Code of Conduct, which is guided by both the principles of the Universal Declaration of Human Rights and the United Nations Global Compact and adheres to recognised legal standards. We also support the United Nation's sustainable development goals. The main focus areas of our sustainability management are described in our Corporate Responsibility Report, dpdhl.com/cr-report2016.

Responsible business practices ensure our business operates in compliance with applicable laws, ethical standards and international guidelines. We co-ordinate the main aspects and issues via our Group-wide Responsible Business Practice network. Through on-going dialogue with our stakeholders, we ensure that their expectations as regards social and environmental issues are accounted for appropriately and that our business is aligned systematically with their interests. In the reporting year, we established a guideline and process for dealing with critical issues and handling relevant inquiries.

We use our expertise as a mail and logistics services group for the benefit of society and the environment, and we motivate our employees to engage in volunteer work. We provide logistical support in the wake of natural disasters, are committed to the educational and professional development of socially disadvantaged young people and support local environmental protection and aid projects. In 2016, we continued our initiative to integrate refugees in Germany by providing assistance with language and job skills.

Measures to increase carbon efficiency and environmentally friendly GoGreen services help us to fulfil our responsibility towards the environment and society, and to create added value for our customers whilst strengthening our market position. During the reporting year, our efforts focused on efficiency measures for our vehicle fleet, small-series production of our StreetScooter electric vehicle and the introduction of a new model with twice the loading capacity and a wider range than existing vehicles.

Climate protection target achieved

We have anchored climate protection throughout the entire Group with the help of our GoGreen environmental protection programme. Our GoGreen products and services also help customers achieve their own environmental targets, whilst concurrently opening up new business opportunities for the company.

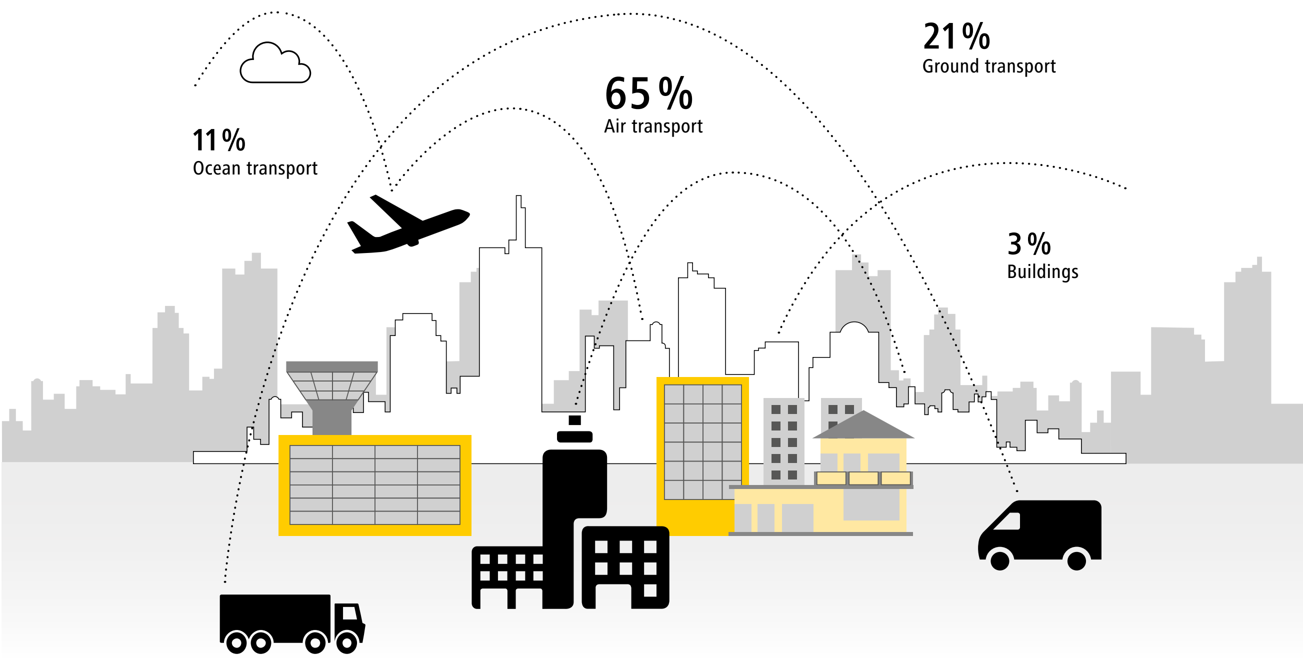
In order to measure and manage our carbon efficiency, we make use of a carbon efficiency index (CEX), page 34. In 2016, our direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions amounted to 6.05 million tonnes of CO_2e (previous year: 6.05 million tonnes of CO_2e). The indirect greenhouse gas emissions (Scope 3) of our transport subcontractors amounted to 20.87 million tonnes of CO_2e (previous year, adjusted: 20.97 million tonnes of CO_2e).

In the reporting year, we adjusted the weighting of the carbon efficiencies of the divisions, which are included in the CEX calculation. As previously, the weighting is calculated using absolute CO_2 emissions; but now they are adjusted for efficiency gains. The figures from the base year 2007 until 2015 have been uniformly adjusted accordingly. For this period, the cumulative effect was four index points and the CEX for 2015 is therefore 29 index points. In 2016, we achieved our goal of increasing the CEX by one index point.

Thus we achieved our Group-wide target of improving our carbon efficiency by 30% compared with 2007 by the year 2020. On this basis we have set ourselves new targets, which we present in detail, along with other information, in our Corporate Responsibility Report, dpdhl.com/cr-report2016.

CO_2e emissions, 2016 01/61

Total: 26.92 million tonnes[1]



[1] Scopes 1 to 3.

Fuel and energy consumption in own fleet and buildings 01/62

		2015	2016
Consumption by fleet			
Air transport (jet fuel)	million kilograms	1,312.8	1,332.5
Road transport (petrol, bio-diesel, diesel, bio-ethanol, LPG)	million litres	449.1	447.2
Road transport (biogas, CNG)	million kilograms	4.9	4.5
Energy for buildings and facilities (including electric vehicles)	million kilowatt hours	3,113	3,489

Customers and quality

Facts and figures, customers and quality 01/63

94% D+1
Letters delivered within Germany the day after posting.

APPROXIMATELY 290
locations certified by the Transported Asset Protection Association (TAPA).

Open 53 hours
Average weekly opening time of around 27,000 sales points in Germany.

MAIL AND PARCEL BUSINESS

DHL BUSINESS UNITS

Net Promoter Approach
Continuously turning criticism into improvements.

93.8% SATISFIED CUSTOMERS
According to independent market study *Kundenmonitor Deutschland.*

MYDHL PORTAL
Allowing business customers to easily send express items.

TÜV-certified
Certified external system for measuring mail transit times (end-to-end) and internal system for measuring parcel transit times.

OVER 2,000 ELECTRIC VEHICLES
put into operation in 2016.

Insanely Customer Centric Culture
Keeping a constant eye on customer requirements.

CUSTOMER IMPROVEMENT PROJECTS
Around 100 improvement initiatives successfully implemented in 2016.

Sending mail and parcels quickly and reliably

Our customers rate the quality of our services based upon whether posted items reach their destinations quickly, reliably and undamaged. According to surveys conducted by Quotas, a quality research institute, 94% of the domestic letters posted in Germany during our daily opening hours or before final collection are delivered to their recipients the next day. Around 99% reach their recipients within two days. This puts us well above the legal requirements of 80% (D+1) and 95% (D+2). The Quotas measuring system is audited and certified each year by TÜV Rheinland for compliance with EN 13850 requirements. Transit times for international letters are determined by the International Post Corporation. Here, we rank amongst the top postal companies.

In the parcel business, 86% of items reach their recipients the next working day. This is based upon parcels that were collected from business customers and that were delivered the next day. Our internal system for measuring parcel transit times has been certified by TÜV Rheinland since 2008.

In our mail business, we have, to date, achieved a high level of automation that exceeds 90%. In our parcel network, we have increased our sorting capacity by 50% since the launch of our Parcel Production Concept in 2012 by increasing productivity in our existing facilities and expanding our infrastructure nationwide. With 34 parcel centres now in operation, our sorting capacity is over one million parcels per hour. More than 70 mechanised delivery bases support our operations.

The average weekly opening time of our around 27,000 sales points was, as in the previous year, 53 hours. The annual survey conducted by *Kundenmonitor Deutschland*, the largest consumer study in Germany, showed a high acceptance of our exclusively partner-operated retail outlets: 93.8% of customers were satisfied with our quality and service (previous year: 91.5%). In addition, impartial mystery shoppers from TNS Infratest tested the postal outlets in retail stores around 31,000 times over the year. The result showed that 93.7% of customers were served within three minutes (previous year: 93.4%).

Another central characteristic of the quality of our products is environmental protection, which we describe in our Corporate Responsibility Report, dpdhl.com/cr-report2016. In the area of electric mobility, which is strategically important to us, we put over 2,000 vehicles into operation in the reporting year and began to transfer our delivery operations in Bochum, Cologne, Stuttgart and Hamburg completely to these vehicles.

Service quality and the insanely customer centric culture in express business

As a global network operator that applies standardised processes, we are consistently optimising our service to keep customer commitments, respond specifically to their wishes and always deliver the best possible quality. Therefore, we keep a constant eye on the changing requirements of our customers, for example, through our Insanely Customer Centric Culture (ICCC) programme and as part of the Net Promoter Approach. Our managers talk to dissatisfied customers personally in order to find out the root causes of their dissatisfaction. Customer criticism thereby translates continuously into improvements.

Via the MyDHL portal and the Small Business Solution section on our website, small and medium-sized business customers in particular can ship their goods with ease and obtain comprehensive information about shipping.

In Europe, we can provide our global customers with a central point of contact with our European Key Account Support. Upon request, shipment information can even be updated directly in the customers' systems.

We use quality control centres to track shipments worldwide and adjust our processes dynamically as required. All our premium products are tracked by default – for example, Medical Express shipments – until they are delivered.

As of the reporting year, more customers can track their shipments as well as choose the delivery time and location on mobile devices. The On Demand Delivery Service increases the first delivery success rate. The new Service Point Locator virtually directs shippers to the closest service point and provides information regarding its services; when used within the app, track and trace functionality is also available.

Our operational safety, compliance with standards and the quality of service at our facilities are reviewed regularly in co-operation with government authorities. Approximately 290 locations – over 100 of which are in Europe – have been certified by the Transported Asset Protection Association (TAPA), one of the world's most renowned safety associations, making us the leader in this field. Our sites have had global ISO 9001:2008 certification since 2013, which was renewed in 2016, thus validating our policy of harmonising quality standards. In addition, in specific regions and countries we were certified or re-certified in the areas of environmental protection and energy management, which we describe in our @ Corporate Responsibility Report, dpdhl.com/cr-report2016.

Customer feedback systematically improves forwarding business

In the Global Forwarding business unit, we use customer feedback to systematically improve our offering. The ongoing customer response that we collect via the Net Promoter Approach has again generated specific feedback. In 2016, we expanded the contents of the survey and implemented it in over 50 countries.

We have more than 200 initiatives to improve the service we provide. In the reporting year, around 100 of these Customer Improvement Projects visibly improved our punctuality, reporting and invoicing. Various measures were implemented to ensure that our operating performance in the Global Forwarding business unit is reviewed and improved continuously. For example, we have already introduced routine performance dialogues for more than 80 % of our core team. These dialogues help us detect problems early and resolve them using structured problem-solving techniques.

In light of our goal of delivering the best customer experience in the industry, the Freight business unit has tested a new website, with a special focus on accessibility for customers and partners via mobile devices. We further enhanced our product portfolio, especially in the area of multimodal solutions.

Quality leader in contract logistics

We aim to be the quality leader in contract logistics. By applying standardised operations and solutions supported by champions in all our sites, we ensure that we meet and exceed customers' quality expectations.

In the reporting year we replaced our annual telephone surveys regarding customer satisfaction with shorter, more frequent online surveys.

As part of our operations excellence programme, we have defined uniform operating standards and introduced a Service Quality KPI that routinely measures whether our locations are meeting service level commitments.

Brands

Brand architecture 01/64

Group	Deutsche Post DHL Group			
Divisions	Post - eCommerce - Parcel	Express	Global Forwarding, Freight	Supply Chain
Brands	Deutsche Post	DHL		

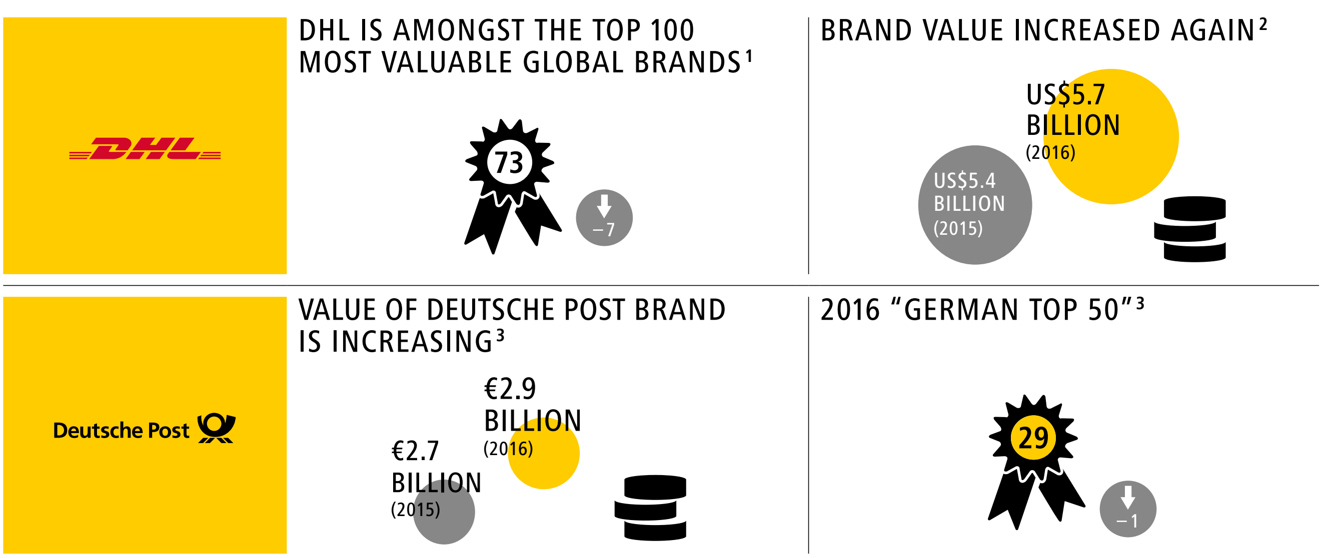
Strong brands as a factor for success

In 2016, independent research institutions again testified to the high reputation enjoyed by the Deutsche Post DHL Group brands.

The DHL brand was valued at US$5.7 billion by the consulting company Interbrand (previous year: US$5.4 billion). This moves DHL up three places to 77th on the Interbrand list of Best Global Brands. The study looks at financial figures as well as market and consumer research data. Market research institute Millward Brown uses a similar system to rank the world's most valuable brands each year. The DHL brand was ranked 73rd (previous year: 66th place) in its list of the Top 100 Most Valuable Global Brands with a brand value of US$13.2 billion (previous year: US$16.3 billion). Millward Brown's current ranking is based on the 2015 figures and a weaker dollar rate than in the previous year, and is comparable with the ranking from 2014 (US$13.7 billion, 73rd place). A representative survey commissioned by the Group and covering twelve countries on four continents indicates an increase in DHL brand recognition amongst decision makers to 95% (previous year: 94%).

Consulting company Brand Finance valued our domestic Deutsche Post brand at €2.9 billion in the reporting year (previous year: €2.7 billion). This puts the Deutsche Post brand in 29th place in the German Top 50 (previous year: 28th place). Interbrand did not rank any German brands in

Value of Group brands in 2016 01/65



[1] Source: Millward Brown, 2016.
[2] Source: Interbrand, 2016.
[3] Source: Brand Finance, 2016.

the year under review. In 2015, Deutsche Post was ranked 30th amongst the most valuable German brands with a brand value of €979 million.

Advertising and partnerships boost the DHL brand

Trade and logistics can improve people's lives. This is the guiding theme under which DHL has continued the brand campaign begun in the previous year. Print and online advertising, TV commercials and social media activities serve to emotionalise the brand experience both worldwide and in key domestic markets.

DHL also acts as a partner in high-profile events with the objective of improving the reputation and awareness of its brand. During the reporting year, logistics partnerships, some of them long-standing, were continued such as Formula 1®, Formula E and the MotoGP™ world motorcycle racing series. We also continued our proven global DHL logistics partnerships with FC Bayern Munich, Fashion Week events, Cirque du Soleil and *Gewandhausorchester Leipzig*.

Marketing expenditures, 2016 01/66

Volume: around €385 million

Product development and communication	57.1%
Other	23.0%
Public & customer relations	14.1%
Corporate wear	5.8%

Sports sponsorships put the Deutsche Post brand in the public eye

Deutsche Post sponsors popular national sporting events to increase the emotional charge of its brand. The strategic partnership with the *Deutscher Fußball-Bund* (DFB – German football federation) remained the focus of its sport sponsoring activities in the reporting year. Deutsche Post was involved with the German national football team and the DFB tournament as well as amateur football leagues and the FUSSBALL.DE platform. We have also continued our partnership with the *Deutsche Tourenwagen-Masters* (DTM – German Touring Car Masters) racing series.

OPPORTUNITIES AND RISKS

Overall Board of Management assessment of the opportunity and risk situation

Identifying and swiftly capitalising upon opportunities and counteracting risks are important objectives for our Group. We already account for the anticipated impact of potential events and developments in our business plan. Opportunities and risks are defined as potential deviations from projected earnings. In consideration of our current business plan, the Group's overall opportunity and risk situation has not changed significantly compared with last year's risk report. No new risks have been identified that could have a potentially critical impact upon the Group's result. Based upon the Group's early warning system and in the estimation of its Board of Management, there were no identifiable risks for the Group in the current forecast period which, individually or collectively, cast doubt upon the Group's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future. The assessment of a stable to positive outlook is moreover reflected in the Group's credit ratings, as found on page 55.

Opportunity and risk management

Uniform reporting standards for opportunity and risk management

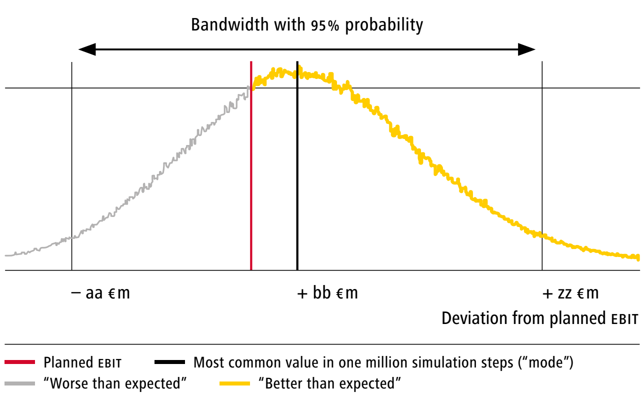
As an internationally operating logistics company, we are facing numerous changes. Our aim is to identify the resulting opportunities and risks at an early stage and take the necessary measures in the specific areas affected in due time to ensure that we achieve a sustained increase in enterprise value. Our Group-wide opportunity and risk management system facilitates this aim. Each quarter, managers estimate the impact of future scenarios, evaluate opportunities and risks in their departments and present planned measures as well as those already taken. Queries are made and approvals given on a hierarchical basis to ensure that different managerial levels are involved in the process. Opportunities and risks can also be reported at any time on an ad hoc basis.

Our early identification process links the Group's opportunity and risk management with uniform reporting standards. We continuously improve the IT application used for this purpose. Furthermore, we use a Monte Carlo simulation for the purpose of aggregating opportunities and risks in standard evaluations.

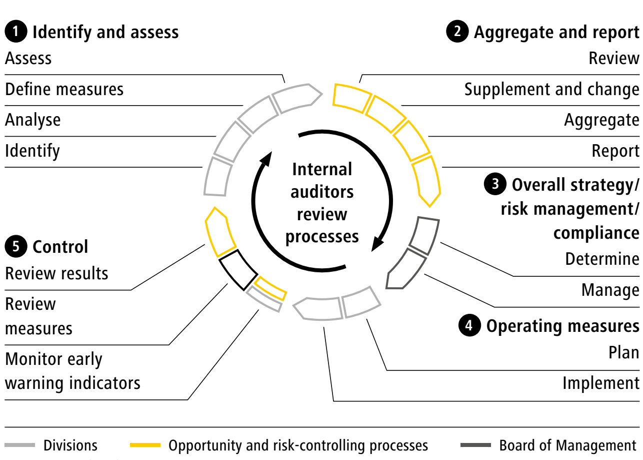
The simulation is a stochastic model that takes the probability of occurrence of the underlying risks and opportunities into consideration and is based upon the law of large numbers. One million randomly selected scenarios – one for each opportunity and risk – are combined on the basis of the distribution function of each individual opportunity and risk. The resulting totals are shown in a graph of frequency of occurrence. The following graph shows an example of such a simulation:

Monte Carlo simulation 01/67

Frequency of occurrence
in one million simulation steps (incidence density)



Opportunity and risk management process 01/68



The most important steps in our opportunity and risk management process are:

1. **Identify and assess:** Managers in all divisions and regions evaluate the opportunity and risk situation on a quarterly basis and document the action taken. They use scenarios to assess best, expected and worst cases. Each identified risk is assigned to one or more managers who assess and monitor the risk, specify possible procedures for going forwards and then file a report. The same applies to opportunities. The results are compiled in a database.
2. **Aggregate and report:** The controlling units collect the results, evaluate them and review them for plausibility. If individual financial effects overlap, they are noted in our database and taken into account when compiling them. After being approved by the department head, all results are passed on to the next level in the hierarchy. The last step is complete when Corporate Controlling reports to the Group Board of Management on significant opportunities and risks as well as on the potential overall impact each division might experience. For this purpose, opportunities and risks are aggregated for key organisational levels. We use two methods for this. In the first method, we calculate a possible spectrum of results for the divisions and combine the respective scenarios. The totals for "worst case" and "best case" indicate the total spectrum of results for the respective division. Within these extremes, the total "expected cases" shows current expectations. The second method makes use of a Monte Carlo simulation, the divisional results of which are regularly included in the opportunity and risk reports to the Board of Management.
3. **Overall strategy:** The Group Board of Management decides on the methodology that will be used to analyse and report on opportunities and risks. The reports created by Corporate Controlling provide an additional, regular source of information to the Board of Management for the overall steering of the Group.

4. **Operating measures:** The measures to be used to take advantage of opportunities and manage risks are determined within the individual organisational units. They use cost-benefit analyses to assess whether risks can be avoided, mitigated or transferred to third parties.
5. **Control:** For key opportunities and risks, early warning indicators have been defined that are monitored constantly by those responsible. Corporate Internal Audit has the task of ensuring that the Board of Management's specifications are adhered to. It also reviews the quality of the entire opportunity and risk management operation. The control units regularly analyse all parts of the process as well as the reports from Internal Audit and the independent auditors, with the goal of identifying potential for improvement and making adjustments where necessary.

Internal accounting control and risk management system

(Disclosures required under section 315 (2), no. 5 of the *Handelsgesetzbuch* (HGB – German Commercial Code) and explanatory report)

Deutsche Post DHL Group uses an internal control system (ICS) to ensure that Group accounting adheres to generally accepted accounting principles. The system is intended to make sure that statutory provisions are complied with and that both internal and external accounting provide a valid depiction of business processes in figures. All figures must be entered and processed accurately and completely. Accounting mistakes are to be avoided in principle and significant assessment errors uncovered promptly.

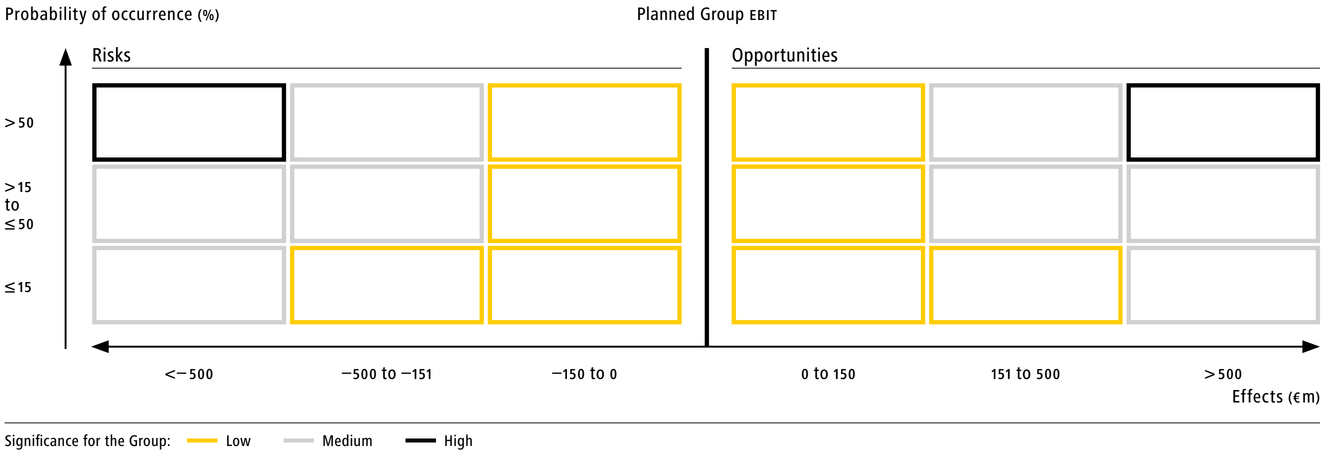
The ICS design comprises organisational and technical measures that extend to all companies in the Group. Centrally standardised accounting guidelines govern the reconciliation of the single-entity financial statements and ensure that international financial reporting standards (EU IFRSs) are applied in a uniform manner throughout the Group. All Group companies are required to use a standard chart of accounts. We immediately assess new developments in international accounting for relevance and announce their implementation in a timely manner, in monthly newsletters, for example. Often, accounting processes are pooled in a shared service centre in order to centralise and standardise them. The IFRS financial statements of the separate Group companies are recorded in a standard, SAP-based system and then processed at a central location where one-step consolidation is performed. Other ICS components include automatic plausibility reviews and system validations of the accounting data. In addition, regular, manual checks are carried out decentrally by those responsible at the local level (a chief financial officer, for example), and centrally by Corporate Accounting & Controlling, Taxes and Corporate Finance at the Corporate Center.

Over and above ICS and risk management, Corporate Internal Audit is an essential component of the Group's control and monitoring system. Using risk-based auditing procedures, Corporate Internal Audit regularly examines the processes related to financial reporting and reports its results to the Board of Management. The data reported are checked and analysed chronologically, both upstream and downstream. If necessary, we call in outside experts. Finally, the Group's standardised process for preparing financial statements using a centrally administered financial statements calendar guarantees a structured and efficient accounting process.

Reporting and assessing opportunities and risks

In the following, we have reported mainly on those risks and opportunities which, from the current standpoint, could have a significant impact upon the Group during the forecast period beyond the impact already accounted for in the business plan. The risks and opportunities have been assessed in terms of their probability of occurrence and their impact. The assessment is used to classify the opportunities and risks into those of low, medium or high relevance. We characterise opportunities and risks of high or medium relevance as significant, shown as black or grey in table 01/69. The following assessment scale is used:

Classification of risks and opportunities 01/69



The opportunities and risks described here are not necessarily the only ones the Group faces or is exposed to. Our business activities could also be influenced by additional factors of which we are currently unaware or which we do not yet consider to be material.

Opportunities and risks are identified and assessed decentrally at Deutsche Post DHL Group. Reporting on possible deviations from projections, including latent opportunities and risks, occurs primarily at the country or regional level. In view of the degree of detail provided in the internal reports, we have combined the decentrally reported opportunities and risks into the categories shown below for the purposes of this report. It should be noted that the underlying individual reports – with the exception of opportunities and risks associated with the world economy and global economic output – usually exhibit a zero to minimal correlation. Beyond these it is unlikely that several major opportunities or risks would occur systematically at the same time in a single category or across categories.

Unless otherwise specified, a low relevance is attached to individual opportunities and risks within the respective categories and in the forecast period under observation (2017). The opportunities and risks generally apply for all divisions, unless indicated otherwise.

Categories of opportunities and risks

Opportunities and risks arising from political, regulatory or legal conditions

A number of risks arise primarily from the fact that the Group provides some of its services in a regulated market. Many of the postal services rendered by Deutsche Post AG and its subsidiaries (particularly the Post - eCommerce - Parcel division) are subject to sector-specific regulation by the *Bundesnetzagentur* (German federal network agency), Glossary, page 181, pursuant to the *Postgesetz* (PostG – German Postal Act), Glossary, page 181. The *Bundesnetzagentur* approves or reviews prices, formulates the terms of downstream access and has special supervisory powers to combat market abuse.

In a judgement dated 14 July 2016, the General Court of the European Union (EGC) set aside the European Commission's state aid decision dated 25 January 2012 in an action brought by the Federal Republic of Germany. In its state aid decision, the European Commission had argued that the financing of civil servant pensions in part constituted unlawful state aid that had to be repaid to the federal government. We have described this in detail in the 2015 Annual Report in notes 49 and 51 to the consolidated financial statements, dpdhl.com/en/investors. In their actions, Deutsche Post AG and the federal government asserted that the state aid decision was unlawful. The EGC has now followed this argument in the action brought by the federal government. The action brought by Deutsche Post AG is still pending. Since the European Commission did not file an appeal against the EGC's judgement dated 14 July 2016, that decision is now legally binding. The state aid decision of the European Commission is therefore null and void with final effect and there are no longer any grounds for the obligation to repay the alleged state aid under the state aid decision. The amount of €378 million deposited in a trustee account has been released.

We describe other significant legal proceedings in note 48. However, we do not see these proceedings posing a risk of significant deviation from plan for the forecast period 2017.

Macroeconomic and industry-specific opportunities and risks

Macroeconomic and sector-specific conditions are a key factor in determining the success of our business. For this reason, we pay close attention to economic trends in the regions. For example, possible changes in US economic policy and the UK's anticipated petition to leave the EU could have an influence that is currently not foreseeable. Despite the volatile economic climate, demand for logistics services rose in 2016, as did the related revenues.

A variety of external factors offer us numerous opportunities; indeed we believe that the global market will continue to grow. Advancing globalisation and further world economic growth mean that the logistics industry will continue to expand. This is especially true of Asia, where trade flows to other regions and in particular within the continent will continue to increase. As the market leader, the expansion will benefit us with our DHL divisions to an above-average extent. This also applies to other countries in regions with strong economic growth such as South America and the Middle East, where we are similarly well positioned to take advantage of the market opportunities arising.

Whether and to what extent the logistics market will grow depends on a number of factors.

The trend towards outsourcing business processes continues. Supply chains are becoming more complex and more international, but are also more prone to disruption. Customers are therefore calling for stable, integrated logistics solutions, which is what we provide with our broad-based service portfolio. We continue to see growth opportunities in this area, in particular in the Supply Chain division and as a result of closer co-operation between all our divisions.

The booming online marketplace represents another opportunity for us in that it is creating demand for transporting documents and goods. The B2C market, Glossary, page 181, is experiencing double-digit growth, particularly due to the rapid rise in digital retail trade. This has created high growth potential for the domestic and international parcel business, which we intend to tap into by expanding our parcel network.

We are nonetheless unable to rule out the possibility of an economic downturn in specific regions or a stagnation or decrease in transport quantities. However, this would not reduce demand in all business units. Indeed, the opposite effect could arise in the parcel business, for example, as a result of more frequent online purchasing amongst consumers. Companies might also be forced to outsource transport services in order to lower costs. Cyclical risks can affect our divisions differently with respect to magnitude as well as point in time, which may mitigate the total effect. Therefore, we consider these to be medium-level risks. Moreover, we have taken measures in recent years to make costs more flexible and to allow us to respond quickly to a change in market demand.

Deutsche Post and DHL are in competition with other providers. Such competition can significantly impact our customer base as well as the levels of prices and margins in our markets. In the mail and logistics business, the key factors for success are quality, customer confidence and competitive prices. Thanks to the high quality we offer, along with the cost savings we have generated in recent years, we believe that we shall be able to remain competitive and keep any negative effects at a low level.

Financial opportunities and risks

As a global operator, we are inevitably exposed to financial opportunities and risks. These are mainly opportunities or risks arising from fluctuating exchange rates, interest rates and commodity prices and the Group's capital requirements. We attempt to reduce the volatility of our financial performance due to financial risk by implementing both operational and financial measures.

Opportunities and risks with respect to currencies may result from scheduled foreign currency transactions or those budgeted for the future. Significant currency risks from budgeted transactions are quantified as a net position over a rolling 24-month period. Highly correlated currencies are consolidated in blocks. Some of the identified risks are hedged using derivatives. The most important net surpluses are budgeted at the Group level in the "US dollar block", pound sterling, Japanese yen and Indian rupee. The Czech crown is the only currency with a considerable net deficit. By offsetting the net deficit in US dollars with surpluses in other highly correlated currencies, the net risk in the "US dollar block" at the Group level is reduced and thus only managed selectively. The average hedging level of all main currencies for the year 2017 was approximately 52% as at the reporting date.

A potential general devaluation of the euro presents an opportunity for the Group's earnings position. Based upon current macroeconomic estimates, we consider this opportunity to be of low relevance. The main risk to the Group's earnings position would be a general appreciation of the euro. The significance of this is deemed low when considering the individual risks arising from the performance of the respective currencies.

The overall risk of all these currency effects is currently deemed to be of low relevance for the Group. This means a downgrade compared with the previous year. In the 2015 Annual Report, the risk for 2016 was considered to be of medium relevance.

As a logistics group, our biggest commodity price risks result from changes in fuel prices (kerosene, diesel and marine diesel). In the DHL divisions, most of these risks are passed on to customers via operating measures (fuel surcharges). We have entered into noteworthy hedging transactions for the purchase of diesel in the Post - eCommerce - Parcel division.

The key control parameters for liquidity management are the centrally available liquidity reserves. Deutsche Post DHL Group had central liquidity reserves of €3.9 billion as at the reporting date, consisting of central financial investments amounting to €1.9 billion plus a syndicated credit line of €2 billion. The Group's liquidity is therefore sound in the short and medium term. Moreover, the Group enjoys open access to the capital markets on account of its good ratings within the industry, and is well positioned to secure long-term capital requirements.

The Group's net debt amounted to €2.3 billion at the end of 2016. The share of financial liabilities with short-term interest rate lock-ins in the total financial liabilities in the amount of €6.0 billion was approximately 24%.

Further information on the Group's financial position and finance strategy as well as on the management of financial risks can be found in the report on the economic position and in note 45.

Opportunities and risks arising from corporate strategy

Over the past few years, the Group has ensured that its business activities are well positioned in the world's fastest-growing regions and markets. We are also constantly working to create efficient structures in all areas to enable us to flexibly adapt capacities and costs to demand – a prerequisite for lasting, profitable business success. With respect to strategic orientation, we are focusing upon our core competencies in the mail and logistics businesses with an eye towards growing organically and simplifying our processes for the benefit of our customers. Digitalisation plays a key role in this. Our digital transformation involves the integration of new technologies into a corporate culture that uses the changing environment to its advantage. Opportunities arise, for example, from new infrastructure networking possibilities as well as digital business models. Our earnings projections regularly take account of development opportunities arising from our strategic orientation.

Risks arising from the current corporate strategy, which extends over a long-term period, are considered to be of low relevance for the Group in the period under review. The divisions face the following special situations:

In the Post - eCommerce - Parcel division, we are responding to the challenges presented by the structural change from a physical to a digital business. We are counteracting the risk arising from changing demand by expanding our range of services. Due to the e-commerce boom, we expect our parcel business to continue growing robustly in the coming years and are therefore extending our parcel network. We are also expanding our range of electronic communications services, securing our standing as the quality leader and, where possible, making our transport and delivery costs more flexible. We follow developments in the market very closely and take these into account in our earnings projections. For the specified forecast period, we do not see these developments as having significant potential to impact our business negatively.

In the Express division, our future success depends above all upon general factors such as trends in the competitive environment, costs and quantities transported. After having spent recent years successfully restructuring and further developing our business, we are focusing upon fostering growth in our international business. We expect a further increase in shipment volumes. Based upon this assumption, we are investing in our network, our services, our employees and the DHL brand. Against the backdrop of the past trend and the overall outlook, we do not see any significant strategic opportunities or risks for the Express division beyond those reported in the section on "Opportunities and risks arising from macroeconomic and industry-specific conditions".

In the Global Forwarding, Freight division, we purchase transport services from airlines, shipping companies and freight carriers rather than providing them ourselves. In the best-case scenario, we succeed in sourcing transport services on a cost-effective basis. We thus have the opportunity of generating higher margins. In the worst-case scenario, we bear the risk of not being able to pass on all price increases to our customers. The extent of the opportunities and risks essentially depends on trends in the supply, demand and price of transport services as well as the duration of our contracts. Comprehensive knowledge in the area of brokering transport services helps us to capitalise on opportunities and minimise risk.

In the Supply Chain division, we provide customers in a variety of industries with solutions along the entire logistics chain. Our success is highly dependent on our customers' business success. Since we offer customers a widely diversified range of products in different sectors all over the world, we can diversify our risk portfolio and thus counteract the incumbent risks. Moreover, our future success also depends on our ability to continuously improve our existing business and to grow in our most important markets and customer segments. We do not see any significant strategic opportunities or risks for the Supply Chain division beyond those reported in the section entitled "Opportunities and risks arising from macroeconomic and industry-specific conditions".

Opportunities and risks arising from internal processes

For us to render our services, a number of internal processes must be aligned. These include – in addition to the fundamental operating processes – supporting functions such as sales and purchasing as well as the corresponding management processes. The extent to which we succeed in aligning our internal processes to meet customer needs whilst simultaneously lowering costs correlates with potential positive deviations from the current projections. We are steadily improving internal processes with the help of our First Choice initiatives. This improves customer satisfaction whilst reducing our costs. Our earnings projection already incorporates expected cost savings.

Logistics services are generally provided in bulk and require a complex operational infrastructure with high quality standards. To consistently guarantee reliability and punctual delivery, processes must be organised so as to proceed smoothly with no technical or personnel-related glitches. Any weaknesses with regard to the tendering, sorting, transport, warehousing or delivery of shipments could seriously compromise our competitive position. To enable us to identify possible disruptions in our workflows and take the necessary measures at an early stage, we have developed a global IT platform that depicts and integrates our global supply chains and locations. Near real-time information on incidents relevant to security flows into the system, which in cases of disruption also serves as a central communications platform. This poses a competitive advantage that has already met with a high degree of interest from both security agencies and customers.

Opportunities and risks arising from information technology

The security of our information systems is particularly important to us. The goal is to ensure continuous IT system operation and prevent unauthorised access to our systems and databases. To fulfil this responsibility, the Information Security Committee, a sub-committee of the IT Board, has defined guidelines, standards and procedures based upon ISO 27002, the international standard for information security management. In addition, Group Risk Management, IT Audit, Data Protection and Corporate Security monitor and assess IT risk on an on-going basis. For our processes to run smoothly at all times, the essential IT systems must be constantly available. We ensure this by designing our systems to protect against complete system failures. In addition to third-party data centres, we operate central data centres in the Czech Republic, Malaysia and the United States. Our systems are thus geographically separate and can be replicated locally.

We limit access to our systems and data such that employees can only access the data they need to perform their duties. All systems and data are backed up on a regular basis, and critical data are replicated across data centres.

All of our software is updated regularly to address bugs, close potential gaps in security and increase functionality. We employ a patch management process – a defined procedure for managing software upgrades – to control risks that could arise from outdated software or from software upgrades.

Based upon the measures described above, we estimate the probability of experiencing a significant IT incident with serious consequences as highly unlikely.

In terms of our E-POST products – in particular E-Postbrief – the E-Post platform was re-certified by the German Federal Office for Information Security in accordance with its standards for *IT-Grundschutz* following completion of the 2016 annual audit. The E-Post platform was also re-certified by TÜV Informationstechnik GmbH pursuant to trusted site privacy criteria and thus complies with both legal and data protection requirements.

Opportunities and risks arising from human resources

It is essential for us to have qualified and motivated employees in order to achieve long-term success. However, demographic change could lead to a decrease in the pool of available talent in various markets. We respond to this risk with measures designed to motivate our employees as well as promote their development.

We use Strategic Resource Management to address the risks arising from an ageing population and the capacity shortages that may result from changing demographic and social structures. The experience gained is used to continuously improve strategic resource management as an analysis and planning instrument. The Generations Pact, page 68, agreed upon with trade unions in Germany also contributes to taking advantage of the career experience of employees for as long as possible, whilst, at the same time, offering young people long-term career perspectives.

Possible increases in both chronic and acute diseases pose another risk to sustaining our business operations. We address this risk with a systematic health management programme, page 69, and cross-divisional co-operation.

EXPECTED DEVELOPMENTS

Overall Board of Management assessment of the future economic position

The Board of Management expects consolidated EBIT to reach around €3.75 billion in financial year 2017. The Post - eCommerce - Parcel division is likely to contribute around €1.5 billion to this figure. Compared with the previous year, we expect an additional improvement in overall earnings to around €2.6 billion in the DHL divisions. All of the DHL divisions are expected to contribute to the increase. The Corporate Center/Other result is projected to be at the prior-year level of around €–0.35 billion. In line with the projected growth in EBIT, we expect that EAC will also increase in 2017. Free cash flow is expected to exceed €1.4 billion.

Forecast period

The information contained in the report on expected developments generally refers to financial year 2017.

Future economic parameters

Outlook for the global economy improves

The global economy is expected to pick up moderately in 2017. Supported by low interest rates, the economic upturn in the industrial countries is likely to increase slightly. In addition, a number of major countries are set to implement more expansionary financial policies. However, uncertainty could arise from political circumstances such as possible changes in US economic policy, the UK's anticipated petition to leave the EU and the upcoming elections in many euro zone countries. Higher growth rates are expected in the emerging markets, due in the main to the severe recessions experienced by some of the major threshold economies coming to an end, whilst growth trends in many regions are set to continue largely unaltered. Countries that rely on commodities exports are seeing particular signs of improvement. However, there are a number of political and structural risks whose occurrence could impact economic growth in the emerging markets.

Global economy: growth forecast 01/70

%

	2016	2017
World trade volumes	**1.9**	**3.8**
Real gross domestic product		
World	3.1	3.4
Industrial countries	1.6	1.9
Emerging markets	4.1	4.5
Central and Eastern Europe	2.9	3.1
CIS countries	–0.1	1.5
Emerging markets in Asia	6.3	6.4
Middle East and North Africa	3.8	3.1
Latin America and the Caribbean	–0.7	1.2
Sub-Saharan Africa	1.6	2.8

Source: International Monetary Fund (IMF), World Economic Outlook, January 2017 update. Growth rates calculated on the basis of purchasing power parity.

The Chinese economy is likely to remain muted, with GDP growth expected to soften notably (IMF: 6.5%; OECD: 6.4%). The Japanese economy is forecast to continue expanding at a cautious pace, experiencing moderate growth similar to that of 2016 (IMF: 0.8%; OECD: 1.0%; IHS [2016]: 1.1%).

Overall, GDP in the United States is anticipated to increase more noticeably in 2017 than in the previous year (IMF: 2.3%; OECD: 2.3%; IHS [2016]: 2.3%).

In the euro zone, the economic recovery shows every sign of continuing. However, GDP growth is projected to weaken somewhat (IMF: 1.6%; ECB: 1.7%; IHS [2016]: 1.5%).

Early indicators suggest that the upswing in Germany will continue. Growth for 2017 as a whole is, however, expected to drop below that of the prior year (IMF: 1.5%; *Sachverständigenrat* 1.3%; IHS [2016]: 1.9%).

Rather than fall, crude oil listings are more likely to rise slightly from the current moderate level.

The likelihood is very high that the ECB will maintain its key interest rate at the current level in 2017, or even lower the rate further if the euro zone economy should weaken substantially. By contrast, the US Federal Reserve is expected to raise its key interest rate over the course of the year, which could moderately increase capital market interest rates.

World trade grows moderately

After favourable indications in the second half of 2016, in 2017 we expect to see an improvement in the global trade flows relevant to us (air and ocean freight shipped in containers, excluding liquids and bulky goods). All in all, we anticipate growth of 2.5%.

Parcel market expected to see sustained growth

The market for paper-based mail communication continues to decline in Germany, although more moderately than in other European countries. Physical mail volumes are decreasing, primarily because people are communicating digitally to an increasing extent. Following the stamp price increase for a standard letter at the beginning of 2016, we will not make any further price adjustments to regulated mail products until the end of 2018 due to the price-cap mechanism.

The German advertising market is likely to maintain its approximate volumes in 2017. Advertising budgets will continue to shift towards online media. The trend towards automated dialogue marketing campaigns is set to remain unchanged.

The parcel market will continue to grow in Germany, the rest of Europe and the world, as will cross-border services.

The international mail business is likely to see slight growth overall, particularly due to increasing merchandise shipping.

E-commerce encourages growth in international express market

Experience shows that growth in the international express market is highly dependent upon the economy. We believe cross-border e-commerce, which is demonstrating considerable growth, will also drive growth in the international express market in 2017.

Market trends in freight forwarding business likely to continue

In 2017, we anticipate developments in the air freight market to follow a similar trend to that of the reporting year. Freight carriers will further expand capacities with new wide-body passenger planes and additional cargo aircraft, especially to smaller destinations. The highest rise in demand will be seen in emerging markets. A growing middle class, especially in Asia, will be a strong driver of e-commerce and non-durable consumer goods. Due to higher fuel prices, increased freight rates are expected.

In ocean freight, we expect the market to further stabilise with marginal growth. New alliances and mergers will allow shipping companies to better manage capacities.

In the European road transport market, the trend is likely to witness a marginal rise again in 2017, as long as the oil price level stabilises and economic activity in Europe gains momentum.

Contract logistics market continues to grow

The trend towards outsourcing warehousing and distribution as well as the demand for value-added logistics services continue, although short to mid-term growth prospects in some emerging markets have slowed down. Projections indicate that the market for contract logistics will continue to experience stable growth of around 5%. Demand for supply chain services is expected to see a particularly strong rise in rapidly growing economies such as south-east Asia and India.

Revenue and earnings forecast

We expect the global economy to continue to experience regional variations in 2017 and to grow only moderately on the whole. The global trading volumes relevant to our business are likely to perform similarly. Our business trend is impacted to an ever-increasing extent by structural changes as evidenced in the growing significance of e-commerce-based business models. E-commerce is even gaining relevance in the emerging economies, which we anticipate to be reflected in our revenue trend.

Against this backdrop, we expect consolidated EBIT to reach around €3.75 billion in financial year 2017. The Post - eCommerce - Parcel division is likely to contribute around €1.5 billion to this figure. Compared with the previous year, we expect an additional improvement in overall earnings to around €2.6 billion in the DHL divisions. All of the DHL divisions are expected to contribute to the increase. The Corporate Center/Other result is projected to be at the prior-year level of around €–0.35 billion.

In line with our Group strategy, we plan to focus upon organic growth and anticipate only a few very selective acquisitions in 2017, as in the previous year.

Our finance strategy continues to call for a payout of 40% to 60% of net profits as dividends as a general rule. At the Annual General Meeting on 28 April 2017, we intend to propose to the shareholders that a dividend per share of €1.05 be paid for financial year 2016 (previous year: €0.85).

Expected financial position

No change in the Group's credit rating

In light of the earnings forecast for 2017, we expect the "FFO to debt" indicator to remain stable on the whole and do not expect the rating agencies to change our credit rating from the present level.

Liquidity to remain solid

We anticipate a reduction in our liquidity in the first half of 2017 as a result of the annual pension prepayment due to the *Bundesanstalt für Post und Telekommunikation* as well as the dividend payment for financial year 2016 in May 2017. However, our operating liquidity situation will improve again significantly towards the end of the year due to the upturn in business that is normal in the second half.

In light of the fact that the bond issued by Deutsche Post Finance B.V. in the amount of €0.75 billion will fall due in June 2017, we shall review the refinancing options available under the Debt Issuance Programme and, if necessary, borrow funds on the capital market.

Capital expenditure of around €2.3 billion expected

In 2017, we plan to increase capital expenditure to around €2.3 billion in support of our strategic objectives and further growth. The focus of capital expenditure will be similar to that of previous years.

Performance of further indicators relevant for internal management

EAC and free cash flow increase

In line with the projected growth in EBIT, we expect that EAC will also grow in 2017. Divisional EAC will be affected by the same influences as detailed in the EBIT outlook. However, as our investing activities continue and the net asset base increases as a result, the rise in EBIT after asset charge may fall slightly short of the EBIT growth. Free cash flow is expected to exceed €1.4 billion.

Employee Opinion Survey results again positive

We intend to keep up the positive results that our Employee Opinion Survey achieved in the reporting year. For 2017, we expect to see an increase to 75% in the approval rating for the key performance indicator Active Leadership.

Further improve greenhouse gas efficiency

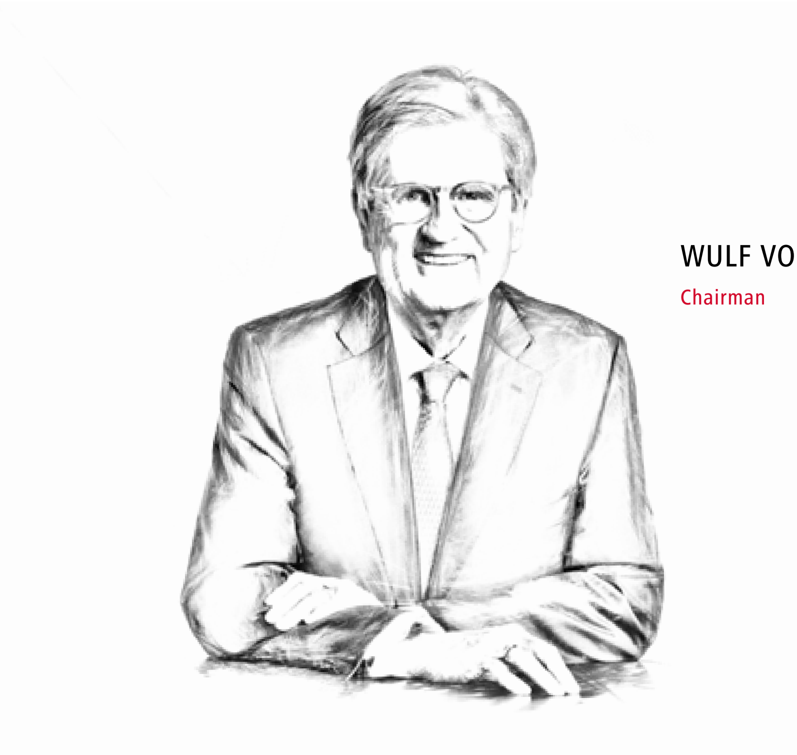
We expect the Group to further improve its carbon efficiency. Our CEX score should increase by one index point during financial year 2017.

This Annual Report contains forward-looking statements that relate to the business, financial performance and results of operations of Deutsche Post AG. Forward-looking statements are not historical facts and may be identified by words such as "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets" and similar expressions. As these statements are based upon current plans, estimates and projections, they are subject to risks and uncertainties that could cause actual results to be materially different from the future development, performance or results expressly or implicitly assumed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which apply only as at the date of this presentation. Deutsche Post AG does not intend or assume any obligation to update these forward-looking statements to reflect events or circumstances after the date of this Annual Report.

Any internet sites referred to in the Group Management Report do not form part of the report.

/02 CORPORATE GOVERNANCE

REPORT OF THE SUPERVISORY BOARD



WULF VON SCHIMMELMANN

Chairman

DEAR SHAREHOLDERS,

Deutsche Post DHL Group was very successful in financial year 2016 and made considerable progress in implementing Strategy 2020: Focus. Connect. Grow. The Supervisory Board advised the Board of Management in its management of the company and monitored its activities.

We were involved in all decisions of material importance. The Board of Management informed us in good time of the facts required for us to discharge our duties properly and also continuously updated the Chairman of the Supervisory Board and the Chairman of the Finance and Audit Committee between meetings of these bodies.

The Board of Management reported regularly, comprehensively and promptly both on its business policy and other fundamental corporate management issues and on business performance, the profitability of the company and the Group, and transactions and events of particular significance to the enterprise. We discussed transactions and measures requiring the consent of the Supervisory Board in detail with the Board of Management.

All current Supervisory Board members attended more than half of the meetings of the plenary and of the committees to which they belong. Thomas Kunz, who left the Supervisory Board at the end of the Annual General Meeting on 18 May 2016, was unable to take part in an extraordinary Supervisory Board meeting that was convened at short notice, and hence did not attend one of two meetings. The overall attendance rate was again around 94%; individual attendance figures can be found on page 95.

Plenary meetings

The Supervisory Board held five meetings in financial year 2016; four regular and one extraordinary meeting. The members of the Board of Management took part in these unless the Chairman of the Supervisory Board decided otherwise.

In the meeting on 8 March 2016, we reviewed in depth and then approved the annual and consolidated financial statements and the management reports for financial year 2015 on the recommendation of the Finance and Audit Committee and in the presence of the auditors of the financial statements, and concurred with the Board of Management's proposal for the appropriation of the net retained profit for financial year 2015. Furthermore, the Supervisory Board determined the remuneration to be paid to the members of the Board of Management for financial year 2015, based on the target achievement figures that had been established, and also adopted the report of the Supervisory Board, the Corporate Governance Report and the remuneration report. Additionally, we addressed the proposed resolutions for the 2016 Annual General Meeting and the results of the efficiency review of our activities.

At the extraordinary meeting on 17 May 2016, we appointed Tim Scharwath as the member of the Board of Management responsible for Global Forwarding, Freight who will have assumed office by June of this year. We also discussed the takeover of UK Mail Group plc, in the United Kingdom.

In the meeting on 24 June 2016, we extended John Gilbert's appointment as a member of the Board of Management for a further five years and, following Lawrence Rosen's resignation, appointed Melanie Kreis as the Board of Management member responsible for Finance, Global Business Services in addition to her role as Board Member for Human Resources and Labour Director. We also examined the changes to the legal requirements resulting from the EU's Audit Regulation and the *Abschlussprüfungsreformgesetz* (AReG – German Audit Reform Act) and resolved an amendment to the rules of procedure in line with this.

In our meeting on 26 September 2016, we approved the takeover of UK Mail Group plc. The subsequent closed meeting looked at the Group's profile from a customer perspective, supplemented by presentations by guest speakers. We intensively discussed the progress made in implementing our Strategy 2020 as well as future challenges together with the Board of Management.

In the last Supervisory Board meeting for 2016, which was held on 9 December, we extended Frank Appel's term of office as CEO and contract of service for five years and also entrusted him with acting responsibility for a large number of Global Business Services functions. We also discussed strategic issues, approved the Group's 2017 business plan and formally adopted the 2017 targets agreed with the Board of Management. We confirmed that we have complied with the recommendations of the Government Commission on the German Corporate Governance Code as amended on 5 May 2015 in the period since the Declaration of Conformity was issued in December 2015, and that we also intend to comply with all recommendations of the code as amended on 5 May 2015 in the future.

Committee work

The Supervisory Board's six committees prepare decisions by the full Supervisory Board and resolve issues that they have been delegated to decide. The chairs of the committees report to the next plenary meeting on the work of the committees.

The Executive Committee met on five occasions. It focused primarily on Board of Management issues and on preparing the Supervisory Board meetings.

The Personnel Committee held four meetings. Items discussed included the strategic human resources priorities, personnel development, increasing the number of women in executive positions, the further development of the Group-wide "Certified" initiative, which promotes employee commitment and changes in corporate culture, and the annual Employee Opinion Survey.

The Finance and Audit Committee met seven times. Its shareholder representatives have the accounting and auditing expertise required by the *Aktiengesetz* (AktG – German Stock Corporation Act). The committee examined the annual financial statements and the management reports for Deutsche Post AG and the Group in the presence of the auditors, the CEO and the CFO. It discussed the quarterly reports and the interim report for the first half of the year, which were reviewed by the auditors, before their publication with the Board of Management and the auditors. The Audit Committee recommended to the Supervisory Board that it propose PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, to the Annual General Meeting for election as the auditors of the financial statements of Deutsche Post AG and the Group, and as the auditors providing reviews of any interim reports; in addition, it issued the audit engagement for the auditors for financial year 2016 and specified the key audit priorities. The committee also addressed the enterprise's accounting process and risk management system and discussed the findings of internal audits. It obtained detailed reports from the Chief Compliance Officer on compliance and on updates to the compliance organisation and compliance management.

The Strategy Committee met five times in 2016 and, above all, discussed the strategic positioning of the divisions in their respective market segments and the implementation of our Strategy 2020. The primary focus was on developments at the Global Forwarding and eCommerce - Parcel business units, as well as on strategies and measures for digitally transforming the enterprise.

The Nomination Committee met once, addressing succession planning for the Supervisory Board and the election proposals for the 2016 Annual General Meeting.

The Mediation Committee did not meet during the course of the past financial year.

Changes to the Supervisory Board and Board of Management

The Annual General Meeting on 18 May 2016 elected Ingrid Deltenre and Nikolaus von Bomhard as new Supervisory Board members, and Katja Windt and Werner Gatzer were re-elected. Thomas Kunz and Elmar Toime left the Supervisory Board at the end of the Annual General Meeting. There were no changes to the employee representatives during the period under review. The Supervisory Board would like to thank its former members for their hard work and support, and for their constructive contribution.

Lawrence Rosen resigned as CFO effective 30 September 2016. The Supervisory Board appointed Melanie Kreis, Deutsche Post AG's Board Member for Human Resources and Labour Director since 2014, as his successor in this position. She will continue to be responsible for Human Resources and act as Labour Director until further notice.

Managing conflicts of interest

None of the Supervisory Board members hold positions on the governing bodies of, or provide consultancy services to, the Group's main competitors. The Supervisory Board has not been informed of any conflicts of interest affecting individual members during the year under review.

Compliance with all recommendations of the German Corporate Governance Code

In December 2016, the Board of Management and the Supervisory Board issued an unqualified Declaration of Conformity pursuant to section 161 of the AktG, which was also published on the company's website. The declarations from previous years are also available there. In financial year 2016, Deutsche Post AG complied with all recommendations of the Government Commission for the German Corporate Governance Code as amended on 5 May 2015. We also intend to continue to comply with all recommendations of the Code as amended on 5 May 2015, together with all the suggestions except that of broadcasting the full AGM on the internet. Further information regarding corporate governance within the enterprise can be found in the Corporate Governance Report (page 93 ff.). Information on the remuneration of the Board of Management and the Supervisory Board is available in the Group Management Report on page 38 ff.

2016 annual and consolidated financial statements examined

The auditors elected by the AGM, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, audited the annual and consolidated financial statements for financial year 2016, including the respective management reports, and issued unqualified audit opinions. PwC also reviewed the quarterly financial reports and the interim report for the first half of the year.

Following a detailed preliminary assessment by the Finance and Audit Committee, the Supervisory Board examined the annual and consolidated financial statements and the management reports for financial year 2016, including the proposal by the Board of Management on the appropriation of the net retained profit, at its meeting on 7 March 2017. All Supervisory Board members received copies of the annual and consolidated financial statements, the auditors' reports and the Board of Management's proposal for the appropriation of the net retained profit in good time before the meeting. The documents were discussed in detail with the Board of Management and the auditors, who were present. The auditors reported on the audit findings and were also available to answer questions and provide additional information. The Supervisory Board concurred with the results of the audit and approved the annual and consolidated financial statements for financial year 2016, as recommended by the Finance and Audit Committee. No objections were raised on the basis of the final outcome of the examination by the Supervisory Board and the Finance and Audit Committee of the annual and consolidated financial statements, the management reports and the proposal for the appropriation of the net retained profit. The Supervisory Board endorsed the Board of Management's proposal for the appropriation of the net retained profit and the payment of a dividend of €1.05 per share.

We would like to thank the members of the Board of Management and the employees of Deutsche Post AG as well as all Group companies for their dedication and constructive work in the past financial year. They made a major contribution to our ability to look back on a successful financial year.

Bonn, 7 March 2017

The Supervisory Board

Wulf von Schimmelmann

Chairman

SUPERVISORY BOARD

Members of the Supervisory Board

02/01

Shareholder representatives

Prof. Dr Wulf von Schimmelmann (Chair)
Former CEO of Deutsche Postbank AG

Dr Nikolaus von Bomhard
(since 18 May 2016)
Chair of the Board of Management, Münchener Rückversicherungs-Gesellschaft AG (Munich Re)

Ingrid Deltenre (since 18 May 2016)
Director General of the European Broadcasting Union

Werner Gatzer
State Secretary, Federal Ministry of Finance

Prof. Dr Henning Kagermann
Former CEO of SAP AG

Thomas Kunz (until 18 May 2016)
Independent entrepreneur, former member of the Executive Board, Danone S.A., France

Simone Menne
Member of the Executive Board, Deutsche Lufthansa AG (until 31 August 2016)

Member of the Board of Managing Directors, Boehringer Ingelheim GmbH (since 1 September 2016)

Roland Oetker
Managing Partner, ROI Verwaltungs-gesellschaft mbH

Dr Ulrich Schröder
CEO of KfW Bankengruppe

Dr Stefan Schulte
Chair of the Executive Board of Fraport AG

Elmar Toime (until 18 May 2016)
Managing Director, E Toime Consulting Ltd.

Prof. Dr-Ing. Katja Windt
Bernd Rogge Professorship of Global Production Logistics

President/member of the Executive Board of Jacobs University Bremen gGmbH

Employee representatives

Andrea Kocsis (Deputy Chair)
Deputy Chair of ver.di National Executive Board and Head of Postal Services, Forwarding Companies and Logistics on the ver.di National Executive Board

Rolf Bauermeister
Head of Postal Services, Co-determination and Youth and Head of National Postal Services Group at ver.di National Administration

Jörg von Dosky
Chair of the Group and Company Executive Representation Committee, Deutsche Post AG

Thomas Koczelnik
Chair of the Group Works Council, Deutsche Post AG

Anke Kufalt
Chair of the Works Council, DHL Global Forwarding GmbH, Hamburg

Andreas Schädler
Business Division Sales Post, Deutsche Post AG (since 1 January 2016)

Sabine Schielmann
Member of the Executive Board of the Central Works Council, Deutsche Post AG

Stephan Teuscher
Head of Wage, Civil Servant and Social Policies in the Postal Services, Forwarding Companies and Logistics Department, ver.di National Administration

Helga Thiel
Deputy Chair of the Central Works Council, Deutsche Post AG

Stefanie Weckesser
Deputy Chair of the Works Council, Deutsche Post AG, Mail Branch, Augsburg

Committees of the Supervisory Board

02/02

Executive Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Werner Gatzer
Roland Oetker
Stefanie Weckesser

Personnel Committee

Andrea Kocsis (Chair)
Prof. Dr Wulf von Schimmelmann (Deputy Chair)
Thomas Koczelnik
Roland Oetker

Finance and Audit Committee

Dr Stefan Schulte (Chair)
Stephan Teuscher (Deputy Chair)
Werner Gatzer
Thomas Koczelnik
Simone Menne
Helga Thiel

Strategy Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Prof. Dr Henning Kagermann
Thomas Koczelnik
Dr Ulrich Schröder

Nomination Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Werner Gatzer
Roland Oetker

Mediation Committee (pursuant to section 27 (3) of the German Co-determination Act)

Prof. Dr Wulf von Schimmelmann (Chair)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Roland Oetker

BOARD OF MANAGEMENT

DR FRANK APPEL

Chief Executive Officer

Global Business Services
(since 1 January 2017)

(Dr Frank Appel is also responsible for Global Forwarding, Freight until further notice.)

Born in 1961
Member since November 2002
CEO since February 2008
Appointed until October 2022

MELANIE KREIS

Finance

Human Resources

(Melanie Kreis has been responsible for Finance since October 2016 and will continue to be responsible for Human Resources until further notice.)

Born in 1971
Member since October 2014
Appointed until June 2022

Left the company during the reporting year:

Lawrence Rosen
Finance, Global Business Services
Born in 1957
Member from September 2009 until 30 September 2016

KEN ALLEN

Express

Born in 1955
Member since February 2009
Appointed until July 2020

JOHN GILBERT

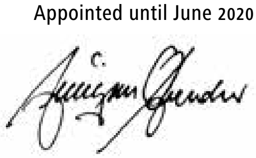
Supply Chain

Born in 1963
Member since March 2014
Appointed until March 2022

JÜRGEN GERDES

Post - eCommerce - Parcel

Born in 1964
Member since July 2007
Appointed until June 2020



MANDATES

Mandates held by the Board of Management

02/03

Membership of supervisory boards required by law

Lawrence Rosen (until 30 September 2016)
Lanxess AG

Lanxess Deutschland GmbH

Membership of comparable bodies

Ken Allen
DHL-Sinotrans International Air Courier Ltd, China (Board of Directors)[1]

Lawrence Rosen (until 30 September 2016)
Qiagen N.V. (Supervisory Board)

[1] Group mandate.

Mandates held by the Supervisory Board

02/04

Shareholder representatives

Membership of supervisory boards required by law

Prof. Dr Wulf von Schimmelmann (Chair)
Allianz Deutschland AG

Maxingvest AG

Dr Nikolaus von Bomhard (since 18 May 2016)
ERGO Group AG[1] (Chair)

Munich Health Holding AG[1] (Chair)

Werner Gatzer
Bundesdruckerei GmbH (until 28 April 2016)

Flughafen Berlin Brandenburg GmbH

ÖPP Deutschland AG (Chair) (renamed PD-Berater der öffentlichen Hand GmbH on 7 December 2016)

Prof. Dr Henning Kagermann
BMW AG

Deutsche Bank AG

Münchener Rückversicherungs-Gesellschaft AG (Munich Re)

Simone Menne
Delvag Luftfahrtversicherungs-AG, Germany (Chair)[2] (until 31 August 2016)

LSG Lufthansa Service Holding AG, Germany (Chair)[2] (until 31 December 2016)

Lufthansa Cargo AG, Germany[2] (until 31 December 2016)

Lufthansa Technik AG, Germany[2] (until 31 December 2016)

BMW AG

Dr Ulrich Schröder
Deutsche Telekom AG

Prof. Dr-Ing. Katja Windt
Fraport AG

Membership of comparable bodies

Prof. Dr Wulf von Schimmelmann (Chair)
Accenture Corp., Ireland (Board of Directors)

Thomson Reuters Corp., Canada (Board of Directors)

Ingrid Deltenre (since 18 May 2016)
Givaudan SA, Switzerland (Board of Directors)

Banque Cantonale Vaudoise SA, Switzerland (Board of Directors)

Simone Menne
Frankfurt Stock Exchange (Exchange Council) (until 31 August 2016)

Miles & More GmbH (Advisory Council, Chair)[2] (until 31 August 2016)

Roland Oetker
Rheinisch-Bergische Verlagsgesellschaft mbH (Supervisory Board)

Dr Ulrich Schröder
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (Supervisory Board)

"Marguerite 2020": European Fund for Energy, Climate Change and Infrastructure, Luxembourg (Supervisory Board)

Dr Stefan Schulte
Fraport Regional Airports of Greece A S.A. (Board of Directors, Chair)[3] (since 15 March 2016)

Fraport Regional Airports of Greece B S.A. (Board of Directors, Chair)[3] (since 15 March 2016)

Fraport Regional Airports of Greece Management Company S.A. (Board of Directors, Chair)[3] (since 15 March 2016)

Elmar Toime (until 18 May 2016)
Postea Inc., USA (Non-Executive Chairman)

Blackbay Ltd., United Kingdom (Non-Executive Director)

Qatar Postal Services Company, Qatar (Non-Executive Director)

Solution Dynamics Limited, New Zealand (Non-Executive Director) (since 15 February 2016)

Employee representatives

Membership of supervisory boards required by law

Rolf Bauermeister
Deutsche Postbank AG (until 31 March 2016)

Jörg von Dosky
PSD Bank München eG

Andreas Schädler
PSD Bank Köln eG (Chair)

Stephan Teuscher
DHL Hub Leipzig GmbH (Deputy Chair)

Helga Thiel
PSD Bank Köln eG (Deputy Chair)

[1] Group mandates, Münchener Rückversicherungs-Gesellschaft AG (Munich Re). [2] Group mandates, Deutsche Lufthansa AG. [3] Group mandates, Fraport AG.

CORPORATE GOVERNANCE REPORT

and Annual Corporate Governance Statement pursuant to sections 289a and 315 (5) of the *Handelsgesetzbuch* (HGB – German Commercial Code) for Deutsche Post AG and the Deutsche Post DHL Group and also part of the Group Management Report

This Annual Corporate Governance Statement contains information about the main components of the corporate governance structures at Deutsche Post AG and Deutsche Post DHL Group. These include the Declaration of Conformity by the Board of Management and the Supervisory Board of Deutsche Post AG, relevant corporate governance practices that exceed legal requirements, the working methods of the Board of Management and the Supervisory Board, the composition and working methods of the committees, the percentage of women on the Supervisory Board, Board of Management and in the top two executive tiers, and the targets for the composition of the Supervisory Board.

Company in compliance with all recommendations of the German Corporate Governance Code

In December 2016, the Board of Management and the Supervisory Board once again issued an unqualified Declaration of Conformity pursuant to section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act), which reads as follows:

“The Board of Management and the Supervisory Board of Deutsche Post AG declare that the recommendations of the Government Commission German Corporate Governance Code in the version dated 5 May 2015 have been complied with since issuance of the Declaration of Conformity in December 2015 and that all recommendations of the Code in the version dated 5 May 2015 shall also be complied with in the future.”

We also intend to implement the suggestions made in the Code, with one exception: the Annual General Meeting will only be broadcast on the internet up to the end of the CEO’s address.

Specific corporate governance practices

Our business relationships and activities are based on responsible business practice that complies with applicable laws, ethical standards, and international guidelines, and this also forms part of our Group strategy. Equally, we require our suppliers to act in this way. We encourage and facilitate long-term relationships with our stakeholders, whose decisions to select Deutsche Post DHL Group as a supplier, employer or investment of choice are increasingly based on the requirement that we comply with good corporate governance criteria.

Our responsible business practice contributes to society and allows our employees to share greatly in this by becoming involved. Response levels for our annual Group-wide Employee Opinion Survey, page 67 were up one percentage point year-on-year in 2016, at 74%. Since the same questionnaire was used throughout the Group, the results for all categories and questions are comparable across the divisions. The results reveal a positive trend for all issues and in most cases are on a level with or better than external benchmarks.

Code of Conduct, diversity and compliance management

Our Code of Conduct, dpdhl.com/en, which was first issued in 2006, is firmly established in our company and is applicable to all regions and divisions. The Code of Conduct is based on the principles set out in the Universal Declaration of Human Rights and the United Nations (UN) Global Compact. It is consistent with recognised legal standards, including the applicable anti-corruption legislation and agreements. The Code of Conduct and all other Group guidelines, together with regional guidelines and procedures, provide the framework for ethical and environmentally sound corporate conduct. The guidelines serve as a clear point of reference for all employees, informing them of our values and principles. The Code is available in 21 languages and employees can familiarise themselves with its contents via webinars.

The Code of Conduct also sets out our commitment to the health of our employees, respect for human rights, our rejection of child and forced labour, and our position on diversity and inclusion. The Corporate Diversity & Inclusion Statement issued in 2013 reflects our belief that diversity represents both a key factor for success and a distinct competitive advantage. In the statement, we also undertake to promote an inclusive working environment and express our opposition to all forms of discrimination.

Our Diversity Council is an internal forum comprising executives from the central functions and divisions, and is chaired by the Board Member for Human Resources. The Diversity Council met three times during the year under review. Discussions focused on the issues of international orientation, the divisions' differing diversity management requirements and women in management. The members are also advocates for diversity within their divisions.

The Supervisory Board supports the Group's diversity strategy, placing particular emphasis on the target of increasing the number of women on the Board of Management. The Supervisory Board considers anchoring diversity management in the company's HR processes to be part of long-term succession planning, for which the Supervisory Board and Board of Management are jointly responsible. In the opinion of the Supervisory Board, the targeted increase in the number of women in executive positions is necessary to ensure that, overall, more suitable female candidates are available for vacant positions on the Board of Management. At 21.1%, the number of women in upper and middle management around the world at Deutsche Post DHL Group has increased year-on-year as at 31 December 2016 (previous year: 20.7%). The figure for Group companies in Germany was 20.7%. Pursuant to the *Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst* (German Act regarding Equal Gender Representation in Executive Positions in the Public and Private Sectors), we also report on the targets set by the Board of Management and the Supervisory Board for Deutsche Post AG in the section on the Number of women on the Supervisory Board, Board of Management and in executive positions at Deutsche Post AG, page 97. The presentation adopted differs from the one used to determine the proportion of women in executive positions at Deutsche Post DHL Group.

The international composition of the Board of Management already reflects the company's international activities.

Our business success depends to a large extent on our employees' ability to do the best possible job. This is why we seek to enhance their physical, mental and social well-being, primarily through preventative action. Our Group-wide measures include developing insurance programmes for employees in regions in which there are no or only inadequate healthcare systems.

The Chief Compliance Officer, who reports directly to the Chief Financial Officer, is responsible for developing Group-wide standards and recommendations for Deutsche Post DHL Group's compliance management system. He is supported in this task by the Global Compliance Office. Each of the four operating divisions has a compliance officer and a network of compliance managers, who are responsible for implementing and executing all compliance management activities. The divisional compliance officers report regularly to the Board of Management member for their division and maintain close contact with the Global Compliance Office. The actions taken and reports prepared by the divisional compliance officers and the Global Compliance Office are included in the quarterly reports to the full Board of Management and the annual report to the Supervisory Board's Finance and Audit Committee.

The main compliance management activities at Deutsche Post DHL Group include systematically identifying potential compliance risks, devising suitable training and communications measures, evaluating business partner compliance, investigating cases of misconduct and imposing sanctions. The main purpose of the compliance programme is to prevent cases of non-compliance in the first place. Group-wide communications ensure that all employees are aware of the relevance of compliance and are informed of the designated rules of conduct. Our compliance hotline is a key factor in reporting breaches of the law or guidelines. The hotline is available in around 150 countries and assists employees in reporting potential breaches of the law or the Code of Conduct within the company. Compliance issues are addressed and resolved in a structured manner. The insights gained from reported cases are used to continuously improve the compliance management system.

How the Board of Management and the Supervisory Board operate

As a listed German public limited company, Deutsche Post AG has a dual management system. The Board of Management manages the company. The Supervisory Board appoints, oversees and advises the Board of Management.

The Board of Management comprises the Chief Executive Officer (CEO), the Finance and Human Resources functions and four operating divisions: Post - eCommerce - Parcel; Express; Global Forwarding, Freight; and Supply Chain. Group management functions are centralised in the Corporate Center. The Group Strategy, page 30, provides a framework for the whole Group. The Board's rules of procedure lay down objectives for the basic internal structure and management of, and co-operation within, the Board of Management. Within this framework, Board members manage their departments independently and inform the rest of the Board about key developments at regular intervals. The Board of Management as a whole decides on matters of particular significance for the company or the Group, including all decisions that have to be presented to the Supervisory Board for approval, and all tasks that cannot be delegated. The Board of Management as a whole also decides on matters presented to it by individual members of the Board of Management for decision. When making decisions, members of the Board of Management may not act in their own personal interest or exploit corporate business opportunities for their own benefit. The Supervisory Board must be informed of any conflicts of interest without delay.

The Supervisory Board appoints, advises and oversees the Board of Management. It has established rules of procedure that include the basic internal structure, a catalogue of Board of Management transactions requiring Supervisory Board approval and rules for the Supervisory Board committees. The Supervisory Board meets at least twice every six months of the calendar year. Extraordinary Supervisory Board meetings are held whenever particular developments or measures need to be discussed or approved at short notice. In financial year 2016, the Supervisory Board held five plenary meetings, 22 committee meetings and one closed meeting, as described in the Report of the Supervisory Board, page 86 ff. All current members attended more than half of the meetings of the Supervisory Board and the committees on which they serve. Thomas Kunz, who left the Supervisory Board at the end of the Annual General Meeting on 18 May 2016, was unable to take part in an extraordinary Supervisory Board meeting that was convened at short notice, and hence did not attend one of two meetings. Once again, the overall attendance rate remained high in the year under review, at around 94%.

Attendance at plenary and committee meetings 02/05

%

Supervisory Board member	Attendance
Prof. Dr Wulf von Schimmelmann (Chair)	100
Andrea Kocsis (Deputy Chair)	100
Rolf Bauermeister	100
Dr Nikolaus von Bomhard (since 18 May 2016)	100
Ingrid Deltenre (since 18 May 2016)	67
Jörg von Dosky	100
Werner Gatzer	89
Prof. Dr Henning Kagermann	70
Thomas Koczelnik	100
Anke Kufalt	100
Thomas Kunz (until 18 May 2016)	50
Simone Menne	92
Roland Oetker	100
Andreas Schädler	100
Sabine Schielmann	80
Dr Ulrich Schröder	60
Dr Stefan Schulte	100
Stephan Teuscher	100
Helga Thiel	92
Elmar Toime (until 18 May 2016)	100
Stefanie Weckesser	100
Prof. Dr-Ing. Katja Windt	100

The Board of Management and the Supervisory Board regularly discuss the Group's strategy, the divisions' objectives and strategy, the financial position and performance of the company and the Group, key business transactions, the progress of acquisitions and investments, compliance and compliance management, risk exposure and risk management, and all material planning and related implementation issues. The Board of Management informs the Supervisory Board promptly and in full about all issues of significance. The Chairman of the Supervisory Board and the CEO maintain close contact about current issues and discuss these regularly with other Board of Management members, including between Supervisory Board meetings.

The Supervisory Board carries out an annual efficiency review of its work, which includes assessing co-operation with the Board of Management. The review is based on a questionnaire and personal discussions between the Chairman of the Supervisory Board and the Supervisory Board members. For financial year 2016, the Supervisory Board concluded that it had performed its monitoring and advisory duties efficiently and effectively.

All Supervisory Board decisions, particularly ones relating to transactions requiring Supervisory Board approval, are discussed in detail in advance by the relevant committees. Each plenary Supervisory Board meeting includes a detailed report on the committees' work and decisions taken.

None of the Supervisory Board members hold positions on the governing bodies of, or provide consultancy services to, the Group's main competitors. The Supervisory Board has not been informed of any conflicts of interest affecting individual members during the year under review.

Executive committees and Supervisory Board committees

Executive committees prepare the decisions to be made by the entire Board of Management and take decisions on matters delegated to them. The duties of the executive committees include preparing for and/or approving investments and transactions. The Deutsche Post Executive Committee is responsible for the Post - eCommerce - Parcel division; the cross-divisional DHL Executive Committee is in charge of the Express, Global Forwarding, Freight, and Supply Chain divisions; the CC & GBS Executive Committee covers the Corporate Center (CC) and Global Business Services (GBS). The CEO, the CFO and the Board Member for Human Resources have permanent representation on the committees, whilst the Board members responsible for the divisions are represented on the committees in relation to matters affecting their divisions. Executives from the first and second levels immediately below the Board of Management also attend executive committee meetings that cover topics relevant to their fields. For example, Accounting & Controlling, Corporate Finance, Corporate Development and Legal Services are invited to take part in discussions on acquisitions. The Deutsche Post Executive Committee meets once a month, the DHL Executive Committee twice a month and the CC & GBS Executive Committee usually every quarter.

Business review meetings also take place once a quarter. These meetings are part of the strategic performance dialogue between the divisions, the CEO and the CFO. The business review meetings discuss strategic initiatives, operational matters and the budgetary situation in the divisions.

The members of the Board of Management and the mandates held by them are outlined on pages 90 f. and 92.

The Supervisory Board has formed six committees to ensure its duties are discharged effectively. In particular, these committees prepare the resolutions to be taken in the plenary Supervisory Board meetings. The Supervisory Board has delegated the final decisions on certain topics such as approvals of property purchases or sales above a fixed threshold to committees.

The Executive Committee's duties include preparing the appointment of members of the Board of Management, drawing up their contracts of service and determining the Board of Management remuneration for approval by the plenary meeting of the Supervisory Board.

The Finance and Audit Committee oversees the accounting process, the effectiveness of the internal control system, the risk management and internal auditing systems, and the audit of the financial statements, and particularly the selection of the auditors and their independence. It approves the engagement of the auditors of the financial statements to perform non-audit-related services. It examines corporate compliance issues and discusses the half-yearly and quarterly financial reports with the Board of Management before publication. Based on its own assessment, the committee submits proposals for the approval of the annual and consolidated financial statements by the Supervisory Board. The Chairman of the Finance and Audit Committee, Stefan Schulte, is a financial expert as defined in sections 100 (5) and 107 (4) of the AktG.

The Personnel Committee discusses human resources principles for the Group.

The Mediation Committee carries out the duties assigned to it pursuant to the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act): it makes proposals to the Supervisory Board on the appointment of members of the Board of Management in those cases in which the required majority of two-thirds of the votes of the Supervisory Board members is not reached. The committee did not meet in the past financial year.

The Nomination Committee presents the shareholder representatives of the Supervisory Board with recommendations for shareholder candidates for election to the Supervisory Board at the Annual General Meeting.

The Strategy Committee prepares for the Supervisory Board's strategy discussions and for resolutions on corporate acquisitions and disposals requiring approval by the plenary meeting of the Supervisory Board. It also regularly discusses the competitive position of the enterprise as a whole and of the individual divisions.

Further information about the work of the Supervisory Board and its committees in financial year 2016 is contained in the Report of the Supervisory Board, page 86 ff. Details of the members of the Supervisory Board and the composition of the Supervisory Board committees can be found in the sections on the members of the Supervisory Board, page 89, Committees of the Supervisory Board, page 89 and Mandates, page 92.

Number of women on the Supervisory Board, Board of Management and in executive positions at Deutsche Post AG

Under the *Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst* (German Act on Equal Gender Representation in Executive Positions in the Public and Private Sectors), the Supervisory Board of Deutsche Post AG is required to meet the statutory gender quota of 30%. It is also obliged to set a target quota for the number of women on the Board of Management, whilst the Board of Management is required to set a target quota for women in the top two executive levels below the Board of Management. Deutsche Post AG exceeds the target for the statutory quota for the Supervisory Board, as eight women (40%) are members of the Supervisory Board. The Supervisory Board has set a target quota of 1:7 for the number of women on the Board of Management until the end of the Annual General Meeting in 2018, and of 2:8 until the end of the AGM in 2021. The deadline for achieving the first target (1:7) is 30 June 2017.

The Board of Management had set target quotas for increasing the proportion of women at the two levels immediately below the Board of Management together with a deadline, 31 December 2016. The target of 19% for tier 1 executives was almost met, at 18.4%, while the target for tier 2 executives of 23% was clearly exceeded, at 28.4%. The fact that the target for tier 1 executives was narrowly missed is due to organisational and structural measures impacting the executives involved, which resulted in the figure being undershot by a notional 0.6 percentage points. The Board of Management has set new target quotas for increasing the number of women in management positions of 20% for tier 1 executives and 30% for tier 2 executives in the period from 1 January 2017 to 31 December 2019. The two executive tiers are defined on the basis of their reporting lines: tier 1 comprises executives belonging to the N-1 reporting line, while tier 2 consists of executives from the N-2 reporting line.

Targets for the composition of the Supervisory Board and qualifications required

The Supervisory Board has set itself the following targets for its own composition:

1. Proposals by the Supervisory Board to the Annual General Meeting for candidates to be elected as Supervisory Board members must be made purely in the interests of the company. Subject to this requirement, the Supervisory Board aims to ensure that independent Supervisory Board members as defined in number 5.4.2 of the German Corporate Governance Code account for at least 75% of the Supervisory Board and that at least 30% of the Supervisory Board members are women.
2. The company's international activities are already adequately reflected in the composition of the Supervisory Board. The Supervisory Board aims to maintain this and its future proposals to the Annual General Meeting will therefore consider candidates whose origins, education or professional experience equip them with particular international knowledge and experience.
3. Conflicts of interest affecting Supervisory Board members are an obstacle to providing independent and efficient advice to, and supervision of, the Board of Management. The Supervisory Board will decide how to deal with potential or actual conflicts of interest on a case-by-case basis, in accordance with the law and giving due consideration to the German Corporate Governance Code.
4. In accordance with the age limit adopted by the Supervisory Board and laid down in the rules of procedure for the Supervisory Board, proposals for the election of Supervisory Board members must ensure that their term of office ends no later than the close of the next Annual General Meeting to be held after the Supervisory Board member reaches the age of 72. As a general rule, Supervisory Board members should not serve more than three full terms of office.

The current Supervisory Board meets these targets. The professional careers of Ingrid Deltenre and Nikolaus von Bomhard – both of whom were elected to the Supervisory Board for the first time by the 2016 Annual General Meeting – have given them extensive international experience of managing medium-sized and large organisations. With the election of Ingrid Deltenre, the proportion of women on the Supervisory Board increased to 40%. This means that we currently exceed the 30% target quota for women on the Supervisory Board, which is in line with the statutory requirements. The number of independent members of the Supervisory Board also currently exceeds the target. All Supervisory Board members are independent members as defined by the German Corporate Governance Code. In light of the European Commission's recommendation on the independence of non-executive or supervisory directors and the wide-ranging protection against summary dismissal and ban on discrimination contained in the *Betriebsverfassungsgesetz* (German Works Constitution Act) and *Mitbestimmungsgesetz* (German Co-Determination Act), being an employee of the company is not inconsistent with the requirement for independence as defined by the Code. The largest shareholder in the company, KfW Bankengruppe, currently holds approximately 21% of the shares in Deutsche Post AG. There are therefore no controlling shareholders as defined in the Code with whom relationships might exist that could call into question the Supervisory Board's independence. In line with the international nature of the company's business, a large number of Supervisory Board members have extensive international experience. All current appointment periods for the members of the Supervisory Board elected by the Annual General Meeting reflect the age limit that has been set and the limit on the number of terms that can be served.

The members of the Supervisory Board and of its Finance and Audit Committee are also familiar in the aggregate with the sector in which the company operates. In particular the Chairman of the Supervisory Board, Wulf von Schimmelmann, and the Chairman of the Finance and Audit Committee, Stefan Schulte, as well as a number of shareholder representatives have specific knowledge of the sector due to their current or past membership of the boards of management and/or supervisory boards of companies in the sector, or relevant research activities. The employee representatives on the Supervisory Board also have extensive sector-specific experience.

Remuneration of the Board of Management and the Supervisory Board

The remuneration of the Board of Management and the Supervisory Board can be found in the Group Management Report, page 38 ff.

/03 CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

1 January to 31 December

03/01

€m

	Note	2015	2016
Revenue	11	59,230	57,334
Other operating income	12	2,394	2,156
Total operating income		61,624	59,490
Materials expense	13	−33,170	−30,620
Staff costs	14	−19,640	−19,592
Depreciation, amortisation and impairment losses	15	−1,665	−1,377
Other operating expenses	16	−4,740	−4,414
Total operating expenses		−59,215	−56,003
Net income from investments accounted for using the equity method		2	4
Profit from operating activities (EBIT)		**2,411**	**3,491**
Financial income		94	90
Finance costs		−410	−384
Foreign currency result		−38	−65
Net finance costs	17	**−354**	**−359**
Profit before income taxes		**2,057**	**3,132**
Income taxes	18	−338	−351
Consolidated net profit for the period		**1,719**	**2,781**
attributable to Deutsche Post AG shareholders		1,540	2,639
attributable to non-controlling interests		179	142
Basic earnings per share (€)	19	**1.27**	**2.19**
Diluted earnings per share (€)	19	**1.22**	**2.10**

STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

03/02

€m

	Note	2015	2016
Consolidated net profit for the period		**1,719**	**2,781**
Items that will not be reclassified to profit or loss			
Change due to remeasurements of net pension provisions	39	833	−876
Other changes in retained earnings		0	0
Income taxes relating to components of other comprehensive income	18	−65	8
Share of other comprehensive income of investments accounted for using the equity method (after tax)		0	0
Total (after tax)		**768**	**−868**
Items that may be subsequently reclassified to profit or loss			
IAS 39 revaluation reserve			
Changes from unrealised gains and losses		62	−6
Changes from realised gains and losses		−172	−63
IAS 39 hedging reserve			
Changes from unrealised gains and losses		−120	46
Changes from realised gains and losses		102	17
Currency translation reserve			
Changes from unrealised gains and losses		472	−291
Changes from realised gains and losses		0	0
Income taxes relating to components of other comprehensive income	18	12	−6
Share of other comprehensive income of investments accounted for using the equity method (after tax)		5	3
Total (after tax)		**361**	**−300**
Other comprehensive income (after tax)		**1,129**	**−1,168**
Total comprehensive income		**2,848**	**1,613**
attributable to Deutsche Post AG shareholders		2,665	1,478
attributable to non-controlling interests		183	135

BALANCE SHEET

03/03

€m

	Note	31 Dec. 2015	31 Dec. 2016
ASSETS			
Intangible assets	21	12,490	12,554
Property, plant and equipment	22	7,795	8,389
Investment property	23	25	23
Investments accounted for using the equity method	24	76	97
Non-current financial assets	25	1,113	689
Other non-current assets	26	221	222
Deferred tax assets	27	2,007	2,192
Non-current assets		**23,727**	**24,166**
Inventories	28	281	275
Current financial assets	25	179	374
Trade receivables	29	7,694	7,965
Other current assets	26	2,172	2,176
Income tax assets	30	197	232
Cash and cash equivalents	31	3,608	3,107
Assets held for sale	32	12	0
Current assets		**14,143**	**14,129**
Total ASSETS		**37,870**	**38,295**
EQUITY AND LIABILITIES			
Issued capital	33	1,211	1,211
Capital reserves	34	2,385	2,932
Other reserves	35	11	−284
Retained earnings	36	7,427	7,228
Equity attributable to Deutsche Post AG shareholders	37	11,034	11,087
Non-controlling interests	38	261	263
Equity		**11,295**	**11,350**
Provisions for pensions and similar obligations	39	6,221	5,580
Deferred tax liabilities	27	142	106
Other non-current provisions	40	1,512	1,498
Non-current provisions		7,875	7,184
Non-current financial liabilities	41	4,625	4,571
Other non-current liabilities	42	234	372
Non-current liabilities		4,859	4,943
Non-current provisions and liabilities		**12,734**	**12,127**
Current provisions	40	1,486	1,323
Current financial liabilities	41	553	1,464
Trade payables	43	7,069	7,178
Other current liabilities	42	4,255	4,292
Income tax liabilities	30	476	561
Liabilities associated with assets held for sale	32	2	0
Current liabilities		12,355	13,495
Current provisions and liabilities		**13,841**	**14,818**
Total EQUITY AND LIABILITIES		**37,870**	**38,295**

CASH FLOW STATEMENT

1 January to 31 December

03/04

€m

	Note	2015	2016
Consolidated net profit for the period attributable to Deutsche Post AG shareholders		1,540	2,639
Consolidated net profit for the period attributable to non-controlling interests		179	142
Income taxes		338	351
Net finance costs		354	359
Profit from operating activities (EBIT)		**2,411**	**3,491**
Depreciation, amortisation and impairment losses		1,665	1,377
Net income from disposal of non-current assets		−261	−113
Non-cash income and expense		−68	−40
Change in provisions		−495	−1,799
Change in other non-current assets and liabilities		−12	120
Dividend received		1	6
Income taxes paid		−585	−528
Net cash from operating activities before changes in working capital		**2,656**	**2,514**
Changes in working capital			
Inventories		80	3
Receivables and other current assets		460	−377
Liabilities and other items		248	299
Net cash from operating activities	44.1	**3,444**	**2,439**
Subsidiaries and other business units		15	35
Property, plant and equipment and intangible assets		175	265
Investments accounted for using the equity method and other investments		223	82
Other non-current financial assets		24	456
Proceeds from disposal of non-current assets		437	838
Subsidiaries and other business units		0	−304
Property, plant and equipment and intangible assets		−2,104	−1,966
Investments accounted for using the equity method and other investments		0	−19
Other non-current financial assets		−47	−33
Cash paid to acquire non-current assets		−2,151	−2,322
Interest received		47	50
Current financial assets		205	−209
Net cash used in investing activities	44.2	**−1,462**	**−1,643**
Proceeds from issuance of non-current financial liabilities		14	1,263
Repayments of non-current financial liabilities		−33	−95
Change in current financial liabilities		−50	−58
Other financing activities		−22	−205
Proceeds from transactions with non-controlling interests		0	0
Cash paid for transactions with non-controlling interests		−15	−9
Dividend paid to Deutsche Post AG shareholders		−1,030	−1,027
Dividend paid to non-controlling interest holders		−124	−128
Purchase of treasury shares		−70	−836
Proceeds from issuing shares or other equity instruments		39	0
Interest paid		−76	−138
Net cash used in financing activities	44.3	**−1,367**	**−1,233**
Net change in cash and cash equivalents		**615**	**−437**
Effect of changes in exchange rates on cash and cash equivalents		16	−66
Changes in cash and cash equivalents associated with assets held for sale		−1	1
Changes in cash and cash equivalents due to changes in consolidated group		0	1
Cash and cash equivalents at beginning of reporting period		2,978	3,608
Cash and cash equivalents at end of reporting period	44.4	**3,608**	**3,107**

STATEMENT OF CHANGES IN EQUITY

1 January to 31 December

03/05

€m	Issued capital	Capital reserves	Other reserves: IAS 39 revaluation reserve	Other reserves: IAS 39 hedging reserve	Other reserves: Currency translation reserve	Retained earnings	Equity attributable to Deutsche Post AG shareholders	Non-controlling interests	Total equity
Note	33	34	35.1	35.2	35.3	36	37	38	
Balance at 1 January 2015	1,210	2,339	170	–28	–483	6,168	9,376	204	9,580
Capital transactions with owner									
Dividend						–1,030	–1,030	–123	–1,153
Transactions with non-controlling interests			0	0	0	–3	–3	–3	–6
Changes in non-controlling interests due to changes in consolidated group							0	0	0
Issue of shares or other equity instruments	2	37				0	39	0	39
Purchase of treasury shares	–3	0				–67	–70	0	–70
Share-based payment schemes (issuance)	0	57				0	57	0	57
Share-based payment schemes (exercise)	2	–48				46	0	0	0
							–1,007	**–126**	**–1,133**
Total comprehensive income									
Consolidated net profit for the period						1,540	1,540	179	1,719
Currency translation differences					468	0	468	9	477
Change due to remeasurements of net pension provisions						773	773	–5	768
Other changes	0	0	–103	–13		0	–116	0	–116
							2,665	**183**	**2,848**
Balance at 31 December 2015	**1,211**	**2,385**	**67**	**–41**	**–15**	**7,427**	**11,034**	**261**	**11,295**
Balance at 1 January 2016	1,211	2,385	67	–41	–15	7,427	11,034	261	11,295
Capital transactions with owner									
Dividend						–1,027	–1,027	–129	–1,156
Transactions with non-controlling interests			0	0	0	4	4	–4	0
Changes in non-controlling interests due to changes in consolidated group							0	0	0
Issue of shares or other equity instruments	0	0				0	0	0	0
Purchase of treasury shares	–31	0				–1,000	–1,031	0	–1,031
Convertible bond	28	531				0	559	0	559
Share-based payment schemes (issuance)	0	70				0	70	0	70
Share-based payment schemes (exercise)	3	–54				51	0	0	0
							–1,425	**–133**	**–1,558**
Total comprehensive income									
Consolidated net profit for the period						2,639	2,639	142	2,781
Currency translation differences					–283	0	–283	–5	–288
Change due to remeasurements of net pension provisions						–866	–866	–2	–868
Other changes	0	0	–56	44		0	–12	0	–12
							1,478	**135**	**1,613**
Balance at 31 December 2016	**1,211**	**2,932**	**11**	**3**	**–298**	**7,228**	**11,087**	**263**	**11,350**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE POST AG

BASIS OF PREPARATION

Deutsche Post DHL Group is a global mail and logistics group. The Deutsche Post and DHL corporate brands represent a portfolio of logistics (DHL) and communication (Deutsche Post) services. The financial year of Deutsche Post AG and its consolidated subsidiaries is the calendar year. Deutsche Post AG, whose registered office is in Bonn, Germany, is entered in the commercial register of the Bonn Local Court.

1 Basis of accounting

As a listed company, Deutsche Post AG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the provisions of commercial law to be additionally applied in accordance with section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

The requirements of the Standards applied have been satisfied in full, and the consolidated financial statements therefore provide a true and fair view of the Group's net assets, financial position and results of operations.

The consolidated financial statements consist of the income statement and the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes. In order to improve the clarity of presentation, various items in the balance sheet and in the income statement have been combined. These items are disclosed and explained separately in the notes. The income statement has been classified in accordance with the nature of expense method.

The accounting policies, as well as the explanations and disclosures in the notes to the IFRS consolidated financial statements for financial year 2016, are generally based on the same accounting policies used in the 2015 consolidated financial statements. Exceptions to this are the changes in international financial reporting under IFRSs described in note 5 that have been required to be applied by the Group since 1 January 2016. The accounting policies are explained in note 7.

These consolidated financial statements were authorised for issue by a resolution of the Board of Management of Deutsche Post AG dated 16 February 2017.

The consolidated financial statements are prepared in euros (€). Unless otherwise stated, all amounts are given in millions of euros (€ million, €m).

2 Consolidated group

The consolidated group includes all companies controlled by Deutsche Post AG. Control exists if Deutsche Post AG has decision-making powers, is exposed, and has rights, to variable returns, and is able to use its decision-making powers to affect the amount of the variable returns. The Group companies are consolidated from the date on which Deutsche Post DHL Group is able to exercise control.

When Deutsche Post DHL Group holds less than the majority of voting rights, other contractual arrangements may result in the Group controlling the investee.

DHL Sinotrans International Air Courier Ltd. (Sinotrans), China, is a significant company that has been consolidated despite Deutsche Post DHL Group not having a majority of voting rights. Sinotrans provides domestic and international express delivery and transport services and has been assigned to the Express segment. The company is fully integrated into the global DHL network and operates exclusively for Deutsche Post DHL Group. Due to the arrangements in the Network Agreement, DHL is able to prevail in decisions concerning Sinotrans' relevant activities. Sinotrans has therefore been consolidated although Deutsche Post DHL Group holds no more than 50% of the company's share capital.

The complete list of the Group's shareholdings in accordance with section 313(2) nos. 1 to 5 and section 313(3) of the HGB can be accessed online at dpdhl.com/en/investors.

The companies listed in the following table are consolidated in addition to the parent company Deutsche Post AG:

Consolidated group

	2015	2016
Number of fully consolidated companies (subsidiaries)		
German	139	132
Foreign	658	655
Number of joint operations		
German	1	1
Foreign	1	1
Number of investments accounted for using the equity method		
German	1	0
Foreign	15	12

In January 2016, Deutsche Post DHL Group acquired a minority interest of 27.5% in French e-commerce logistics specialist Relais Colis SAS. Relais Colis is accounted for in the consolidated financial statements using the equity method. The companies Güll GmbH, Germany, and Presse-Service Güll GmbH, Switzerland, which had been accounted for using the equity method, were sold in the third quarter of 2016.

2.1 Acquisitions in 2016

The following companies were acquired in financial year 2016:

Acquisitions, 2016

Name	Country	Segment	Share of capital/ voting rights %
DHL eCommerce (Malaysia) Sdn. Bhd.	Malaysia	Global Forwarding, Freight	100 (step acquisition)
Mitsafetrans S.r.l. (including Mitradiopharma S.r.l.)	Italy	Supply Chain	100
UK Mail Group plc (including UK Mail Limited)	UK	PeP	100

The remaining 51% interest in DHL eCommerce (Malaysia) Sdn. Bhd., which was previously accounted for using the equity method, was acquired in the third quarter of 2016. This company is now consolidated. No tabular presentation is provided as all amounts were less than €1 million.

On 30 September 2016, DHL Supply Chain (Italy) S.p.A. acquired the Italian company Mitsafetrans S.r.l., including its subsidiary Mitradiopharma S.r.l., referred to collectively below as Mitsafetrans. These companies provide logistics services for the technology, pharma and high-tech sectors in Italy. The acquisition will provide access to highly specialised logistics services in niche markets.

The final purchase price allocation is as follows:

Net assets of Mitsafetrans

€m 30 September 2016	Carrying amount	Adjustment	Fair value
Non-current assets	3	10	**13**
Customer relationship	–	8	**8**
Brand name	–	1	**1**
Deferred tax assets	–	1	**1**
Current assets	15	–	**15**
Cash and cash equivalents	8	–	**8**
ASSETS	**26**	**10**	**36**
Non-current provisions and liabilities	3	6	**9**
Non-current provisions	2	3	**5**
Deferred tax liabilities	1	3	**4**
Current liabilities and provisions	9	–	**9**
EQUITY AND LIABILITIES	**12**	**6**	**18**
Net assets			**18**

Customer relationships are amortised over five years using the straight-line method, the brand name is amortised over three years.

Calculation of goodwill

€m 30 September 2016	Mitsafetrans
Cost	53
Less net assets	18
Goodwill	**35**

A variable purchase price was agreed for the acquisition, in addition to the cash purchase price paid in the amount of €38 million, of which €4 million was reported as a liability:

Contingent consideration

Basis	Period for financial years from/to	Results range from/to	Fair value of total obligation	Remaining payment obligation at 31 Dec. 2016
EBITDA	2016 to 2018	€0 to 19 million	€15 million	€15 million

On 22 December 2016, the Group acquired the companies UK Mail Group plc and UK Mail Limited, UK, referred to below as UK Mail Group for short. The companies operate one of the largest integrated networks for processing parcels and mail items in the UK. A takeover offer had been submitted to UK Mail Group in September 2016. As a result of this acquisition, Deutsche Post DHL Group can offer its customers an integrated delivery service for cross-border shipments to and from the UK, allowing it to expand its presence in the UK, Europe's biggest e-commerce market.

The final purchase price allocation will be presented in a subsequent financial report, as not all the necessary information is currently available. All the assets and liabilities and the goodwill calculated are therefore preliminary.

Preliminary net assets of UK Mail Group

€m 31 December 2016	Carrying amount	Adjustment	Fair value
Non-current assets	98	12	110
Customer relationship	–	9	9
Brand name	–	3	3
Current assets	82	–	82
Cash and cash equivalents	7	–	7
ASSETS	**187**	**12**	**199**
Non-current provisions and liabilities	3	3	6
Deferred tax liabilities	3	3	6
Current liabilities and provisions	109	–	109
EQUITY AND LIABILITIES	**112**	**3**	**115**
Net assets			**84**

Customer relationships are amortised over five years at Mail and over two years at Parcel, using the straight-line method. The brand name has a useful life of one year.

Consolidation resulted in preliminary goodwill of €201 million which is attributable mainly to the synergy and network effects expected to be generated with the company's own European parcel business.

Preliminary calculation of goodwill

€m 31 December 2016	UK Mail Group
Cost	285
Less net assets	84
Goodwill	**201**

Following their consolidation, the companies acquired in financial year 2016 contributed €11 million to consolidated revenue and €0 million to consolidated EBIT. If the companies had already been acquired as at 1 January 2016, they would have contributed an additional €611 million to consolidated revenue and €15 million to consolidated EBIT in 2016.

Transaction costs amounted to €4 million and are reported in other operating expenses.

In 2016, €319 million was paid for companies acquired in the financial year. The purchase price for the companies acquired was paid by transferring cash funds.

2.2 Disposal and deconsolidation effects in 2016

Gains are shown in other operating income; losses are reported in other operating expenses.

The e-commerce company nugg.ad GmbH, Germany, was sold in January 2016. In addition, the sales of IntelliAd Media GmbH, Germany, a company active in the area of search engine advertising, and the joint ventures Güll GmbH, Germany, and Presse-Service Güll GmbH, Switzerland, which were accounted for using the equity method, were completed in July 2016. All shares of optivo GmbH, Germany, a provider of technical e-mail marketing services, were sold at the end of September 2016.

The disposal and deconsolidation effects were attributable solely to the Post - eCommerce - Parcel segment.

Disposal and deconsolidation effects

€m 1 January to 31 December 2016	Güll Group (equity accounted)	nugg.ad GmbH	IntelliAd Media GmbH	optivo GmbH	Total
Non-current assets	2	0	0	3	5
Current assets	0	2	2	2	6
Cash and cash equivalents	0	3	1	1	5
ASSETS	**2**	**5**	**3**	**6**	**16**
Non-current provisions and liabilities	0	0	0	0	0
Current provisions and liabilities	0	2	1	2	5
EQUITY AND LIABILITIES	**0**	**2**	**1**	**2**	**5**
Net assets	**2**	**3**	**2**	**4**	**11**
Total consideration received	2	3	2	25	32
Gains/losses from the currency translation reserve	0	0	0	0	0
Non-controlling interests	0	0	0	0	0
Deconsolidation gain (+)/loss (–)	**0**	**0**	**0**	**21**	**21**

2.3 Joint operations

Joint operations are consolidated in accordance with IFRS 11, based on the interest held.

A significant joint operation is Aerologic GmbH (Aerologic), Germany, a cargo airline domiciled in Leipzig. It was jointly established by Lufthansa Cargo AG and Deutsche Post Beteiligungen Holding GmbH, which each hold 50% of its capital and voting rights. Aerologic has been assigned to the Express segment. Aerologic's shareholders are simultaneously its customers, giving them access to its freight aircraft capacity. Aerologic exclusively serves the DHL Express network from Monday to Friday, whilst it flies for the Lufthansa Cargo network at weekends. In contrast to its capital and voting rights, the company's assets and liabilities, as well as its income and expenses, are allocated based on this user relationship.

3 Significant transactions

In addition to the acquisition of UK Mail Group mentioned in note 2, the following significant transactions were entered into in financial year 2016:

In the first quarter of 2016, the remaining shares in the property development companies King's Cross Central Property Trust and King's Cross Central General Partner Ltd. (King's Cross companies), UK, were sold. The gains on the disposal of the shares are reported in other operating income, note 12.

On 1 April 2016, the Group placed two senior bonds with a total volume of €1.25 billion on the capital market, note 41. Of the capital raised, €1 billion was used for the further funding of pension obligations.

As a result, pension provisions declined in the financial year despite the significant decrease in discount rates. A measurement-related reversal had already been recognised in the first quarter of 2016, due to changes in the occupational retirement arrangement in Germany. This was offset by a number of other human resources measures (early retirement scheme for civil servants, etc.) with the result that, overall, there was no effect on earnings. Further details on pension provisions can be found in note 39.

On 1 March 2016, the Board of Management of Deutsche Post AG resolved a share buyback programme with a total volume of up to €1 billion to be initiated on 1 April 2016, notes 33 and 36.

The state aid decision of the European Commission is null and void with final effect and any grounds for the obligation to repay the alleged state aid have been removed. The amount of €378 million deposited in a trustee account was released and the obligation recognised as a contingent liability was reversed, notes 46 and 48.

Various holders of the convertible bond issued on 6 December 2012 exercised their conversion right in financial year 2016, notes 34 and 41.

4 Adjustment of prior-period amounts

No prior-period amounts were adjusted in financial year 2016.

5 New developments in international accounting under IFRSS

New Standards required to be applied in financial year 2016

The following Standards, changes to Standards and Interpretations are required to be applied from 1 January 2016:

Standard	Subject matter and significance
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions	The amendments apply to the recognition of employee contributions to defined benefit retirement plans. Their objective is to simplify accounting for employee contributions that are independent of the number of years of service. In such cases, the service cost in the period in which the corresponding service is rendered may be reduced. The new requirements must be applied retrospectively. Application has not led to any material effects.
Annual Improvements to IFRSS (2010–2012 Cycle)	The annual improvement process refers to the following Standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 37, IAS 38 and IAS 39. The amendments will not have a material influence on the consolidated financial statements.
Amendments to IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation	The amendments expand the existing requirements relating to the permitted depreciation and amortisation methods. The amendments specify that revenue-based depreciation methods are not permitted for property, plant and equipment, and revenue-based amortisation methods may only be used for intangible assets in certain exceptional circumstances. In addition, the amendments clarify that a reduction in the selling price of goods and services could signal obsolescence, which could in turn reflect a reduction in the economic benefits available from the asset. The requirements are applicable prospectively. Application will not have a material effect on the consolidated financial statements.
Amendments to IFRS 11, Joint Arrangements – Acquisition of Interests in Joint Operations	The amendment clarifies that the acquisition and additional acquisition of interests in joint operations in which the activity constitutes a business, as defined in IFRS 3, Business Combinations, must be recognised in accordance with the principles governing business combinations accounting in IFRS 3 and other relevant IFRSS, providing that those principles do not conflict with the requirements of IFRS 11. The amendments do not apply if the reporting entity and the other parties involved are under the common control of the same ultimate controlling party. The new requirements are applicable prospectively. The amendment will not have a material effect on the Group.

Standard	Subject matter and significance
Annual Improvements to IFRSs (2012–2014 Cycle)	The annual improvement process relates to the following Standards: IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments will not have a material influence on the consolidated financial statements.
Amendments to IAS 1, Presentation of Financial Statements: Disclosure Initiative	The changes comprise clarifications relating to the materiality of the items presented in all components of the IFRS financial statements. Information that is not material need not be presented. This applies even if disclosure is explicitly required in other Standards. In addition, the revised version of IAS 1 includes new rules or clarifications of existing requirements concerning the presentation of subtotals, the structure of the notes and the disclosures on accounting policies. The presentation of the interest in equity-accounted investments in other comprehensive income is also clarified. The amendments do not have a material effect on the financial statements.
The following are not relevant for the consolidated financial statements: amendments to IAS 27, Equity Method in Separate Financial Statements; amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception.	

New accounting pronouncements adopted by the EU but only required to be applied in future periods

The following Standards, changes to Standards and Interpretations have already been endorsed by the EU. However, they will only be required to be applied in future periods.

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
IFRS 15, Revenue from Contracts with Customers (28 May 2014) including the amendment to IFRS 15 (11 September 2015)	1 January 2018	This Standard will in future replace the existing requirements governing revenue recognition under IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The new Standard establishes uniform requirements regarding the amount, timing and time period of revenue recognition. It provides a principle-based five-step model that must be applied to all categories of contracts with customers. The Group will apply IFRS 15 for the first time for the financial year beginning on 1 January 2018. A Group-wide project to introduce IFRS 15 is underway. In various divisions, customer contracts are being reviewed and analysed using the five-step model in IFRS 15. The timing of revenue from certain types of contracts will change because, in future, revenue will be recognised over time rather than at a point in time, and because variable remuneration components will be recognised sooner. There will be changes in the balance sheet due to the separate disclosure of contract assets and liabilities, as well as in the notes due to expanded quantitative and qualitative disclosures. On the whole, the Group does not expect any material effect on the consolidated financial statements.
IFRS 9, Financial Instruments (24 July 2014)	1 January 2018	IFRS 9 contains requirements governing the recognition and measurement of financial instruments, derecognition and hedge accounting. It thus replaces the previously applicable IAS 39. Initial application is in principle retrospective, although transition relief is provided. In future, financial assets must be classified on the basis of the business model in which they are held and their cash flow characteristics. The reclassification of financial instruments will not have a material effect on the consolidated financial statements because the Group mainly reports trade receivables. Only 2% of financial assets will have to be reclassified; the rest have already been assigned to the new category and are measured at fair value through profit or loss. The change in recognition of impairment losses on financial assets from the incurred loss model (in which anticipated losses are not recognised until a credit loss event actually occurs) to the expected loss model will have a one-time effect to be recognised in other comprehensive income. This effect is expected to be immaterial, because sufficient loss allowances are already recognised for the risk of default on trade receivables. Following the introduction of the Standard, the loss allowances to be recognised on trade receivables will be determined using the full lifetime expected loss model (simplified approach). The default rates will be based on historical and forward-looking data. IFRS 9 will also more closely align hedge accounting with risk management objectives. In particular, the new requirements on hedging individual risk components, which are applicable for both non-financial and financial items, will considerably simplify the designation and presentation of hedging relationships. The range of hedged items permitted will, in future, be extended to cover combinations of derivative and non-derivative financial instruments, and parts or tranches of individual financial and non-financial items. The requirements for assessing hedge effectiveness, rebalancing hedging relationships and the de-designation of hedging relationships will also be simplified. Overall, the new hedge accounting requirements will result in greater flexibility with regard to hedging individual risks. They are not expected to have a material effect on the Group's results. The new requirements will more transparently reflect the risk management approach of Deutsche Post DHL Group.

New accounting requirements not yet adopted by the EU (endorsement procedure)

The IASB and the IFRIC issued further Standards, amendments to Standards and Interpretations in financial year 2016 and in previous years whose application is not yet mandatory for financial year 2016. The application of these IFRSs is dependent on their adoption by the EU.

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
Clarifications to IFRS 15 (12 April 2016)	1 January 2018	The clarifications principally address the following issues: identification of performance obligations, principal versus agent considerations, licensing and transition relief.
IFRS 16, Leases (13 January 2016)	1 January 2019	IFRS 16, Leases, replaces the existing standard on accounting for leases, IAS 17, and the related interpretations. IFRS 16 requires lessees to adopt a uniform approach to the presentation of leases. In future, assets must be recognised for the right of use received and liabilities must be recognised for the payment obligations entered into for all leases. Exemptions are provided for low-value lease assets and short-term leases (shorter than twelve months). In contrast, the accounting requirements for lessors remain largely unchanged, particularly with regard to the continued requirement to classify leases according to IAS 17. The Standard must be applied for the first time for reporting periods beginning on or after 1 January 2019. Voluntary early application is permitted, provided that IFRS 15 is also applied. The Group expects the introduction of IFRS 16 to have a material effect on components of the consolidated financial statements and the presentation of its net assets, financial position and results of operations: • Balance sheet: With regard to the financial obligations reported as operating lease liabilities under note 47, initial application of the Standard will result in significant increases in non-current assets (accounting for rights of use) and financial liabilities (disclosure of the corresponding lease liabilities). As a result of this increase in total assets and liabilities, the Group's equity ratio will decline and net debt will rise accordingly (see also note 33.4 Disclosures on corporate capital). • Income statement: In contrast to the presentation to date of operating lease expenses, in future depreciation charges on right-of-use assets and the interest expense from unwinding of the discount on the lease liabilities will be recognised. This improves the profit from operating activities (EBIT). • Cash flow statement: The change in presentation of operating lease expenses results in an improvement in net cash from/used in operating activities and a decline in net cash from/used in financing activities. A Group-wide project to implement IFRS 16 is underway. The existing leases held by all divisions are being inventoried, reviewed and recognised according to IFRS 16.
Amendments to IAS 12, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses (16 January 2016)	1 January 2017	The amendment of IAS 12 clarifies that unrealised losses on debt instruments measured at fair value result in deductible temporary differences. It also clarifies that an assessment must be made for the aggregate of all deductible temporary differences as to whether it is probable that sufficient taxable income will be available in future, to allow the temporary differences to be used and recognised. Rules and examples supplementing IAS 12 clarify how future taxable income is to be determined for recognition of deferred tax assets. The effects on the Group will be immaterial.
Amendments to IAS 7, Statement of Cash Flows – Disclosure Initiative (29 January 2016)	1 January 2017	The amendments provide clarifications regarding an entity's financing activities. Their objective is to make it easier for users of financial statements to assess an entity's financial liabilities. The disclosures are generally relevant and, in future, will be incorporated into the consolidated financial statements.
Amendments to IFRS 2, Share-based Payment – Clarifications of Classification and Measurement of Share-based Payment Transactions (20 June 2016)	1 January 2018	The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition. The measurement rules follow the same approach as when accounting for equity-settled awards. An exception was also included for the classification of share-based payment transactions with net settlement features for withholding tax obligations. Such commitments are required to be classified in their entirety as equity-settled share-based payment transactions if they would have been classified in this way in the absence of the net settlement feature. The amendments further include clarifications regarding modifications of the terms and conditions of share-based payment arrangements that change their classification from cash-settled to equity-settled. Early application is permitted. The amendments will not have any effect on the Group.
Amendments to IFRS 4, Insurance Contracts – Applying IFRS 9, Financial Instruments, with IFRS 4, Insurance Contracts (12 September 2016)	1 January 2018	The objective of the amendments to IFRS 4 is to minimise the accounting impact of different effective dates for IFRS 9 and the future new Standard on accounting for insurance contracts (IFRS 17). Entities can choose from two options. The deferral approach allows entities whose primary activity is issuing insurance contracts to delay the initial application of IFRS 9. Alternatively, the overlay approach is available to entities that apply IFRS 4 to existing insurance contracts and enables them to reclassify, from profit or loss to other comprehensive income, an amount equal to the difference between the amount reported in profit or loss for designated financial assets applying IFRS 9 and the amount that would have been reported in profit or loss under IAS 39. Both approaches are optional. The effect on the consolidated financial statements is currently being reviewed.

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
Annual Improvements to IFRSS (2014–2016 Cycle) (8 December 2016)	1 January 2017/ 1 January 2018	The improvements relate to IAS 28, Investments in Associates and Joint Ventures, and IFRS 12, Disclosure of Interests in Other Entities. IAS 28 clarifies that entities can decide on an investment-by-investment basis on measuring certain associates or joint ventures at fair value through profit or loss. The amendments to IFRS 12 make it clear that the disclosure requirements in IFRS 12 also apply to interests in other entities that are classified as held for sale in accordance with IFRS 5. Changes were also made to IFRS 1, First-time Adoption of International Financial Reporting Standards. The effective date for the amendments to IFRS 1 and IAS 28 is 1 January 2018 (with voluntary early application of IAS 28 permitted) and for the amendments to IFRS 12 is 1 January 2017. The amendments will not have a material influence on the consolidated financial statements.
IFRIC 22, Foreign Currency Transactions and Advance Consideration (8 December 2016)	1 January 2018	IFRIC 22 clarifies the date to be used to determine the exchange rate for transactions that include the receipt or payment of advance consideration in a foreign currency. The effective date of the interpretation is 1 January 2018. Early application is permitted. The effect is currently being reviewed.
Amendments to IAS 40, Investment Property (8 December 2016)	1 January 2018	The amendment provides clarity on the classification of property under construction or development. The consolidated financial statements will not be affected.
The following are not relevant for the consolidated financial statements: IFRS 14, Regulatory Deferral Accounts; amendments to IFRS 10 and IAS 28, Sales or Contributions of Assets between an Investor and its Associate/Joint Venture.		

6 Currency translation

The financial statements of consolidated companies prepared in foreign currencies are translated into euros (€) in accordance with IAS 21 using the functional currency method. The functional currency of foreign companies is determined by the primary economic environment in which they mainly generate and use cash. Within the Group, the functional currency is predominantly the local currency. In the consolidated financial statements, assets and liabilities are therefore translated at the closing rates, whilst periodic income and expenses are generally translated at the monthly closing rates. The resulting currency translation differences are recognised in other comprehensive income. In financial year 2016, currency translation differences amounting to €288 million (previous year: €477 million) were recognised in other comprehensive income (see the statement of comprehensive income).

Goodwill arising from business combinations after 1 January 2005 is treated as an asset of the acquired company and therefore carried in the functional currency of the acquired company.

The exchange rates for the currencies that are significant for the Group were as follows:

		Closing rates		Average rates	
Currency	Country	2015 EUR 1 =	2016 EUR 1 =	2015 EUR 1 =	2016 EUR 1 =
AUD	Australia	1.4905	1.4602	1.4771	1.4886
CNY	China	7.0687	7.3534	6.9773	7.3525
GBP	United Kingdom	0.7345	0.8560	0.7264	0.8187
JPY	Japan	131.0778	123.4555	134.3334	120.3110
SEK	Sweden	9.1879	9.5601	9.3523	9.4672
CHF	Switzerland	1.0823	1.0744	1.0680	1.0899
USD	USA	1.0886	1.0550	1.1105	1.1068

The carrying amounts of non-monetary assets recognised at significant consolidated companies operating in hyperinflationary economies are generally indexed in accordance with IAS 29 and thus reflect the current purchasing power at the balance sheet date.

In accordance with IAS 21, receivables and liabilities in the financial statements of consolidated companies that have been prepared in local currencies are translated at the closing rate as at the balance sheet date. Currency translation differences are recognised in other operating income and expenses in the income statement. In financial year 2016, income of €222 million (previous year: €280 million) and expenses of €222 million (previous year: €267 million) resulted from currency translation differences. In contrast, currency translation differences relating to net investments in a foreign operation are recognised in other comprehensive income.

7 Accounting policies

Uniform accounting policies are applied to the annual financial statements of the entities that have been included in the consolidated financial statements. The consolidated financial statements are prepared under the historical cost convention, except where items are required to be recognised at their fair value.

Revenue and expense recognition

Deutsche Post DHL Group's normal business operations consist of the provision of logistics services. All income relating to normal business operations is recognised as revenue in the income statement. All other income is reported as other operating income. Revenue and other operating income are generally recognised when services are rendered, the amount of revenue and income can be reliably measured and, in all probability, the economic benefits from the transactions will flow to the Group. Operating expenses are recognised in income when the service is utilised or when the expenses are incurred.

Intangible assets

Intangible assets, which comprise internally generated and purchased intangible assets and purchased goodwill, are measured at amortised cost.

Internally generated intangible assets are capitalised at cost if it is probable that their production will generate an inflow of future economic benefits and the costs can be reliably measured. In the Group, this concerns internally developed software. If the criteria for capitalisation are not met, the expenses are recognised immediately in income in the year in which they are incurred. In addition to direct costs, the production cost of internally developed software includes an appropriate share of allocable production overhead costs. Any borrowing costs incurred for qualifying assets are included in the production cost. Value added tax arising in conjunction with the acquisition or production of intangible assets is included in the cost if it cannot be deducted as input tax. Capitalised software is amortised over its useful life.

Intangible assets are amortised using the straight-line method over their useful lives. Impairment losses are recognised in accordance with the principles described in the section headed Impairment. The useful lives of significant intangible assets are presented in the table below:

Useful lives

	Years[1]
Internally developed software	up to 10
Purchased software	up to 5
Licences	term of agreement
Customer relationships	up to 20

[1] The useful lives indicated represent maximum amounts specified by the Group. The actual useful lives may be shorter due to contractual arrangements or other specific factors such as time and location.

Intangible assets that are not affected by legal, economic, contractual or other factors that might restrict their useful lives are considered to have indefinite useful lives. They are not amortised but are tested for impairment annually or whenever there are indications of impairment. They generally include brand names from business combinations and goodwill, for example. Impairment testing is carried out in accordance with the principles described in the section headed Impairment.

Property, plant and equipment

Property, plant and equipment is carried at cost, reduced by accumulated depreciation and valuation allowances. In addition to direct costs, production cost includes an appropriate share of allocable production overhead costs. Borrowing costs that can be allocated directly to the purchase, construction or manufacture of property, plant and equipment are capitalised. Value added tax arising in conjunction with the acquisition or production of items of property, plant or equipment is included in the cost if it cannot be deducted as input tax. Depreciation is charged using the straight-line method. The estimated useful lives applied to the major asset classes are presented in the table below:

Useful lives

	Years[1]
Buildings	20 to 50
Technical equipment and machinery	10 to 20
Aircraft	15 to 20
IT systems	4 to 5
Transport equipment and vehicle fleet	4 to 18
Other operating and office equipment	8 to 10

[1] The useful lives indicated represent maximum amounts specified by the Group. The actual useful lives may be shorter due to contractual arrangements or other specific factors such as time and location.

If there are indications of impairment, an impairment test must be carried out; see section headed Impairment.

Impairment

At each balance sheet date, the carrying amounts of intangible assets, property, plant and equipment and investment property are reviewed for indications of impairment. If there are any such indications, an impairment test is carried out. This is done by determining the recoverable amount of the relevant asset and comparing it with the carrying amount.

In accordance with IAS 36, the recoverable amount is the asset's fair value less costs to sell or its value in use (present value of the pre-tax free cash flows expected to be derived from the asset in future), whichever is higher. The discount rate used for the value in use is a pre-tax rate of interest reflecting current market conditions. If the recoverable amount cannot be determined for an individual asset, the recoverable amount is determined for the smallest identifiable group of assets to which the asset in question can be allocated and which generates independent cash flows (cash generating unit – CGU). If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognised immediately in respect of the asset. If, after an impairment loss has been recognised, a higher recoverable amount is determined for the asset or the CGU at a later date, the impairment loss is reversed up to a carrying amount that does not exceed the recoverable amount. The increased carrying amount attributable to the reversal of the impairment loss is limited to the carrying amount that would have been determined (net of amortisation or depreciation) if no impairment loss had been recognised in the past. The reversal of the impairment loss is recognised in the income statement. Impairment losses recognised in respect of goodwill may not be reversed.

Since January 2005, goodwill has been accounted for using the impairment-only approach in accordance with IFRS 3. This stipulates that goodwill must be subsequently measured at cost, less any cumulative adjustments from impairment losses. Purchased goodwill is therefore no longer amortised and instead is tested for impairment annually in accordance with IAS 36, regardless of whether any indication of possible impairment exists, as in the case of intangible assets with an indefinite useful life. In addition, the obligation remains to conduct an impairment test if there is any indication of impairment. Goodwill resulting from company acquisitions is allocated to the identifiable groups of assets (CGUs or groups of CGUs) that are expected to benefit from the synergies of the acquisition. These groups represent the lowest reporting level at which the goodwill is monitored for internal management purposes. The carrying amount of a CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the unit may be impaired. Where impairment losses are recognised in connection with a CGU to which goodwill has been allocated, the existing carrying amount of the goodwill is reduced first. If the amount of the impairment loss exceeds the carrying amount of the goodwill, the difference is allocated to the remaining non-current assets in the CGU.

Finance leases

A lease is an agreement in which the lessor conveys to the lessee the right to use an asset for a specified period in return for a payment or a number of payments. In accordance with IAS 17, beneficial ownership of leased assets is attributed to the lessee if the lessee substantially bears all risks and rewards incidental to ownership of the leased asset. To the extent that beneficial ownership is attributable to the Group as the lessee, the asset is capitalised at the date on which use starts, either at fair value or at the present value of the minimum lease payments if this is less than the fair value. A lease liability in the same amount is recognised under non-current liabilities. The lease is subsequently measured at amortised cost using the effective interest method. The depreciation methods and estimated useful lives correspond to those of comparable purchased assets.

Operating leases

For operating leases, the Group reports the leased asset at amortised cost as an asset under property, plant and equipment where it is the lessor. The lease payments received in the period are shown under other operating income. Where the Group is the lessee, the lease payments made are recognised as lease expenses under materials expense. Lease expenses and income are recognised using the straight-line method.

Investments accounted for using the equity method

Investments accounted for using the equity method cover associates and joint ventures. These are recognised using the equity method in accordance with IAS 28, Investments in Associates and Joint Ventures. Based on the cost of acquisition at the time of purchase of the investments, the carrying amount of the investment is increased or reduced annually to reflect the share of earnings, dividends distributed and other changes in the equity of the associates and joint ventures attributable to the investments of Deutsche Post AG or its consolidated subsidiaries. An impairment loss is recognised on investments accounted for using the equity method, including the goodwill in the carrying amount of the investment, if the recoverable amount falls below the carrying amount. Gains and losses from the disposal of investments accounted for using the equity method, as well as impairment losses and their reversals, are recognised in other operating income or other operating expenses.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include in particular cash and cash equivalents, trade receivables, originated loans and receivables, and derivative financial assets held for trading. Financial liabilities include contractual obligations to deliver cash or another financial asset to another entity. These mainly comprise trade payables, liabilities to banks, liabilities arising from bonds and finance leases, and derivative financial liabilities.

Fair value option

Under the fair value option, financial assets or financial liabilities may be measured at fair value through profit or loss on initial recognition if this eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch). The Group makes use of the option in order to avoid accounting mismatches.

Financial assets

Financial assets are accounted for in accordance with the provisions of IAS 39, which distinguishes between four categories of financial instruments.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

These financial instruments are non-derivative financial assets and are carried at their fair value, where this can be measured reliably. If a fair value cannot be determined, they are carried at cost. Changes in fair value between reporting dates are generally recognised in other comprehensive income (revaluation reserve). The reserve is reversed to income either upon disposal or if the fair value falls below cost more than temporarily, i.e., the drop is significant or prolonged. If, at a subsequent balance sheet date, the fair value of a debt instrument has increased objectively as a result of events occurring after the impairment loss was recognised, the impairment loss is reversed in the appropriate amount. Impairment losses recognised on equity instruments may not be reversed to income. If equity instruments are recognised at fair value, any reversals must be recognised in other comprehensive income. No reversals may be made in the case of equity instruments that were recognised at cost. Available-for-sale financial instruments are allocated to non-current assets unless the intention is to dispose of them within twelve months of the balance sheet date. In particular, investments in unconsolidated subsidiaries, marketable securities and other equity investments are reported in this category.

HELD-TO-MATURITY FINANCIAL ASSETS

Financial instruments are assigned to this category if there is an intention to hold the instrument to maturity and the economic conditions for doing so are met. These financial instruments are non-derivative financial assets that are measured at amortised cost using the effective interest method.

LOANS AND RECEIVABLES

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Unless held for trading, they are recognised at cost or amortised cost at the balance sheet date. The carrying amounts of money market receivables correspond approximately to their fair values due to their short maturity. Loans and receivables are considered current assets if they mature not more than twelve months after the balance sheet date; otherwise, they are recognised as non-current assets. If the recoverability of receivables is in doubt, they are recognised at amortised cost, less appropriate specific or collective valuation allowances. A write-down on trade receivables is recognised if there are objective indications that the amount of the outstanding receivable cannot be collected in full. The write-down is recognised in the income statement via a valuation account.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

All financial instruments held for trading and derivatives that do not satisfy the criteria for hedge accounting are assigned to this category. They are generally measured at fair value. All changes in fair value are recognised in income. All financial instruments in this category are accounted for at the trade date. Assets in this category are recognised as current assets if they are either held for trading or will likely be realised within twelve months of the balance sheet date.

To avoid variations in earnings resulting from changes in the fair value of derivative financial instruments, hedge accounting is applied where possible and economically useful. Gains and losses from the derivative and the related hedged item are recognised in income simultaneously. Depending on the hedged item and the risk to be hedged, the Group uses fair value hedges and cash flow hedges.

The carrying amounts of financial assets not carried at fair value through profit or loss are tested for impairment at each balance sheet date and whenever there are indications of impairment. The amount of any impairment loss is determined by comparing the carrying amount and the fair value. If there are objective indications of impairment, an impairment loss is recognised in the income statement under other operating expenses or net financial income/ net finance costs. Impairment losses are reversed if there are objective reasons arising after the balance sheet date indicating that the reasons for impairment no longer exist. The increased carrying amount resulting from the reversal of the impairment loss may not exceed the carrying amount that would have been determined (net of amortisation or depreciation) if the impairment loss had not been recognised. Impairment losses are recognised within the Group if the debtor is experiencing significant financial difficulties, it is highly probable that the debtor will be the subject of bankruptcy proceedings, there are material changes in the issuer's technological, economic, legal or market environment, or the fair value of a financial instrument falls below its amortised cost for a prolonged period.

A fair value hedge hedges the fair value of recognised assets and liabilities. Changes in the fair value of both the derivatives and the hedged item are recognised in income simultaneously.

A cash flow hedge hedges the fluctuations in future cash flows from recognised assets and liabilities (in the case of interest rate risks), highly probable forecast transactions as well as unrecognised firm commitments that entail a currency risk. The effective portion of a cash flow hedge is recognised in the hedging reserve in equity. Ineffective portions resulting from changes in the fair value of the hedging instrument are recognised directly in income. The gains and losses generated by the hedging transactions are initially recognised in equity and are then reclassified to profit or loss in the period in which the asset acquired or liability assumed affects profit or loss. If a hedge of a firm commitment subsequently results in the recognition of a non-financial asset, the gains and losses recognised directly in equity are included in the initial carrying amount of the asset (basis adjustment).

Net investment hedges in foreign entities are treated in the same way as cash flow hedges. The gain or loss from the effective portion of the hedge is recognised in other comprehensive income, whilst the gain or loss attributable to the ineffective portion is recognised directly in income. The gains or losses recognised in other comprehensive income remain there until the disposal or partial disposal of the net investment. Detailed information on hedging transactions can be found in note 45.3.

Regular way purchases and sales of financial assets are recognised at the settlement date, with the exception of held-for-trading instruments, particularly derivatives. A financial asset is derecognised if the rights to receive the cash flows from the asset have expired. Upon transfer of a financial asset, a review is made under the requirements of IAS 39 governing disposal as to whether the asset should be derecognised. A disposal gain/loss arises upon disposal. The remeasurement gains/losses recognised in other comprehensive income in prior periods must be reversed as at the disposal date. Financial liabilities are derecognised if the payment obligations arising from them have expired.

Investment property

In accordance with IAS 40, investment property is property held to earn rentals or for capital appreciation or both, rather than for use in the supply of services, for administrative purposes or for sale in the normal course of the company's business. It is measured in accordance with the cost model. Depreciable investment property is depreciated over a period of between 20 and 50 years using the straight-line method. The fair value is determined on the basis of expert opinions. Impairment losses are recognised in accordance with the principles described in the section headed Impairment.

Inventories

Inventories are assets that are held for sale in the ordinary course of business, are in the process of production, or are consumed in the production process or in the rendering of services. They are measured at the lower of cost or net realisable value. Valuation allowances are charged for obsolete inventories and slow-moving goods.

Government grants

In accordance with IAS 20, government grants are recognised at their fair value only when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. The grants are reported in the income statement and are generally recognised as income over the periods in which the costs they are intended to compensate are incurred. Where the grants relate to the purchase or production of assets, they are reported as deferred income and recognised in the income statement over the useful lives of the assets.

Assets held for sale and liabilities associated with assets held for sale

Assets held for sale are assets available for sale in their present condition and whose sale is highly probable. The sale must be expected to qualify for recognition as a completed sale within one year of the date of classification. Assets held for sale may consist of individual non-current assets, groups of assets (disposal groups), components of an entity or a subsidiary acquired exclusively for resale (discontinued operations). Liabilities intended to be disposed of together with the assets in a single transaction form part of the disposal group or discontinued operation and are also reported separately as liabilities associated with assets held for sale. Assets held for sale are no longer depreciated or amortised, but are recognised at the lower of their fair value less costs to sell and the carrying amount. Gains and losses arising from the remeasurement of individual non-current assets or disposal groups classified as held for sale are reported in profit or loss from continuing operations until the final date of disposal. Gains and losses arising from the measurement at fair value less costs to sell of discontinued operations classified as held for sale are reported in profit or loss from discontinued operations. This also applies to the profit or loss from operations and the gain or loss on disposal of these components of an entity.

Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and other short-term liquid financial assets with an original maturity of up to three months; they are carried at their principal amount. Overdraft facilities used are recognised in the balance sheet as amounts due to banks.

Non-controlling interests

Non-controlling interests are the proportionate minority interests in the equity of subsidiaries and are recognised at their carrying amount. If an interest is acquired from, or sold to, other shareholders without this impacting the existing control relationship, this is presented as an equity transaction. The difference between the proportionate net assets acquired from, or sold to, another shareholder/other shareholders and the purchase price is recognised in other comprehensive income. If non-controlling interests are increased by the proportionate net assets, no goodwill is allocated to the proportionate net assets.

Share-based payments to executives

Equity-settled share-based payment transactions are measured at fair value at the grant date. The fair value of the obligation is recognised in staff costs over the vesting period. The fair value of equity-settled share-based payment transactions is determined using internationally recognised valuation techniques.

Stock appreciation rights are measured on the basis of an option pricing model in accordance with IFRS 2. The stock appreciation rights are measured on each reporting date and on the settlement date. The amount determined for stock appreciation rights that will probably be exercised is recognised pro rata in income under staff costs to reflect the services rendered as consideration during the vesting period (lock-up period). A provision is recognised for the same amount.

Retirement plans

There are arrangements (plans) in many countries under which the Group grants post-employment benefits to its hourly workers and salaried employees. These benefits include pensions, lump-sum payments on retirement and other post-employment benefits and are referred to as retirement benefits, pensions and similar benefits, or simply pensions, in these disclosures. A distinction must be made between defined benefit and defined contribution plans.

THE GROUP'S DEFINED BENEFIT RETIREMENT PLANS

Defined benefit obligations are measured using the projected unit credit method prescribed by IAS 19. This involves making certain actuarial assumptions. Most of the defined benefit retirement plans are at least partly funded via external plan assets. The remaining net liabilities are funded by provisions for pensions and similar obligations; net assets are presented separately as pension assets. Where necessary, an asset ceiling must be applied when recognising pension assets. With regard to the cost components, the service cost is recognised in staff costs, the net interest cost in net financial income/net finance costs and any remeasurement outside profit and loss in other comprehensive income. Any rights to reimbursement are reported separately in financial assets.

DEFINED CONTRIBUTION RETIREMENT PLANS FOR CIVIL SERVANT EMPLOYEES IN GERMANY

In accordance with statutory provisions, Deutsche Post AG pays contributions to retirement plans in Germany which are defined contribution retirement plans for the company. These contributions are recognised in staff costs.

Under the provisions of the *Gesetz zum Personalrecht der Beschäftigten der früheren Deutschen Bundespost* (PostPersRG – Former Deutsche Bundespost Employees Act), Deutsche Post AG provides benefit and assistance payments through the *Postbeamtenversorgungskasse* (PVK) (postal civil servant pension fund) at the *Bundesanstalt für Post und Telekommunikation* (BAnstPT – German federal post and telecommunications agency) to retired employees or their surviving dependants who are entitled to benefits on the basis of a civil service appointment. The amount of Deutsche Post AG's payment obligations is governed by section 16 of the PostPersRG. This Act obliges Deutsche Post AG to pay into the PVK an annual contribution of 33% of the gross compensation of its active civil servants and the notional gross compensation of civil servants on leave of absence who are eligible for a pension.

Under section 16 of the PostPersRG, the federal government makes good the difference between the current payment obligations of the PVK on the one hand, and the funding companies' current contributions or other return on assets on the other, and guarantees that the PVK is able at all times to meet the obligations it has assumed in respect of its funding companies. Insofar as the federal government makes payments to the PVK under the terms of this guarantee, it cannot claim reimbursement from Deutsche Post AG.

DEFINED CONTRIBUTION RETIREMENT PLANS FOR THE GROUP'S HOURLY WORKERS AND SALARIED EMPLOYEES

Defined contribution retirement plans are in place for the Group's hourly workers and salaried employees, particularly in the UK, the USA and the Netherlands. The contributions to these plans are also reported in staff costs.

This also includes contributions to certain multi-employer plans which are basically defined benefit plans, especially in the USA and the Netherlands. However, the relevant institutions do not provide the participating companies with sufficient information to use defined benefit accounting. The plans are therefore accounted for as if they were defined contribution plans.

Regarding these multi-employer plans in the USA, contributions are made based on collective agreements between the employer and the local union. There is no employer liability to any of the plans beyond the normal bargained contribution rates except in the event of a withdrawal meeting specified criteria. Such a withdrawal could involve liability for other entities' obligations as governed by US federal law. The expected employer contributions to the funds for 2017 are €40 million (actual employer contributions in the reporting year: €35 million, in the previous year: €32 million). Some of the plans in which Deutsche Post DHL Group participates are underfunded according to information provided by the funds. There is no information from the plans that would indicate any change from the contribution rates set by current collective agreements. Deutsche Post DHL Group does not represent a significant level to any fund in terms of contributions, with the exception of one fund where the Group represents the largest employer in terms of contributions.

Regarding one multi-employer plan in the Netherlands, cost coverage-based contribution rates are set annually by the board of the pension fund with the involvement of the Central Bank of the Netherlands; the individual contribution rates are equal for all participating employers and employees. There is no liability for the employer towards the fund beyond the contributions set, even in the case of withdrawal or obligations not met by other entities. Any subsequent underfunding ultimately results in the rights of members being cut and/or no indexation of their rights. The expected employer contributions to the fund for 2017 are €21 million (actual employer contributions in the reporting year: €21 million, in the previous year: €21 million). As at 31 December 2016, the coverage degree of plan funding was higher than 100%, but lower than 105% (a required minimum), according to information provided by the fund. Deutsche Post DHL Group does not represent a significant portion of the fund in terms of contributions.

Other provisions

Other provisions are recognised for all legal or constructive obligations to third parties existing at the balance sheet date that have arisen as a result of past events, that are expected to result in an outflow of future economic benefits and whose amount can be measured reliably. They represent uncertain obligations that are carried at the best estimate of the expenditure required to settle the obligation. Provisions with more than one year to maturity are discounted at market rates of interest that reflect the region and time to settlement of the obligation. The discount rates used in the financial year were between 0.0% and 11.00% (previous year: 0.0% and 13.75%). The effects arising from changes in interest rates are recognised in net financial income/net finance cost.

Provisions for restructurings are only established in accordance with the aforementioned criteria for recognition if a detailed, formal restructuring plan has been drawn up and communicated to those affected.

The technical reserves (insurance) consist mainly of outstanding loss reserves and IBNR (incurred but not reported claims) reserves. Outstanding loss reserves represent estimates of obligations in respect of actual claims or known incidents expected to give rise to claims, which have been reported to the company but which have yet to be finalised and presented for payment. Outstanding loss reserves are based on individual claim valuations carried out by the company or its ceding insurers. IBNR reserves represent estimates of obligations in respect of incidents taking place on or before the balance sheet date that have not been reported to the company. Such reserves also include provisions for potential errors in settling outstanding loss reserves. The company carries out its own assessment of ultimate loss liabilities using actuarial methods and also commissions an independent actuarial study of these each year in order to verify the reasonableness of its estimates.

Financial liabilities

On initial recognition, financial liabilities are carried at fair value less transaction costs. The price determined on a price-efficient and liquid market or a fair value determined using the treasury risk management system deployed within the Group is taken as the fair value. In subsequent periods the financial liabilities are measured at amortised cost. Any differences between the amount received and the amount repayable are recognised in income over the term of the loan using the effective interest method.

CONVERTIBLE BOND ON DEUTSCHE POST AG SHARES

The convertible bond on Deutsche Post AG shares is split into an equity and a debt component, in line with the contractual arrangements. The debt component, less the transaction costs, is reported under financial liabilities (bonds), with interest added up to the issue amount over the term of the bond using the effective interest method (unwinding of discount). The value of the call option, which allows Deutsche Post AG to redeem the bond early if a specified share price is reached, is attributed to the debt component in accordance with IAS 32.31. The conversion right is classified as an equity derivative and is reported in capital reserves. The carrying amount is calculated by assigning to the conversion right the residual value that results from deducting the amount calculated separately for the debt component from the fair value of the instrument as a whole. The transaction costs are deducted on a proportionate basis.

Liabilities

Trade payables and other liabilities are carried at amortised cost. The fair value of the liabilities corresponds more or less to their carrying amount.

Deferred taxes

In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts in the IFRS financial statements and the tax accounts of the individual entities. Deferred tax assets also include tax reduction claims which arise from the expected future utilisation of existing tax loss carryforwards and which are likely to be realised. The recoverability of the tax reduction claims is assessed on the basis of each entity's earnings projections, which are derived from the Group projections and take any tax adjustments into account. The planning horizon is five years.

In compliance with IAS 12.24 (b) and IAS 12.15 (b), deferred tax assets or liabilities were only recognised for temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG where the differences arose after 1 January 1995. No deferred tax assets or liabilities are recognised for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG as at 1 January 1995. Further details on deferred taxes from tax loss carryforwards can be found in note 27.

In accordance with IAS 12, deferred tax assets and liabilities are calculated using the tax rates applicable in the individual countries at the balance sheet date or announced for the time when the deferred tax assets and liabilities are realised. The tax rate applied to German Group companies is unchanged at 30.2%. It comprises the corporation tax rate plus the solidarity surcharge, as well as a municipal trade tax rate that is calculated as the average of the different municipal trade tax rates. Foreign Group companies use their individual income tax rates to calculate deferred tax items. The income tax rates applied for foreign companies amount to up to 38% (previous year: 38%).

Income taxes

Income tax assets and liabilities are measured at the amounts for which repayments from, or payments to, the tax authorities are expected to be received or made. Tax-related fines are recognised in income taxes if they are included in the calculation of income tax liabilities, due to their inclusion in the tax base and/or tax rate.

Contingent liabilities

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the enterprise. Contingent liabilities also include certain obligations that will probably not lead to an outflow of resources embodying economic benefits, or where the amount of the outflow of resources embodying economic benefits cannot be measured with sufficient reliability. In accordance with IAS 37, contingent liabilities are not recognised as liabilities, note 46.

8 Exercise of judgement in applying the accounting policies

The preparation of IFRS-compliant consolidated financial statements requires the exercise of judgement by management. All estimates are reassessed on an ongoing basis and are based on historical experience and expectations with regard to future events that appear reasonable under the given circumstances. For example, this applies to assets held for sale. In this case, it must be determined whether the assets are available for sale in their present condition and whether their sale is highly probable. If this is the case, the assets and the associated liabilities are reported and measured as assets held for sale and liabilities associated with assets held for sale.

Estimates and assessments made by management

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make certain assumptions and estimates that may affect the amounts of the assets and liabilities included in the balance sheet, the amounts of income and expenses, and the disclosures relating to contingent liabilities. Examples of the main areas where assumptions, estimates and the exercise of management judgement occur are the recognition of provisions for pensions and similar obligations, the calculation of discounted cash flows for impairment testing and purchase price allocations, taxes and legal proceedings.

Disclosures regarding the assumptions made in connection with the Group's defined benefit retirement plans can be found in note 39.

The Group has operating activities around the globe and is subject to local tax laws. Management can exercise judgement when calculating the amounts of current and deferred taxes in the relevant countries. Although management believes that it has made a reasonable estimate relating to tax matters that are inherently uncertain, there can be no guarantee that the actual outcome of these uncertain tax matters will correspond exactly to the original estimate made. Any difference between actual events and the estimate made could have an effect on tax liabilities and deferred taxes in the period in which the matter is finally decided. The amount recognised for deferred tax assets could be reduced if the estimates of planned taxable income or changes to current tax laws restrict the extent to which future tax benefits can be realised.

Goodwill is regularly reported in the Group's balance sheet as a consequence of business combinations. When an acquisition is initially recognised in the consolidated financial statements, all identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. One of the most important estimates this requires is the determination of the fair values of these assets and liabilities at the date of acquisition. Land, buildings and office equipment are generally valued by independent experts, whilst securities for which there is an active market are recognised at the quoted exchange price. If intangible assets are identified in the course of an acquisition, their measurement can be based on the opinion of an independent external expert valuer, depending on the type of intangible asset and the complexity involved in determining its fair value. The independent expert determines the fair value using appropriate valuation techniques, normally based on expected future cash flows. In addition to the assumptions about the development of future cash flows, these valuations are also significantly affected by the discount rates used.

Impairment testing for goodwill is based on assumptions about the future. The Group carries out these tests annually and also whenever there are indications that goodwill has become impaired. The recoverable amount of the CGU must then be calculated. This amount is the higher of fair value less costs to sell and value in use. Determining value in use requires assumptions and estimates to be made with respect to forecasted future cash flows and the discount rate applied. Although management believes that the assumptions made for the purpose of calculating the recoverable amount are appropriate, possible unforeseeable changes in these assumptions – e.g., a reduction in the EBIT margin, an increase in the cost of capital or a decline in the long-term growth rate – could result in an impairment loss that could negatively affect the Group's net assets, financial position and results of operations.

Pending legal proceedings in which the Group is involved are disclosed in note 48. The outcome of these proceedings could have a significant effect on the net assets, financial position and results of operations of the Group. Management regularly analyses the information currently available about these proceedings and recognises provisions for probable obligations including estimated legal costs. Internal and external legal advisers participate in making this assessment. In deciding on the necessity for a provision, management takes into account the probability of an unfavourable outcome and whether the amount of the obligation can be estimated with sufficient reliability. The fact that an action has been launched or a claim asserted against the Group, or that a legal dispute has been disclosed in the notes, does not necessarily mean that a provision is recognised for the associated risk.

All assumptions and estimates are based on the circumstances prevailing and assessments made at the balance sheet date. For the purpose of estimating the future development of the business, a realistic assessment was also made at that date of the economic environment likely to apply in the future to the different sectors and regions in which the Group operates. In the event of developments in this general environment that diverge from the assumptions made, the actual amounts may differ from the estimated amounts. In such cases, the assumptions made and, where necessary, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

At the date of preparation of the consolidated financial statements, there is no indication that any significant change in the assumptions and estimates made will be required, so that on the basis of the information currently available it is not expected that there will be significant adjustments in financial year 2017 to the carrying amounts of the assets and liabilities recognised in the financial statements.

9 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and the subsidiaries, joint operations and investments accounted for using the equity method included in the consolidated financial statements and prepared in accordance with uniform accounting policies as at 31 December 2016.

Acquisition accounting for subsidiaries included in the consolidated financial statements uses the purchase method of accounting. The cost of the acquisition corresponds to the fair value of the assets given up, the equity instruments issued and the liabilities assumed at the transaction date. Acquisition-related costs are recognised as expenses. Contingent consideration is recognised at fair value at the date of initial consolidation.

The assets and liabilities, as well as income and expenses, of joint operations are included in the consolidated financial statements in proportion to the interest held in these operations, in accordance with IFRS 11. Accounting for the joint operators' share of the assets and liabilities, as well as recognition and measurement of goodwill, use the same methods as applied to the consolidation of subsidiaries.

In accordance with IAS 28, joint ventures and companies on which the parent can exercise significant influence (associates) are accounted for in accordance with the equity method using the purchase method of accounting. Any goodwill is recognised under investments accounted for using the equity method.

In the case of step acquisitions, the equity portion previously held is remeasured at the fair value applicable on the date of acquisition and the resulting gain or loss recognised in profit or loss.

Intra-group revenue, other operating income, and expenses as well as receivables, liabilities and provisions between companies that are consolidated fully or on a proportionate basis are eliminated. Intercompany profits or losses from intra-group deliveries and services not realised by sale to third parties are eliminated. Unrealised gains and losses from business transactions with investments accounted for using the equity method are eliminated on a proportionate basis.

SEGMENT REPORTING

10 Segment reporting

Segments by division

€m	PeP		Express		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1]		Group	
1 Jan. to 31 Dec.	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
External revenue	15,996	16,686	13,283	13,670	14,183	13,027	15,681	13,828	87	123	0	0	**59,230**	**57,334**
Internal revenue	135	111	378	360	707	710	110	129	1,182	1,156	−2,512	−2,466	**0**	**0**
Total revenue	16,131	16,797	13,661	14,030	14,890	13,737	15,791	13,957	1,269	1,279	−2,512	−2,466	**59,230**	**57,334**
Profit/loss from operating activities (EBIT)	1,103	1,443	1,391	1,548	−181	287	449	572	−351	−359	0	0	**2,411**	**3,491**
of which net income/loss from investments accounted for using the equity method	0	1	1	1	−1	0	2	2	0	0	0	0	**2**	**4**
Segment assets[2]	5,532	6,309	9,337	9,895	7,998	7,798	6,418	6,253	1,571	1,557	−83	−79	**30,773**	**31,733**
of which investments accounted for using the equity method	1	20	46	48	25	25	3	3	0	0	1	1	**76**	**97**
Segment liabilities[2]	2,697	3,035	3,508	3,579	3,141	2,930	3,372	3,290	1,496	1,486	−59	−58	**14,155**	**14,262**
Net segment assets/liabilities[2]	2,835	3,274	5,829	6,316	4,857	4,868	3,046	2,963	75	71	−24	−21	**16,618**	**17,471**
Capex	533	590	856	902	123	55	318	328	192	199	2	0	**2,024**	**2,074**
Depreciation and amortisation	318	333	391	442	86	79	306	291	229	201	0	0	**1,330**	**1,346**
Impairment losses	1	1	13	27	310	0	7	3	4	0	0	0	**335**	**31**
Total depreciation, amortisation and impairment losses	319	334	404	469	396	79	313	294	233	201	0	0	**1,665**	**1,377**
Other non-cash income and expenses[2]	506	428	240	308	261	93	256	240	69	102	1	−1	**1,333**	**1,170**
Employees	169,430	171,099	79,318	83,232	44,588	43,060	145,827	145,788	10,747	10,811	0	0	**449,910**	**453,990**

[1] Including rounding.
[2] Prior-period amounts adjusted.

Adjustment of prior-period amounts

Segment reporting has been adapted in line with internal reporting. The prior-period amounts have been adjusted accordingly.

The employee numbers are expressed as average numbers of FTEs.

Information about geographical regions

€m	Germany		Europe (excluding Germany)		Americas		Asia Pacific		Other regions		Group	
1 Jan. to 31 Dec.	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
External revenue	17,493	17,910	19,013	17,006	10,294	10,171	10,063	10,003	2,367	2,244	**59,230**	**57,334**
Non-current assets	5,298	5,498	7,264	7,328	3,876	4,279	3,553	3,562	390	377	**20,381**	**21,044**
Capex	911	940	574	512	267	422	223	165	49	35	**2,024**	**2,074**

10.1 Segment reporting disclosures

Deutsche Post DHL Group reports four operating segments; these are managed independently by the responsible segment management bodies in line with the products and services offered and the brands, distribution channels and customer profiles involved. Components of the entity are defined as a segment on the basis of the existence of segment managers with bottom-line responsibility who report directly to Deutsche Post DHL Group's top management.

External revenue is the revenue generated by the divisions from non-Group third parties. Internal revenue is revenue generated with other divisions. If comparable external market prices exist for services or products offered internally within the Group, these market prices or market-oriented prices are used as transfer prices (arm's length principle). The transfer prices for services for which no external market exists are generally based on incremental costs.

The expenses for IT services provided in the IT service centres are allocated to the divisions by their origin. The additional costs resulting from Deutsche Post AG's universal postal service obligation (nationwide retail outlet network, delivery every working day), and from its obligation to assume the compensation structure as the legal successor to Deutsche Bundespost, are allocated to the PeP division.

As part of the central management of currency risk, Corporate Treasury is responsible for deciding on the central absorption of fluctuations between projected and actual exchange rates on the basis of division-specific agreements.

In keeping with internal reporting, capital expenditure (capex) is disclosed. Additions to intangible assets net of goodwill and to property, plant and equipment are reported in the capex figure. Depreciation, amortisation and impairment losses relate to the segment assets allocated to the individual divisions. Other non-cash expenses relate primarily to expenses from the recognition of provisions.

The profitability of the Group's operating divisions is measured using profit/loss from operating activities (EBIT).

10.2 Segments by division

Reflecting the Group's predominant organisational structure, the primary reporting format is based on the divisions. The Group distinguishes between the following divisions:

POST - ECOMMERCE - PARCEL

The Post - eCommerce - Parcel (PeP) division handles both domestic and international mail and is a specialist in dialogue marketing, nationwide press distribution services and all the electronic services associated with mail delivery. The division offers parcel and e-commerce services not only in Germany, but worldwide. It is divided into two business units: Post, and eCommerce - Parcel.

EXPRESS

The Express division offers time-definite courier and express services to business and private customers. The division comprises the Europe, Americas, Asia Pacific and MEA (Middle East and Africa) regions.

GLOBAL FORWARDING, FREIGHT

The activities of the Global Forwarding, Freight division comprise the transport of goods by rail, road, air and sea. The division's business units are Global Forwarding and Freight.

SUPPLY CHAIN

The Supply Chain division delivers customised supply chain solutions to its customers based on globally standardised modular components including warehousing, transport and value-added services.

In addition to the reportable segments given above, segment reporting comprises the following categories:

Corporate Center/Other

Corporate Center/Other comprises Global Business Services (GBS), the Corporate Center, non-operating activities and other business activities. The profit/loss generated by GBS is allocated to the operating segments, whilst its assets and liabilities remain with GBS (asymmetrical allocation).

Consolidation

The data for the divisions are presented following consolidation of interdivisional transactions. The transactions between the divisions are eliminated in the Consolidation column.

10.3 Information about geographical regions

The main geographical regions in which the Group is active are Germany, Europe, the Americas, Asia Pacific and Other regions. External revenue, non-current assets and capex are disclosed for these regions. Revenue, assets and capex are allocated to the individual regions on the basis of the domicile of the reporting entity. Non-current assets primarily comprise intangible assets, property, plant and equipment and other non-current assets.

10.4 Reconciliation of segment amounts

Reconciliation of segment amounts to consolidated amounts

Reconciliation to the income statement

€m	Total for reportable segments		Corporate Center/ Other		Reconciliation to Group/ Consolidation[1]		Consolidated amount	
	2015	2016	2015	2016	2015	2016	2015	2016
External revenue	59,143	57,211	87	123	0	0	**59,230**	**57,334**
Internal revenue	1,330	1,310	1,182	1,156	−2,512	−2,466	**0**	**0**
Total revenue	**60,473**	**58,521**	**1,269**	**1,279**	**−2,512**	**−2,466**	**59,230**	**57,334**
Other operating income	2,333	2,097	1,340	1,454	−1,279	−1,395	**2,394**	**2,156**
Materials expense	−34,583	−32,046	−1,287	−1,330	2,700	2,756	**−33,170**	**−30,620**
Staff costs	−18,749	−18,689	−902	−917	11	14	**−19,640**	**−19,592**
Depreciation, amortisation and impairment losses	−1,432	−1,176	−233	−201	0	0	**−1,665**	**−1,377**
Other operating expenses	−5,282	−4,861	−538	−644	1,080	1,091	**−4,740**	**−4,414**
Net income from investments accounted for using the equity method	2	4	0	0	0	0	**2**	**4**
Profit/loss from operating activities (EBIT)	**2,762**	**3,850**	**−351**	**−359**	**0**	**0**	**2,411**	**3,491**
Net finance costs							**−354**	**−359**
Profit before income taxes							**2,057**	**3,132**
Income taxes							**−338**	**−351**
Consolidated net profit for the period							**1,719**	**2,781**
of which attributable to								
Deutsche Post AG shareholders							**1,540**	**2,639**
Non-controlling interests							**179**	**142**

[1] Including rounding.

The following table shows the reconciliation of Deutsche Post DHL Group's total assets to the segment assets. Financial assets, income tax assets, deferred taxes, cash and cash equivalents and other asset components are deducted.

The following table shows the reconciliation of Deutsche Post DHL Group's total liabilities to the segment liabilities. Components of the provisions and liabilities as well as income tax liabilities and deferred taxes are deducted.

Reconciliation to segment assets

€m	2015	2016
Total assets	37,870	38,295
Investment property	−25	−23
Non-current financial assets[1]	−931	−488
Other non-current assets	−151	−143
Deferred tax assets	−2,007	−2,192
Income tax assets	−197	−232
Receivables and other current assets[1]	−10	−16
Current financial assets[1]	−168	−361
Cash and cash equivalents	−3,608	−3,107
Segment assets[1]	**30,773**	**31,733**
of which Corporate Center/Other	1,571	1,557
Total for reportable segments	29,285	30,255
Consolidation[2]	−83	−79

[1] Prior-period amounts adjusted.
[2] Including rounding.

Reconciliation to segment liabilities

€m	2015	2016
Total equity and liabilities	37,870	38,295
Equity	−11,295	−11,350
Consolidated liabilities	**26,575**	**26,945**
Non-current provisions[1]	−6,625	−5,990
Non-current liabilities[1]	−4,719	−4,622
Current provisions[1]	−132	−98
Current liabilities[1]	−944	−1,973
Segment liabilities[1]	**14,155**	**14,262**
of which Corporate Center/Other	1,496	1,486
Total for reportable segments	12,718	12,834
Consolidation[2]	−59	−58

[1] Prior-period amounts adjusted.
[2] Including rounding.

INCOME STATEMENT DISCLOSURES

11 Revenue

Revenue decreased by €1,896 million (3.2 %) from €59,230 million to €57,334 million. The change in revenue was due to the following factors:

Factors affecting revenue decrease, 2016

€m	
Organic growth	–414
Portfolio changes[1]	12
Currency translation effects	–1,494
Total	**–1,896**

[1] Note 2.

Negative organic growth is attributable, in particular, to the contract with the UK National Health Service (NHS) which was modified in the fourth quarter of 2015. The changed recognition of revenue and expenses resulted in a decrease in revenue of €1,435 million.

As in the prior period, there was no revenue in financial year 2016 that was generated on the basis of barter transactions.

The further classification of revenue by division and the allocation of revenue to geographical regions are presented in the segment reporting.

12 Other operating income

€m	2015	2016
Income from the reversal of provisions	215	231
Income from currency translation differences	280	222
Gains on disposal of non-current assets	338	205
Insurance income	184	202
Income from fees and reimbursements	145	136
Income from work performed and capitalised	122	132
Commission income	112	122
Income from the remeasurement of liabilities	76	122
Reversals of impairment losses on receivables and other assets	217	120
Rental and lease income	111	99
Income from derivatives	33	68
Income from loss compensation	25	44
Income from prior-period billings	30	31
Income from the derecognition of liabilities	81	26
Recoveries on receivables previously written off	10	13
Subsidies	14	11
Miscellaneous	401	372
Other operating income	**2,394**	**2,156**

Of the gains on the disposal of non-current assets, €63 million relates to the sale of the remaining shares in the King's Cross companies in the UK. The prior-year disposal gains included €99 million from the sale of equity interests in Sinotrans Ltd., China, and €74 million from the sale of shares in the King's Cross companies.

The decline in other operating income is also attributable to the change in the exchange rate of the euro and the prior-year reversal of impairment losses on assets in the US express business in the amount of €90 million.

Subsidies relate to grants for the purchase or production of assets. The grants are reported as deferred income and recognised in the income statement over the useful lives of the assets.

Miscellaneous other operating income includes a large number of smaller individual items.

13 Materials expense

€m	2015	2016
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Aircraft fuel	1,047	885
Fuel	755	708
Packaging material	421	419
Goods purchased and held for resale	1,761	350
Spare parts and repair materials	110	110
Office supplies	60	65
Other expenses	136	186
	4,290	**2,723**
Cost of purchased services		
Transport costs	19,754	18,752
Cost of temporary staff and services	2,521	2,490
Expenses from non-cancellable leases	2,096	2,143
Maintenance costs	1,117	1,158
Commissions paid	557	570
IT services	612	538
Expenses from cancellable leases	493	492
Other lease expenses (incidental expenses)	393	384
Other purchased services	1,337	1,370
	28,880	**27,897**
Materials expense	**33,170**	**30,620**

The reduction in goods purchased and held for resale is largely attributable to the October 2015 revision of the terms of the procurement and logistics contract with the UK National Health Service (NHS), United Kingdom. Other factors contributing to the reduction in materials expenses were currency effects and lower transport and fuel costs.

Other expenses include a large number of individual items.

14 Staff costs/employees

€m	2015	2016
Wages, salaries and compensation	15,723	16,092
of which expenses under Share Matching Scheme[1]	99	95
expenses under Performance Share Plan[2]	10	17
expenses under SAR Plan 2006/LTIP[3]	33	94
Social security contributions	2,300	2,324
Retirement benefit expenses	1,031	607
Expenses for other employee benefits	586	569
Staff costs	**19,640**	**19,592**

[1] Equity-settled and cash-settled.
[2] Equity-settled.
[3] Cash-settled.

Staff costs relate mainly to wages, salaries and compensation, as well as all other benefits paid to employees of the Group for their services in the year under review.

Assuming that rights to shares are converted in full in the respective subsequent year, a maximum of €67 million of the expenses under the Share Matching Scheme in the reporting year (previous year: €72 million) is attributable to cash-settled share-based payments. The obligation at the balance sheet date was €60 million (previous year: €56 million). In addition, expenses of €28 million (previous year: €27 million) were incurred for equity-settled share-based payments.

Social security contributions relate, in particular, to statutory social security contributions paid by employers.

Retirement benefit expenses include the service cost related to the defined benefit retirement plans, note 39. These expenses also include contributions to defined contribution retirement plans for civil servants in Germany in the amount of €493 million (previous year: €516 million), as well as for the Group's hourly workers and salaried employees, totalling €305 million (previous year: €317 million), note 7. For the changes in retirement benefit expenses, see note 39 in particular.

The average number of Group employees in the year under review, broken down by employee group, was as follows:

Employees (annual average)

Headcount	2015	2016
Hourly workers and salaried employees	451,882	459,990
Civil servants	35,669	32,976
Trainees	5,314	5,493
Employees	**492,865**	**498,459**

The employees of companies acquired or disposed of during the year under review were included rateably. The average number of full-time equivalents during the year was 453,990 (previous year: 449,910), and the number of full-time equivalents (excluding trainees) as at 31 December 2016 amounted to 459,262 (previous year: 450,508). The number of employees at joint operations included in the consolidated financial statements amounted to 217 on a proportionate basis (previous year: 208).

15 Depreciation, amortisation and impairment losses

€m	2015	2016
Amortisation of and impairment losses on intangible assets, excluding impairment of goodwill	578	247
Depreciation of and impairment losses on property, plant and equipment		
Land and buildings (including leasehold improvements)	179	176
Technical equipment and machinery	268	290
Other equipment, operating and office equipment	219	236
Vehicle fleet, transport equipment	233	200
Aircraft	187	228
Total depreciation and impairment losses on property, plant and equipment	1,086	1,130
Depreciation of and impairment losses on investment property	1	0
Impairment of goodwill	0	0
Depreciation, amortisation and impairment losses	**1,665**	**1,377**

Depreciation, amortisation and impairment losses decreased by €288 million year-on-year to €1,377 million. This was attributable to the impairment losses on the NFE transformation programme of €310 million included in this item in the prior year.

The impairment losses are attributable to the segments as follows:

Impairment losses

€m	2015	2016
Post - eCommerce - Parcel		
Property, plant and equipment	1	1
Express		
Property, plant and equipment	13	27
Global Forwarding, Freight		
Software	310	0
Supply Chain		
Software	3	0
Property, plant and equipment	4	3
Corporate Center/Other		
Property, plant and equipment	3	0
Investment property	1	0
Impairment losses	**335**	**31**

Impairment losses in the financial year were recognised mainly for the Express division and, as in the previous year, related to aircraft and aircraft parts in particular.

16 Other operating expenses

€m	2015	2016
Expenses for advertising and public relations	429	385
Cost of purchased cleaning and security services	357	360
Insurance costs	335	331
Travel and training costs	348	315
Warranty expenses, refunds and compensation payments	266	301
Other business taxes	231	267
Telecommunication costs	237	230
Write-downs of current assets	302	223
Currency translation expenses	267	222
Office supplies	190	167
Entertainment and corporate hospitality expenses	169	166
Consulting costs (including tax advice)	179	134
Services provided by the *Bundesanstalt für Post und Telekommunikation* (German federal post and telecommunications agency)	148	126
Customs clearance-related charges	114	115
Contributions and fees	95	98
Voluntary social benefits	83	81
Losses on disposal of assets	46	76
Legal costs	107	75
Expenses from derivatives	120	65
Commissions paid	64	63
Monetary transaction costs	47	48
Audit costs	38	32
Expenses from prior-period billings	14	27
Donations	24	24
Miscellaneous	530	483
Other operating expenses	**4,740**	**4,414**

Taxes other than income taxes are either recognised in the related expense item or, if no specific allocation is possible, in other operating expenses.

Miscellaneous other operating expenses include a large number of smaller individual items.

17 Net finance costs

€m

	2015	2016
Financial income		
Interest income	46	54
Income from other equity investments and financial assets	4	1
Other financial income	44	35
	94	**90**
Finance costs		
Interest expenses	–335	–302
of which unwinding of discounts for net pension provisions and other provisions	–189	–156
Other finance costs	–75	–82
	–410	**–384**
Foreign currency result	**–38**	**–65**
Net finance costs	**–354**	**–359**

Interest income and interest expenses result from financial assets and liabilities that were not measured at fair value through profit or loss.

Information on the unwinding of discounted net pension provisions can be found in note 39.

18 Income taxes

€m

	2015	2016
Current income tax expense	–625	–607
Current recoverable income tax	63	40
	–562	**–567**
Deferred tax income from temporary differences	75	84
Deferred tax income from tax loss carryforwards	149	132
	224	**216**
Income taxes	**–338**	**–351**

The reconciliation to the effective income tax expense is shown below, based on consolidated net profit before income taxes and the expected income tax expense:

Reconciliation

€m

	2015	2016
Profit before income taxes	**2,057**	**3,132**
Expected income taxes	–621	–946
Deferred tax assets not recognised for initial differences	–5	12
Deferred tax assets of German Group companies not recognised for tax loss carryforwards and temporary differences	349	569
Deferred tax assets of foreign Group companies not recognised for tax loss carryforwards and temporary differences	90	168
Effect of current taxes from previous years	–10	–26
Tax-exempt income and non-deductible expenses	–204	–205
Differences in tax rates at foreign companies	63	77
Income taxes	**–338**	**–351**

The difference from deferred tax assets not recognised for initial differences is due to differences between the carrying amounts in the opening tax accounts of Deutsche Post AG and the carrying amounts in the IFRS financial statements as at 1 January 1995 (initial differences). In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognise any deferred tax assets in respect of these temporary differences, which related mainly to property, plant and equipment as well as to provisions for pensions and similar obligations. The remaining temporary differences between the original IFRS carrying amounts, net of accumulated depreciation or amortisation, and the tax base amounted to €295 million as at 31 December 2016 (previous year: €334 million).

The effects from deferred tax assets of German Group companies not recognised for tax loss carryforwards and temporary differences relate primarily to Deutsche Post AG and members of its consolidated tax group. Effects from deferred tax assets of foreign companies not recognised for tax loss carryforwards and temporary differences relate primarily to the Americas region.

€679 million (previous year: €252 million) of the effects from deferred tax assets not recognised for tax loss carryforwards and temporary differences relates to the reduction of the effective income tax expense due to the utilisation of tax loss carryforwards and temporary differences, for which deferred tax assets had previously not been recognised, and results mainly from Germany. In addition, the recognition of deferred tax assets previously not recognised for tax loss carryforwards and of deductible temporary differences from a prior period reduced the deferred tax expense by €154 million (previous year: €267 million). Effects from unrecognised deferred tax assets amounting to €1 million (previous year: €29 million) were due to a valuation allowance recognised for a deferred tax asset. Other effects from unrecognised deferred tax assets relate primarily to tax loss carryforwards for which no deferred taxes were recognised.

A deferred tax asset in the amount of €1.4 billion was recognised in the balance sheet for companies that reported a loss in the previous year or in the current period as, based on tax planning, realisation of the tax asset is probable.

In financial year 2016, there were no changes in tax rates affecting German Group companies. The change in the tax rate in some foreign tax jurisdictions did not lead to any significant effects.

The effective income tax expense includes prior-period tax expenses from German and foreign companies in the amount of €26 million (tax expense) (previous year: expense of €10 million).

The following table presents the tax effects on the components of other comprehensive income:

Other comprehensive income

€m

	Before taxes	Income taxes	After taxes
2016			
Change due to remeasurements of net pension provisions	–876	8	**–868**
IAS 39 revaluation reserve	–69	13	**–56**
IAS 39 hedging reserve	63	–19	**44**
Currency translation reserve	–291	0	**–291**
Other changes in retained earnings	0	0	**0**
Share of other comprehensive income of investments accounted for using the equity method	3	0	**3**
Other comprehensive income	**–1,170**	**2**	**–1,168**
2015			
Change due to remeasurements of net pension provisions	833	–65	**768**
IAS 39 revaluation reserve	–110	7	**–103**
IAS 39 hedging reserve	–18	5	**–13**
Currency translation reserve	472	0	**472**
Other changes in retained earnings	0	0	**0**
Share of other comprehensive income of investments accounted for using the equity method	5	0	**5**
Other comprehensive income	**1,182**	**–53**	**1,129**

19 Earnings per share

Basic earnings per share are computed in accordance with IAS 33, Earnings per Share, by dividing consolidated net profit by the average number of shares outstanding. Outstanding shares relate to issued capital less any treasury shares held. Basic earnings per share for financial year 2016 were €2.19 (previous year: €1.27).

Basic earnings per share

		2015	2016
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	1,540	2,639
Weighted average number of shares outstanding	number	1,210,620,132	1,203,092,606
Basic earnings per share	**€**	**1.27**	**2.19**

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of all potentially dilutive shares. This item includes the executives' rights to shares under the Performance Share Plan and Share Matching Scheme share-based payment systems (as at 31 December 2016: 8,045,621 shares; previous year: 5,423,718 shares), the maximum number of ordinary shares that can be issued on exercise of the conversion rights under the convertible bond issued on 6 December 2012, as well as the shares from the share buyback programme that have not yet been acquired. Consolidated net profit for the period attributable to Deutsche Post AG shareholders was increased by the amounts spent for the convertible bonds.

Diluted earnings per share in the reporting period were €2.10 (previous year: €1.22).

Diluted earnings per share

		2015	2016
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	1,540	2,639
Plus interest expense on the convertible bond	€m	6	6
Less income taxes	€m	1	1
Adjusted consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	1,545	2,644
Weighted average number of shares outstanding	number	1,210,620,132	1,203,092,606
Potentially dilutive shares	number	51,901,142	54,232,677
Weighted average number of shares for diluted earnings	number	1,262,521,274	1,257,325,283
Diluted earnings per share	**€**	**1.22**	**2.10**

20 Dividend per share

A dividend per share of €1.05 is being proposed for financial year 2016 (previous year: €0.85). Further details on the dividend distribution can be found in note 37.

BALANCE SHEET DISCLOSURES

21 Intangible assets

21.1 Overview

€m	Internally generated intangible assets	Purchased brand names	Purchased customer lists	Other purchased intangible assets	Goodwill	Advance payments and intangible assets under development	Total
Cost							
Balance at 1 January 2015	**1,151**	**544**	**975**	**1,534**	**12,247**	**392**	**16,843**
Additions from business combinations	0	0	0	0	0	0	**0**
Additions	26	0	0	63	0	135	**224**
Reclassifications	73	0	0	84	0	–126	**31**
Disposals	–12	0	0	–69	–4	–311	**–396**
Currency translation differences	2	35	64	22	461	0	**584**
Balance at 31 December 2015/1 January 2016	**1,240**	**579**	**1,039**	**1,634**	**12,704**	**90**	**17,286**
Additions from business combinations	0	4	17	25	236	0	**282**
Additions	27	0	0	57	0	101	**185**
Reclassifications	58	0	0	59	0	–95	**22**
Disposals	–12	0	0	–83	–4	–2	**–101**
Currency translation differences	–2	–77	–50	–6	–145	–3	**–283**
Balance at 31 December 2016	**1,311**	**506**	**1,006**	**1,686**	**12,791**	**91**	**17,391**
Amortisation and impairment losses							
Balance at 1 January 2015	**979**	**478**	**690**	**1,204**	**1,138**	**2**	**4,491**
Additions from business combinations	0	0	0	0	0	0	**0**
Amortisation	80	0	53	131	0	0	**264**
Impairment losses	3	0	0	3	0	308	**314**
Reclassifications	2	0	0	0	0	–2	**0**
Reversals of impairment losses	–1	0	0	0	0	0	**–1**
Disposals	–11	0	0	–66	–1	–308	**–386**
Currency translation differences	1	30	44	17	22	0	**114**
Balance at 31 December 2015/1 January 2016	**1,053**	**508**	**787**	**1,289**	**1,159**	**0**	**4,796**
Additions from business combinations	0	0	0	13	0	0	**13**
Amortisation	80	0	42	125	0	0	**247**
Impairment losses	0	0	0	0	0	0	**0**
Reclassifications	3	0	0	–2	0	0	**1**
Reversals of impairment losses	0	0	0	0	0	0	**0**
Disposals	–9	0	0	–70	0	0	**–79**
Currency translation differences	–2	–72	–35	–6	–26	0	**–141**
Balance at 31 December 2016	**1,125**	**436**	**794**	**1,349**	**1,133**	**0**	**4,837**
Carrying amount at 31 December 2016	**186**	**70**	**212**	**337**	**11,658**	**91**	**12,554**
Carrying amount at 31 December 2015	**187**	**71**	**252**	**345**	**11,545**	**90**	**12,490**

The additions to goodwill relate to UK Mail Group (€201 million) and Mitsafetrans (€35 million), see also note 2. In the previous year, impairment losses of €310 million were recognised for the NFE transformation programme. This figure included capitalised borrowing costs of €10 million.

Purchased software, concessions, industrial rights, licences and similar rights and assets are reported under purchased intangible assets. Internally generated intangible assets relate to development costs for internally developed software.

Other than goodwill, only brand names that are acquired in their entirety are considered to have indefinite useful lives.

21.2 Allocation of goodwill to CGUs

€m	2015	2016
Total goodwill	**11,545**	**11,658**
Post - eCommerce - Parcel	**934**	**1,135**
Express	**3,939**	**3,945**
Global Forwarding, Freight		
DHL Global Forwarding	4,163	4,156
DHL Freight	277	277
Supply Chain	**2,232**	**2,145**

For the purposes of annual impairment testing in accordance with IAS 36, the Group determines the recoverable amount of a CGU on the basis of its value in use. This calculation is based on projections of free cash flows that are initially discounted at a rate corresponding to the post-tax cost of capital. Pre-tax discount rates are then determined iteratively.

The cash flow projections are based on the detailed planning for EBIT, depreciation/amortisation and investment planning adopted by management, as well as changes in net working capital, and take both internal historical data and external macroeconomic data into account. From a methodological perspective, the detailed planning phase covers a three-year planning horizon from 2017 to 2019. It is supplemented by a perpetual annuity representing the value added from 2020 onwards. This is calculated using a long-term growth rate, which is determined for each CGU separately and which is shown in the table below. The growth rates applied are based on long-term real growth figures for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the CGUs operate. The cash flow forecasts are based both on past experience and on the effects of the anticipated future general market trend. In addition, the forecasts take into account growth in the respective geographical submarkets and in global trade, and the ongoing trend towards outsourcing logistics activities. Cost trend forecasts for the transport network and services also have an impact on value in use. Another key planning assumption for the impairment test is the EBIT margin for the perpetual annuity.

The pre-tax cost of capital is based on the weighted average cost of capital. The (pre-tax) discount rates for the individual CGUs and the growth rates assumed in each case for the perpetual annuity are shown in the following table:

%	Discount rates		Growth rates	
	2015	2016	2015	2016
Supply Chain	**9.0**	**8.2**	**2.5**	**2.5**
Global Forwarding, Freight				
DHL Freight	9.1	8.4	2.0	2.0
DHL Global Forwarding	8.9	8.1	2.5	2.5
Post - eCommerce - Parcel	**8.1**	**7.5**	**0.5**	**0.5**
Express	**8.3**	**7.6**	**2.0**	**2.0**

On the basis of these assumptions and the impairment tests carried out for the individual CGUs to which goodwill was allocated, it was established that the recoverable amounts for all CGUs exceed their carrying amounts. No impairment losses were recognised on goodwill in any of the CGUs as at 31 December 2016.

When performing the impairment test, Deutsche Post DHL Group conducted sensitivity analyses as required by IAS 36.134 for the EBIT margin, the discount rate and the growth rate. These analyses – which included varying the essential valuation parameters within an appropriate range – did not reveal any risk of impairment to goodwill.

22 Property, plant and equipment

22.1 Overview

€m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Aircraft	Vehicle fleet and transport equipment	Advance payments and assets under development	Total
Cost							
Balance at 1 January 2015	**4,676**	**4,403**	**2,474**	**1,853**	**2,326**	**533**	**16,265**
Additions from business combinations	0	0	0	0	0	0	**0**
Additions	124	114	196	54	179	1,133	**1,800**
Reclassifications	92	415	89	129	33	–792	**–34**
Disposals	–404	–143	–233	–132	–153	–16	**–1,081**
Currency translation differences	76	68	36	20	15	16	**231**
Balance at 31 December 2015/1 January 2016	**4,564**	**4,857**	**2,562**	**1,924**	**2,400**	**874**	**17,181**
Additions from business combinations	60	52	19	0	16	0	**147**
Additions	192	126	211	94	221	1,045	**1,889**
Reclassifications	276	533	90	292	27	–1,241	**–23**
Disposals	–230	–166	–207	–243	–229	–12	**–1,087**
Currency translation differences	–26	–12	–5	15	–28	–12	**–68**
Balance at 31 December 2016	**4,836**	**5,390**	**2,670**	**2,082**	**2,407**	**654**	**18,039**
Depreciation and impairment losses							
Balance at 1 January 2015	**2,325**	**2,942**	**1,932**	**809**	**1,079**	**1**	**9,088**
Additions from business combinations	0	0	0	0	0	0	**0**
Depreciation	175	264	219	175	233	0	**1,066**
Impairment losses	4	4	0	12	0	0	**20**
Reclassifications	–4	–1	1	0	1	–1	**–4**
Reversals of impairment losses	–59	–30	–1	0	0	0	**–90**
Disposals	–233	–126	–221	–124	–130	0	**–834**
Currency translation differences	50	46	29	8	7	0	**140**
Balance at 31 December 2015/1 January 2016	**2,258**	**3,099**	**1,959**	**880**	**1,190**	**0**	**9,386**
Additions from business combinations	10	28	14	0	7	0	**59**
Depreciation	175	287	236	201	200	0	**1,099**
Impairment losses	1	3	0	27	0	0	**31**
Reclassifications	14	–16	4	0	0	0	**2**
Reversals of impairment losses	0	0	0	0	0	0	**0**
Disposals	–128	–141	–197	–233	–187	0	**–886**
Currency translation differences	–11	–11	–4	4	–19	0	**–41**
Balance at 31 December 2016	**2,319**	**3,249**	**2,012**	**879**	**1,191**	**0**	**9,650**
Carrying amount at 31 December 2016	**2,517**	**2,141**	**658**	**1,203**	**1,216**	**654**	**8,389**
Carrying amount at 31 December 2015	**2,306**	**1,758**	**603**	**1,044**	**1,210**	**874**	**7,795**

Advance payments relate only to advance payments on items of property, plant and equipment for which the Group has paid advances in connection with uncompleted transactions. Assets under development relate to items of property, plant and equipment in progress at the balance sheet date for whose production internal or third-party costs have already been incurred.

22.2 Finance leases

The following assets are carried as non-current assets resulting from finance leases:

€m	2015	2016
Land and buildings	137	180
Technical equipment and machinery	2	1
Other equipment, operating and office equipment	24	16
Aircraft	0	2
Vehicle fleet and transport equipment	1	4
Finance leases	**164**	**203**

Information on the corresponding liabilities can be found under financial liabilities, note 41.2.

23 Investment property

The investment property largely comprises leased property encumbered by heritable building rights, and developed and undeveloped land.

€m	2015	2016
Cost		
At 1 January	42	39
Additions	0	2
Reclassifications	4	0
Disposals	–8	–7
Currency translation differences	1	0
At 31 December	**39**	**34**
Depreciation and impairment losses		
At 1 January	10	14
Additions	0	0
Impairment losses	1	0
Disposals	0	–2
Reclassifications	3	–1
Currency translation differences	0	0
At 31 December	**14**	**11**
Carrying amount at 31 December	**25**	**23**

Rental income for investment property amounted to €1 million (previous year: €2 million), whilst the related expenses were €0 million (previous year: €1 million). The fair value amounted to €58 million (previous year: €58 million).

24 Investments accounted for using the equity method

Investments accounted for using the equity method changed as shown in the table below.

The additions relate to the 27.5% non-controlling interest in Relais Colis SAS, France, acquired in January 2016.

The complete list of investments in associates and joint ventures can be found in the list of the Group's shareholdings in accordance with section 313(2) nos. 1 to 5 and section 313(3) of the HGB, which can be accessed online at dpdhl.com/en/investors.

24.1 Investments in associates

The following table gives an aggregated overview of the carrying amount in the consolidated financial statements and selected financial data (based on the interest held) for those associates which, both individually and in the aggregate, are not of material significance for the Group.

Aggregate financial data for associates

€m	2015	2016
Carrying amount in the consolidated financial statements	75	95
Profit/loss before income taxes	3	4
Profit/loss after income taxes	2	3
Other comprehensive income	5	3
Total comprehensive income	7	6

24.2 Joint ventures

The following table presents in aggregated form the carrying amount and selected financial data of all interests in all joint ventures which, both individually and in the aggregate, are immaterial. The figures represent the Group's interests.

Aggregate financial data for joint ventures

€m	2015	2016
Carrying amount in the consolidated financial statements	1	2
Profit/loss before income taxes	1	1
Profit/loss after income taxes	0	1
Other comprehensive income	0	0
Total comprehensive income	0	1

€m	Associates		Joint ventures		Total	
	2015	2016	2015	2016	2015	2016
Balance at 1 January	69	75	6	1	**75**	**76**
Additions	0	19	0	0	**0**	**19**
Disposals	0	–3	–3	0	**–3**	**–3**
Impairment losses	0	0	–2	0	**–2**	**0**
Changes in the Group's share of equity						
Changes recognised in profit or loss	2	3	0	1	**2**	**4**
Profit distributions	–1	–2	0	0	**–1**	**–2**
Changes recognised in other comprehensive income	5	3	0	0	**5**	**3**
Balance at 31 December	**75**	**95**	**1**	**2**	**76**	**97**

25 Financial assets

€m	Non-current		Current		Total	
	2015	2016	2015	2016	2015	2016
Available-for-sale financial assets	119	32	27	200	**146**	**232**
of which measured at fair value	108	21	27	200	**135**	**221**
Loans and receivables	806	458	105	73	**911**	**531**
Assets at fair value through profit or loss	138	155	42	94	**180**	**249**
Lease receivables	50	44	5	7	**55**	**51**
Financial assets	**1,113**	**689**	**179**	**374**	**1,292**	**1,063**

The change in financial assets is attributable primarily to the sale of the remaining shares held in the King's Cross companies as well as the release of an amount of €378 million deposited in a trustee account for the EU state aid decision, see also notes 46 and 48.

Write-downs of non-current financial assets at fair value through profit or loss amounting to €12 million (previous year: €17 million) were recognised in the income statement, whilst a write-up in the same amount was recognised for liabilities at fair value through profit or loss.

Compared with the market rates of interest prevailing at 31 December 2016 for comparable non-current financial assets, most of the housing promotion loans are low-interest or interest-free loans. They are recognised in the balance sheet at a present value of €6 million (previous year: €8 million). The principal amount of these loans totals €6 million (previous year: €8 million).

Details on restraints on disposal are contained in note 45.2.

26 Other assets

26.1 Overview

€m	2015	2016
Other non-current assets	221	222
Other current assets	2,172	2,176
Other assets	**2,393**	**2,398**

26.2 Breakdown of other assets

€m	2015	2016
Prepaid expenses	630	705
Current tax receivables	477	463
Pension assets, non-current only	151	143
Receivables from private postal agencies	126	127
Income from cost absorption	99	86
Creditors with debit balances	40	39
Receivables from insurance business	38	35
Receivables from loss compensation (recourse claims)	30	32
Receivables from employees	27	32
Receivables from cash-on-delivery	5	4
Other assets, of which non-current: 79 (previous year: 70)	770	732
Other assets	**2,393**	**2,398**

Information on pension assets can be found in note 39.

Of the tax receivables, €346 million (previous year: €356 million) relates to VAT, €62 million (previous year: €72 million) to customs and duties, and €55 million (previous year: €49 million) to other tax receivables. Miscellaneous other assets include a large number of individual items.

27 Deferred taxes

27.1 Overview

€m	2015	2016
Deferred tax assets	2,007	2,192
Deferred tax liabilities	142	106

27.2 Breakdown by balance sheet item

€m	2015		2016	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	52	156	25	131
Property, plant and equipment	119	71	140	98
Non-current financial assets	1	22	5	11
Other non-current assets	76	8	77	7
Other current assets	37	31	24	56
Provisions	640	62	580	20
Financial liabilities	2	46	93	13
Other liabilities	137	9	143	2
Tax loss carryforwards	1,206	–	1,337	–
Gross amount	**2,270**	**405**	**2,424**	**338**
Netting	–263	–263	–232	–232
Carrying amount	**2,007**	**142**	**2,192**	**106**

€1,110 million (previous year: €1,101 million) of the deferred taxes on tax loss carryforwards relates to tax loss carryforwards in Germany and €227 million (previous year: €105 million) to foreign tax loss carryforwards.

No deferred tax assets were recognised for tax loss carryforwards of around €10.1 billion (previous year: €10.0 billion) and for temporary differences of around €3.0 billion (previous year: €4.1 billion), as it can be assumed that the Group will probably not be able to use these tax loss carryforwards and temporary differences in its tax planning.

Most of the tax loss carryforwards in Germany are attributable to Deutsche Post AG. It will be possible to utilise them for an indefinite period of time. In the case of the foreign companies, the significant tax loss carryforwards will not lapse before 2023.

Deferred taxes have not been recognised for temporary differences of €813 million (previous year: €802 million) relating to earnings of German and foreign subsidiaries because these temporary differences will probably not reverse in the foreseeable future.

27.3 Maturity structure

€m	Short-term	Long-term	Netting	Total
2016				
Deferred tax assets	860	1,564	–232	**2,192**
Deferred tax liabilities	119	219	–232	**106**
2015				
Deferred tax assets	665	1,605	–263	**2,007**
Deferred tax liabilities	98	307	–263	**142**

28 Inventories

€m	2015	2016
Raw materials, consumables and supplies	137	150
Finished goods and goods purchased and held for resale	65	61
Work in progress	66	59
Advance payments	13	5
Inventories	**281**	**275**

There was no requirement to charge significant valuation allowances on these inventories.

29 Trade receivables

€m	2015	2016
Trade receivables	7,049	7,290
Deferred revenue	636	659
Receivables from Group companies	9	16
Trade receivables	**7,694**	**7,965**

30 Income tax assets and liabilities

All income tax assets and liabilities are current and have maturities of less than one year.

31 Cash and cash equivalents

€m	2015	2016
Cash equivalents	2,353	1,198
Bank balances/cash in transit	1,182	1,837
Cash	20	19
Other cash and cash equivalents	53	53
Cash and cash equivalents	**3,608**	**3,107**

Of the €3,107 million in cash and cash equivalents, €955 million was not available for general use by the Group as at the balance sheet date (previous year: €838 million). Of this amount, €886 million (previous year: €766 million) was attributable to countries where exchange controls or other legal restrictions apply (mostly China, India and Thailand) and €69 million primarily to companies with non-controlling interest holders (previous year: €72 million).

32 Assets held for sale and liabilities associated with assets held for sale

The amounts reported in this item mainly relate to the following items:

€m	Assets		Liabilities	
	2015	2016	2015	2016
Exel Inc., USA – real estate (Supply Chain segment)	6	0	0	0
nugg.ad GmbH, Germany – equity interest (PeP segment)	3	0	2	0
Güll GmbH, Germany, and Presse-Service Güll GmbH, Switzerland – equity interests (PeP segment)	3	0	0	0
Other	0	0	0	0
Assets held for sale and liabilities associated with assets held for sale	**12**	**0**	**2**	**0**

The sale plan for properties of Exel Inc., USA, reported in the previous year was withdrawn. The real estate was reclassified as investment property. The sale of nugg.ad GmbH, Germany, and Güll GmbH, Germany, as well as Presse-Service Güll GmbH, Switzerland, was completed during the year under review.

The "other" item relates to legacy aircraft held for sale. Another five aircraft with a carrying amount of €1.00 each were reclassified to this balance sheet item during the financial year. The most recent measurement prior to reclassification led to an impairment loss of €26 million.

33 Issued capital and purchase of treasury shares

As at 31 December 2016, KfW Bankengruppe (KfW) held a 20.5% (previous year: 20.9%) interest in the share capital of Deutsche Post AG. The remaining 79.5% (previous year: 79.1%) of the shares were in free float. KfW holds the shares in trust for the Federal Republic of Germany.

33.1 Changes in issued capital

The issued capital amounts to €1,241 million. It is composed of 1,240,915,883 no-par value registered shares (ordinary shares) with a notional interest in the share capital of €1 per share and is fully paid up.

Changes in issued capital and treasury shares

€	2015	2016
Issued capital		
Balance at 1 January	1,211,180,262	1,212,753,687
Addition due to capital increase	1,568,593	0
Addition due to contingent capital increase (convertible bond)	4,832	28,162,196
Balance at 31 December (according to commercial register)	**1,212,753,687**	**1,240,915,883**
Treasury shares		
Balance at 1 January	−1,507,473	−1,568,593
Purchase of treasury shares	−2,628,575	−30,896,650
Sale of treasury shares	14,992	48,106
Issue of treasury shares	2,552,463	2,829,908
Balance at 31 December	**−1,568,593**	**−29,587,229**
Total at 31 December	**1,211,185,094**	**1,211,328,654**

The contingent capital increase in December 2016 resulted from various bond holders exercising conversion options.

33.2 Authorised and contingent capital

Authorised/contingent capital at 31 December 2016

	Amount €m	Purpose
Authorised Capital 2013	236	Increase in share capital against cash/ non-cash contributions (until 28 May 2018)
Contingent Capital 2011	47	Issue of options/ conversion rights (until 24 May 2016)
Contingent Capital 2013	75	Issue of options/ conversion rights (until 28 May 2018)
Contingent Capital 2014	40	Issue of subscription rights to executives (until 26 May 2019)

Authorised Capital 2013

As resolved by the Annual General Meeting on 29 May 2013, the Board of Management is authorised, subject to the consent of the Supervisory Board, to issue up to 240 million new, no-par value registered shares until 28 May 2018 in exchange for cash and/or non-cash contributions and thereby increase the company's share capital. The authorisation may be used in full or for partial amounts. Shareholders generally have subscription rights. However, subject to the approval of the Supervisory Board, the Board of Management may disapply the shareholders' subscription rights to the shares covered by the authorisation.

Capital increases

Registered on	Number of shares
12 March 2014	656,915
11 December 2014	1,507,473
10 December 2015	1,568,593
Total	**3,732,981**

In financial years 2014 and 2015, Deutsche Post AG's Board of Management made partial use of the authorisation granted to it in accordance with article 5(2) of the Articles of Association of Deutsche Post AG, to increase Deutsche Post AG's share capital by a total of €3,732,981.00 by issuing 3,732,981 new no-par value registered shares with a notional interest in the share capital of €1.00 per share in exchange for cash contributions. In financial year 2016, the authorised capital was not utilised. Authorised capital, which originally amounted to €240 million, now amounts to €236 million.

Contingent Capital 2011

In its resolution dated 25 May 2011, the Annual General Meeting authorised the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds as well as profit participation certificates, or a combination thereof, in an aggregate principal amount of up to €1 billion, on one or more occasions until 24 May 2016, thereby granting options or conversion rights for up to 75 million shares with a proportionate interest in the share capital not to exceed €75 million.

Full use was made of the authorisation in December 2012 by issuing a €1 billion convertible bond. The share capital was increased on a contingent basis by up to €75 million. Contingent capital was reduced through the issue of new shares, by €4,832.00 in 2015 and by €28,162,196.00 in 2016.

Contingent Capital 2013

In its resolution dated 29 May 2013, the Annual General Meeting authorised the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds as well as profit participation certificates, or a combination thereof, in an aggregate principal amount of up to €1.5 billion, on one or more occasions until 28 May 2018, thereby granting options or conversion rights for up to 75 million shares with a proportionate interest in the share capital not to exceed €75 million. The share capital was increased on a contingent basis by up to €75 million. No use was made of the authorisation in the reporting year.

Contingent Capital 2014

In its resolution dated 27 May 2014, the Annual General Meeting authorised the Board of Management to contingently increase the share capital by up to €40 million through the issue of up to 40 million new no-par value registered shares. The contingent capital increase serves to grant subscription rights to selected Group executives. The subscription rights may only be issued based on the aforementioned Annual General Meeting resolution of 27 May 2014. The contingent capital increase will only be implemented to the extent that shares are issued based on the subscription rights granted and the company does not settle the subscription rights by cash payment or delivery of treasury shares. The new shares participate in profit from the beginning of the financial year in which they are issued. The share capital was increased on a contingent basis by up to €40 million. No use was made of the authorisation in the reporting year.

33.3 Authorisation to acquire treasury shares

By way of a resolution adopted by the Annual General Meeting on 27 May 2014, the company is authorised to acquire treasury shares in the period to 26 May 2019 of up to 10% of the share capital existing when the resolution was adopted. The authorisation permits the Board of Management to exercise it for every purpose permitted by law, and in particular to pursue the goals mentioned in the resolution by the Annual General Meeting.

Treasury shares acquired on the basis of the authorisation, with shareholders' subscription rights disapplied, may continue to be used for the purposes of listing on a stock exchange outside Germany. In addition, the Board of Management remains authorised to acquire treasury shares using derivatives.

Deutsche Post AG acquired treasury shares for the total amount of €32 million (average price of €24.62 per share) in order to settle the 2015 tranche of the Share Matching Scheme. To settle the 2011 tranche of the Share Matching Scheme, treasury shares had been purchased for a total price of €39 million (average price of €24.80 per share) in December 2015. The treasury shares were issued to the executives concerned in April 2016.

On 1 March 2016, the Board of Management resolved a share buyback programme for up to 60 million shares of Deutsche Post AG at a total purchase price (not including transaction costs) of up to €1 billion. The repurchased shares will either be retired, used to service long-term executive remuneration plans or used to meet potential obligations if rights accruing under the 2012/2019 convertible bond are exercised. The buyback via the stock exchange began on 1 April 2016 and will last for a maximum of one year. The first tranche of the share buyback programme with a total volume of €100 million was implemented in the period between 1 April 2016 and 3 May 2016. The second tranche with a total volume of €250 million was implemented in the period between 30 May 2016 and 26 August 2016. The volume bought back in the third tranche between 29 August 2016 and 31 December 2016 amounted to €455 million. The total maximum volume of this tranche is €650 million and the buyback period ends on 6 March 2017. By 31 December 2016, a total of 29,587,229 shares had been repurchased for €805 million at an average price of €27.22 per share.

As at 31 December 2016, Deutsche Post AG held 29,587,229 treasury shares (previous year: 1,568,593 treasury shares).

33.4 Disclosures on corporate capital

The equity ratio was 29.6% in financial year 2016 (previous year: 29.8%). The company's capital is monitored using the net gearing ratio, which is defined as net debt divided by the total of equity and net debt.

Corporate capital

€m	2015	2016
Financial liabilities	5,178	6,035
Less operating financial liabilities[1]	–160	–138
Less cash and cash equivalents	–3,608	–3,107
Less current financial assets	–179	–374
Less non-current derivative financial instruments	–138	–155
Net debt	**1,093**	**2,261**
Plus total equity	11,295	11,350
Total capital	**12,388**	**13,611**
Net gearing ratio (%)	8.8	16.6

[1] Relates to, e.g., liabilities from leases, overpayments.

34 Capital reserves

An amount of €601 million was transferred to the capital reserves in financial year 2016 (previous year: €94 million).

€m	2015	2016
Capital reserves at 1 January	2,339	2,385
Addition/issue of rights under Share Matching Scheme		
2010 tranche	1	0
2011 tranche	4	1
2012 tranche	3	3
2013 tranche	4	4
2014 tranche	27	5
2015 tranche	8	32
2016 tranche	0	8
Total additions	47	53
Exercise of rights under Share Matching Scheme		
2010 tranche – matching shares	–20	0
2011 tranche – matching shares	0	–21
2014 tranche – investment and incentive shares	–28	0
2015 tranche – investment and incentive shares	0	–33
Total exercised	–48	–54
Total for Share Matching Scheme	**–1**	**–1**
Addition/issue of rights under Performance Share Plan		
2014 tranche	8	7
2015 tranche	2	7
2016 tranche	0	3
Total for Performance Share Plan	**10**	**17**
Capital increase through exercise of conversion rights under convertible bond	0	531
Capital increases	37	0
Capital reserves at 31 December	**2,385**	**2,932**

35 Other reserves

€m	2015	2016
IAS 39 revaluation reserve	67	11
IAS 39 hedging reserve	–41	3
Currency translation reserve	–15	–298
Other reserves	**11**	**–284**

35.1 IAS 39 revaluation reserve

The revaluation reserve comprises gains and losses from changes in the fair value of available-for-sale financial assets that have been recognised in other comprehensive income. This reserve is reversed to profit or loss either when the assets are sold or otherwise disposed of, or if their value is significantly or permanently impaired.

€m	2015	2016
At 1 January	190	80
Currency translation differences	8	–2
Total comprehensive income		
Changes from unrealised gains and losses	54	–4
Changes from realised gains and losses	–172	–63
IAS 39 revaluation reserve at 31 December before tax	**80**	**11**
Deferred taxes	–13	0
IAS 39 revaluation reserve at 31 December after tax	**67**	**11**

The change resulted from the sale of shares in the King's Cross companies in the UK.

35.2 IAS 39 hedging reserve

The hedging reserve is adjusted by the effective portion of a cash flow hedge. The hedging reserve is reversed to profit or loss when the hedged item is settled.

€m	2015	2016
At 1 January	–33	–51
Currency translation differences	0	0
Total comprehensive income		
Changes from unrealised gains and losses	–120	46
Changes from realised gains and losses	102	17
IAS 39 hedging reserve at 31 December before tax	**–51**	**12**
Deferred taxes	10	–9
IAS 39 hedging reserve at 31 December after tax	**–41**	**3**

The change in the hedging reserve is mainly the result of the recognition of previously unrealised gains and losses from hedging future operating currency transactions. In the financial year, realised losses of €86 million and realised gains of €69 million were recognised in other comprehensive income (previous year: realised losses of €137 million and realised gains of €35 million).

35.3 Currency translation reserve

€m	2015	2016
At 1 January	–483	–15
Transactions with non-controlling interests	0	0
Total comprehensive income		
Changes from unrealised gains and losses	468	–283
Changes from realised gains and losses	0	0
Currency translation reserve at 31 December	**–15**	**–298**

36 Retained earnings

As well as the undistributed consolidated net profits generated in prior periods, retained earnings also contain the effects from transactions with non-controlling interests.

€m	2015	2016
At 1 January	6,168	7,427
Dividend payment	−1,030	−1,027
Consolidated net profit for the period	1,540	2,639
Change due to remeasurements of net pension provisions	773	−866
Transactions with non-controlling interests	−3	4
Miscellaneous other changes, of which	−21	−949
Share buyback under tranches I to III	0	−775
Obligation to repurchase shares under tranche III	0	−195
Purchase/sale – treasury shares under Share Matching Scheme	−67	−30
Exercise – treasury shares under Share Matching Scheme	46	51
Retained earnings at 31 December	**7,427**	**7,228**

The dividend payment to Deutsche Post AG shareholders of €1,027 million was made in May 2016. This corresponds to a dividend of €0.85 per share.

The third tranche of the share buyback programme, with a total volume of up to €650 million, is being implemented by an independent financial services provider between 29 August 2016 and 6 March 2017 on the basis of an irrevocable agreement dated 25 August 2016. At the time the contract was concluded, the resulting obligation was charged in full to retained earnings and recognised as a financial liability. It was reduced by the buyback transactions carried out by 31 December 2016. The amounts from the third tranche of the share buyback programme are included in miscellaneous other changes. Of these amounts, €195 million is attributable to the buyback transactions to be carried out after 31 December 2016. In addition, €775 million of the acquisition costs of €805 million incurred to date for the share repurchases of tranches I to III of the share buyback programme was also recognised in miscellaneous other changes. The remaining €30 million relates to the notional value of the repurchased shares and was recognised in issued capital. The miscellaneous other changes also include the amounts related to settlement of the tranches under the Share Matching Scheme.

The changes in transactions with non-controlling interests without change of control are presented in the following table.

Transactions with non-controlling interests

€m	2015	2016
Blue Dart Express Limited, India	1	1
DHL Korea Limited, Korea	−5	0
Other	1	3
Total	**−3**	**4**

37 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in financial year 2016 amounted to €11,087 million (previous year: €11,034 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the net retained profit of €5,487 million reported in Deutsche Post AG's annual financial statements in accordance with the HGB. The Board of Management is proposing a dividend of €1.05 per no-par value share carrying dividend rights. This corresponds to a total dividend of €1,271 million, based on an estimated number of shares carrying dividend rights for financial year 2016. The amount of €4,216 million remaining after deduction of the planned total dividend will be carried forward to new account.

	Total dividend €m	Dividend per share €
Dividend distributed in financial year 2016 for the year 2015	1,027	0.85
Dividend distributed in financial year 2015 for the year 2014	1,030	0.85

As the dividend is paid in full from the tax-specific capital contribution account (*steuerliches Einlagekonto* as defined by section 27 of the *Körperschaftssteuergesetz* (KStG – German Corporation Tax Act)) (contributions not made to subscribed capital), payment will be made without the deduction of capital gains tax or the solidarity surcharge. The dividend is tax exempt for shareholders resident in Germany. It does not entitle recipients to a tax refund or a tax credit. In terms of taxation, the dividend distribution is considered as a repayment of contributions from the capital contribution account and – in the opinion of the tax authorities – serves to reduce the cost of acquiring the shares.

38 Non-controlling interests

This balance sheet item includes adjustments for the interests of non-Group shareholders in the consolidated equity from acquisition accounting, as well as their interests in profit or loss.

The following table shows the companies to which the material non-controlling interests relate:

€m	2015	2016
DHL Sinotrans International Air Courier Ltd., China	176	162
Blue Dart Express Limited, India	12	14
Exel Saudia LLC, Saudi Arabia	9	11
Other companies	64	76
Non-controlling interests	**261**	**263**

Material non-controlling interests exist in the following two companies:

DHL Sinotrans International Air Courier Ltd., China, which has been assigned to the Express segment, provides domestic and international express delivery and transport services. Deutsche Post DHL Group holds a 50% share in the company. Blue Dart Express Limited (Blue Dart), India, is a courier service provider which has been assigned to the PeP segment. Deutsche Post AG holds a share of 75% in Blue Dart. The following table gives an overview of the aggregated financial data of significant companies with non-controlling interests:

Financial data for material non-controlling interests

€m	Sinotrans		Blue Dart	
	2015	2016	2015	2016
Balance sheet				
ASSETS				
Non-current assets	170	115	79	80
Current assets	388	433	93	103
Total ASSETS	**558**	**548**	**172**	**183**
EQUITY AND LIABILITIES				
Non-current provisions and liabilities	9	8	50	28
Current provisions and liabilities	198	216	58	78
Total EQUITY AND LIABILITIES	**207**	**224**	**108**	**106**
Net assets	**351**	**324**	**64**	**77**
Non-controlling interests	176	162	12	14
Income statement				
Revenue	1,364	1,335	349	354
Profit before income taxes	362	293	36	32
Income taxes	84	74	15	12
Profit after income taxes	**278**	**219**	**21**	**20**
Other comprehensive income	10	−15	1	0
Total comprehensive income	**288**	**204**	**22**	**20**
attributable to non-controlling interests	144	102	6	5
Dividend distributed to non-controlling interests	112	116	2	2
Consolidated net profit attributable to non-controlling interests	139	109	5	5
Cash flow statement				
Net cash from operating activities	301	262	35	22
Net cash used in/from investing activities	−21	−12	−18	16
Net cash used in financing activities	−225	−231	−15	−23
Net change in cash and cash equivalents	55	19	2	15
Cash and cash equivalents at 1 January	145	204	6	7
Effect of changes in exchange rates on cash and cash equivalents	4	−9	−1	0
Cash and cash equivalents at 31 December	**204**	**214**	**7**	**22**

The portion of other comprehensive income attributable to non-controlling interests largely relates to the currency translation reserve. The changes are shown in the following table:

€m	2015	2016
Balance at 1 January	6	15
Transactions with non-controlling interests	0	0
Total comprehensive income		
Changes from unrealised gains and losses	9	−5
Changes from realised gains and losses	0	0
Currency translation reserve at 31 December	**15**	**10**

39 Provisions for pensions and similar obligations

39.1 Plan features

The Group's most significant defined benefit retirement plans are in Germany and the UK.

In Germany, Deutsche Post AG has occupational retirement arrangements based on a collective agreement, which are open to new hourly workers and salaried employees. This system was replaced in the year under review by entering into a new collective agreement. As from 1 January 2016, depending on the weekly working hours and wage/salary group, retirement benefit components are calculated annually for each hourly worker and salaried employee and credited to an individual pension account. The allocated retirement benefit components are subject to an annual rate of increase of 2.5%. When the statutory pension falls due, the hourly workers and salaried employees can choose whether to receive payment as a lump sum or in instalments, or life-long monthly benefit payments that increase by 1% each year. Employees on the payroll at 31 December 2015/1 January 2016 receive an initial benefit component for the entitlements already accrued. This component is credited to the pension account on a one-time basis. The large majority of Deutsche Post AG's obligations relates to older vested entitlements of hourly workers and salaried employees, and to legacy pension commitments towards former hourly workers and salaried employees who have left or retired from the company. In addition, retirement arrangements are available to executives below the management board level and to specific employee groups through deferred compensation.

The prime source of external funding for Deutsche Post AG's overall pension plan is a contractual trust arrangement, which also includes a pension fund. A support fund that was previously also included was liquidated in 2016 and its assets were transferred to the trust. The trust is funded on a case-by-case basis in line with the Group's finance strategy. In the case of the pension fund, the regulatory funding requirements can, in principle, be met without additional employer contributions. Part of the plan assets consists of real estate that is leased out to the Group on a long-term basis. In addition, some of the legacy pension commitments use the *Versorgungsanstalt der Deutschen Bundespost* (VAP), a joint pension fund operated by the Deutsche Bundespost successor companies.

Individual subsidiaries in Germany have retirement plans that were acquired in the context of acquisitions and transfers of operations and that are closed to new entrants. New contractual trust arrangements were agreed and implemented for three subsidiaries in the previous year.

In the UK, the Group's defined benefit pension arrangements are largely closed to new entrants and for further service accrual. One exceptional arrangement exists which is open to further service accrual and a limited number of existing employees who have not yet chosen to join. It provides for monthly payments from retirement, depending on length of service and final salary. In addition, a pension commencement lump sum payment must be made. Annual increases in pension payments are linked to inflation.

The majority of the Group's (defined benefit) arrangements in the UK have been consolidated into a group plan with different sections for the participating divisions. These are largely funded via a group trust. The amount of the employer contributions must be negotiated with the trustee in the course of funding valuations. Employee beneficiaries make their own funding contributions in the case of the remaining open defined benefit arrangement.

A wide variety of other defined benefit retirement plans in the Group are to be found in the Netherlands, Switzerland, the USA and a large number of other countries.

In the Netherlands, collective agreements require that those employees who are not covered by a sector-specific plan participate in a dedicated defined benefit retirement plan, which provides for annual accruals. In addition, a pensionable salary cap is applied. The plan provides for monthly benefit payments that increase in line with the agreed wage and salary increases, on the one hand, and the funds available for such increases, on the other. In Switzerland, employees receive an occupational pension in line with statutory requirements, depending on the contributions paid, an interest rate that is fixed each year, certain annuity factors and any pension increases specified. A separate plan providing for lump sum payments instead of annuities exists for specific higher wage components. In the USA, the companies' defined benefit plans have been closed to new entrants and accrued entitlements have been frozen.

The Group companies primarily fund their dedicated defined benefit retirement plans in these three countries by using the respective joint funding institutions. In the Netherlands and in Switzerland, both employers and employees contribute to plan funding. In the USA no contributions are currently made in this regard.

Various risks arise in the context of defined benefit retirement plans. Of these risks, the interest rate risk and investment risk in particular are still deemed to be significant.

The information below on pension obligations is broken down into the following areas: Germany, UK and Other.

39.2 Financial plan performance and calculation of balance sheet items

The present value of defined benefit obligations, the fair value of plan assets and net pension provisions changed as follows:

€m	Present value of defined benefit obligations		Fair value of plan assets		Net pension provisions	
	2015	2016	2015	2016	2015	2016
At 1 January	18,099	17,272	10,961	11,202	**7,138**	**6,070**
Current service cost, excluding employee contributions	193	162	–	–	**193**	**162**
Past service cost	2	−356	–	–	**2**	**−356**
Settlement gains (–)/losses (+)	−7	−7	–	–	**−7**	**−7**
Other administration costs in accordance with IAS 19.130	–	–	−10	−10	**10**	**10**
Service cost[1]	**188**	**−201**	**−10**	**−10**	**198**	**−191**
Interest cost on defined benefit obligations	485	483	–	–	**485**	**483**
Interest income on plan assets	–	–	317	346	**−317**	**−346**
Net interest cost	**485**	**483**	**317**	**346**	**168**	**137**
Income and expenses recognised in the income statement	**673**	**282**	**307**	**336**	**366**	**−54**
Actuarial gains (–)/losses (+) – changes in demographic assumptions	−136	−16	–	–	**−136**	**−16**
Actuarial gains (–)/losses (+) – changes in financial assumptions	−1,026	1,754	–	–	**−1,026**	**1,754**
Actuarial gains (–)/losses (+) – experience adjustments	14	−65	–	–	**14**	**−65**
Return on plan assets excluding interest income	–	–	−315	797	**315**	**−797**
Remeasurements recognised in the statement of comprehensive income	**−1,148**	**1,673**	**−315**	**797**	**−833**	**876**
Employer contributions	–	–	497	1,162	**−497**	**−1,162**
Employee contributions	30	32	18	18	**12**	**14**
Benefit payments	−788	−747	−638	−481	**−150**	**−266**
Settlement payments	−2	−71	−3	−71	**1**	**0**
Transfers	0	0	0	−12	**0**	**12**
Acquisitions/divestitures	0	−2	0	−1	**0**	**−1**
Currency translation effects	408	−716	375	−664	**33**	**−52**
At 31 December	**17,272**	**17,723**	**11,202**	**12,286**	**6,070**	**5,437**

[1] Including other administration costs on plan assets under IAS 19.130.

As at 31 December 2016, the effects of asset ceilings amounted to €2 million. An expedient was applied to their recognition by deducting this amount from the fair value of plan assets (1 January 2016/31 December 2015: €0 million; 1 January 2015: €3 million).

The negative past service cost in the reporting year was largely due to changes in the occupational retirement arrangement of Deutsche Post AG in Germany. The increase in employer contributions was also largely attributable to Deutsche Post AG which added €1 billion to pension assets in April 2016. In addition, liquidation of the support fund in Germany resulted in a switch from benefit payments from plan assets to benefit payments by the company. A lump-sum programme was implemented in the UK for the recipients of small retirement benefits, leading to settlement payments and the discontinuation of pension obligations.

Total payments amounting to €439 million are expected with regard to net pension provisions in 2017. Of this amount, €346 million is attributable to the Group's expected direct benefit payments and €93 million to expected employer contributions to pension funds.

The breakdown of the present value of defined benefit obligations, fair value of plan assets and net pension provisions as well as the calculation of the balance sheet items are as follows:

€m	Germany	UK	Other	Total
2016				
Present value of defined benefit obligations at 31 December	9,866	5,270	2,587	**17,723**
Fair value of plan assets at 31 December	−5,518	−4,590	−2,178	**−12,286**
Net pension provisions at 31 December	**4,348**	**680**	**409**	**5,437**
Reported separately				
Pension assets at 31 December	0	1	142	**143**
Provisions for pensions and similar obligations at 31 December	4,348	681	551	**5,580**
2015				
Present value of defined benefit obligations at 31 December	9,628	5,166	2,478	**17,272**
Fair value of plan assets at 31 December	−4,363	−4,774	−2,065	**−11,202**
Net pension provisions at 31 December	**5,265**	**392**	**413**	**6,070**
Reported separately				
Pension assets at 31 December	0	48	103	**151**
Provisions for pensions and similar obligations at 31 December	5,265	440	516	**6,221**

In the Other area, the Netherlands, Switzerland and the USA account for a share in the corresponding present value of the defined benefit obligations of 40%, 24% and 13%, respectively (previous year: 40%, 24% and 14%).

Additionally, rights to reimbursement from former Group companies existed in the Group in Germany in the amount of around €20 million (previous year: €18 million) which are reported separately. Corresponding benefit payments are being made directly by the former Group companies.

39.3 Additional information on the present value of defined benefit obligations

The significant financial assumptions are as follows:

%	Germany	UK	Other	Total
31 December 2016				
Discount rate (defined benefit obligations)	2.25	2.75	2.19	**2.39**
Expected annual rate of future salary increase	2.50	3.25	2.02	**2.43**
Expected annual rate of future pension increase	2.00	2.85	0.93	**2.15**
31 December 2015				
Discount rate (defined benefit obligations)	2.75	3.75	2.53	**3.02**
Expected annual rate of future salary increase	2.50	3.00	2.00	**2.42**
Expected annual rate of future pension increase	2.00	2.65	1.06	**2.10**

The discount rates for defined benefit obligations in the euro zone and the UK were each derived from an individual yield curve comprising the yields of AA-rated corporate bonds. Membership-related factors and/or duration were taken into account. For other countries, the discount rate for defined benefit obligations was determined in a similar way, provided there was a deep market for AA-rated (or, to some extent, AA and AAA-rated) corporate bonds. By contrast, government bond yields were used for countries without a deep market for such corporate bonds.

For the annual pension increase in Germany, agreed rates in particular must be taken into account in addition to the assumptions shown. The effective weighted average therefore amounts to 1.00% (previous year: 1.00%).

The most significant demographic assumptions made relate to life expectancy and mortality. For the German Group companies, they were calculated using the Richttafeln 2005 G mortality tables published by Klaus Heubeck. Life expectancy for the retirement plans in the UK was based on the S1PMA/S1PFA tables of the Continuous Mortality Investigation of the Institute and Faculty of Actuaries adjusted to reflect plan-specific mortality according to the current funding valuation. Other countries used their own, current standard mortality tables.

If one of the significant financial assumptions were to change, the present value of the defined benefit obligations would change as follows:

	Change in assumption Percentage points	Change in present value of defined benefit obligations %			
		Germany	UK	Other	Total
31 December 2016					
Discount rate (defined benefit obligations)	+1.00	−12.58	−15.02	−14.48	**−13.58**
	−1.00	15.91	19.62	18.67	**17.41**
Expected annual rate of future salary increase	+0.50	0.18	0.08	1.08	**0.28**
	−0.50	−0.17	−0.08	−1.01	**−0.26**
Expected annual rate of future pension increase	+0.50	0.42	5.94	6.23	**2.90**
	−0.50	−0.38	−5.41	−4.29	**−2.44**
31 December 2015					
Discount rate (defined benefit obligations)	+1.00	−13.25	−14.78	−14.22	**−13.85**
	−1.00	17.06	19.27	18.40	**17.91**
Expected annual rate of future salary increase	+0.50	0.17	0.07	1.01	**0.26**
	−0.50	−0.16	−0.07	−0.97	**−0.25**
Expected annual rate of future pension increase	+0.50	0.40	5.79	6.08	**2.82**
	−0.50	−0.36	−5.48	−4.19	**−2.44**

These are effective weighted changes in the respective present value of the defined benefit obligations, e.g., taking into account the largely fixed nature of the pension increase for Germany.

A one-year increase in life expectancy for a 65-year-old beneficiary would increase the present value of the defined benefit obligations by 4.56% in Germany (previous year: 4.56%) and by 4.06% in the UK (previous year: 4.07%). The corresponding increase for other countries would be 2.56% (previous year: 2.62%), for a total increase of 4.12% (previous year: 4.14%).

When determining the sensitivity disclosures, the present values were calculated using the same methodology used to calculate the present values at the reporting date. The presentation does not take into account interdependencies between the assumptions; rather, it supposes that the assumptions change in isolation. This would be unusual in practice, since assumptions are often correlated.

The weighted average duration of the Group's defined benefit obligations at 31 December 2016 was 14.4 years in Germany (previous year: 15.4 years) and 18.0 years in the UK (previous year: 16.7 years). In the other countries it was 17.5 years (previous year: 17.2 years), and in total it was 15.9 years (previous year: 16.0 years).

A total of 29.2% (previous year: 29.6%) of the present value of the defined benefit obligations was attributable to active beneficiaries, 16.8% (previous year: 16.8%) to terminated beneficiaries and 54.0% (previous year: 53.6%) to retirees.

39.4 Additional information on the fair value of plan assets

The fair value of the plan assets can be broken down as follows:

€m	Germany	UK	Other	Total
31 December 2016				
Equities	1,053	662	742	**2,457**
Fixed income securities	1,986	3,173	910	**6,069**
Real estate	1,377	183	262	**1,822**
Alternatives	434	457	33	**924**
Insurances	562	0	119	**681**
Cash	99	103	20	**222**
Other	7	12	92	**111**
Fair value of plan assets	**5,518**	**4,590**	**2,178**	**12,286**
31 December 2015				
Equities	753	968	728	**2,449**
Fixed income securities	1,461	3,091	833	**5,385**
Real estate	1,322	199	240	**1,761**
Alternatives	236	462	44	**742**
Insurances	570	0	110	**680**
Cash	14	39	35	**88**
Other	7	15	75	**97**
Fair value of plan assets	**4,363**	**4,774**	**2,065**	**11,202**

Quoted market prices in an active market exist for around 80% (previous year: 79%) of the total fair values of plan assets. Most of the remaining assets for which no such quoted market prices exist are attributable as follows: 13% (previous year: 14%) to real estate, 6% (previous year: 6%) to insurances and 1% (previous year: 1%) to alternatives. The majority of the investments on the active markets are globally diversified, with certain country-specific focus areas.

Real estate in Germany with a fair value of €1,358 million (previous year: €1,305 million) is used by Deutsche Post AG itself.

Asset-liability studies are performed at regular intervals in Germany, the UK and, amongst other places, the Netherlands, Switzerland and the USA to examine the match between assets and liabilities; the strategic allocation of plan assets is adjusted in line with this.

39.5 Risk

A number of risks that are material to the company and the plans exist in relation to the defined benefit retirement plans. Opportunities for risk mitigation are used in line with the specifics of the plans concerned.

INTEREST RATE RISK

A decrease (increase) in the respective discount rate would lead to an increase (decrease) in the present value of the total obligation and would in principle be accompanied by an increase (decrease) in the fair value of the fixed income securities contained in the plan assets. Other hedges are made, in some cases using derivatives.

INFLATION RISK

Pension obligations – especially final salary schemes or schemes involving increases during the pension payment phase – can be linked directly or indirectly to inflation. The risk of increasing inflation rates with regard to the present value of the defined benefit obligations has been mitigated in the case of Germany, for example, by switching to a component-based retirement benefit system and, in the case of the UK, by largely closing the defined benefit arrangements. In addition, fixed rates of increase have been set or increases partially capped and/or lump sum payments provided for. There is also a positive correlation with interest rates.

INVESTMENT RISK

The investment is in principle subject to a large number of risks; in particular, it is exposed to the risk that market prices may change. This is managed primarily by ensuring broad diversification and the use of hedging instruments.

LONGEVITY RISK

Longevity risk may arise in connection with the benefits payable in the future due to a future increase in life expectancy. This is mitigated in particular by using current standard mortality tables when calculating the present value of the defined benefit obligations. The mortality tables used in Germany and the UK, for example, include an allowance for expected future increases in life expectancy.

40 Other provisions

Other provisions break down into the following main types of provision:

€m	Non-current		Current		Total	
	2015	2016	2015	2016	2015	2016
Other employee benefits	567	541	262	230	**829**	**771**
Restructuring provisions	98	72	246	181	**344**	**253**
Technical reserves (insurance)	454	435	215	235	**669**	**670**
Postage stamps	0	0	252	242	**252**	**242**
Tax provisions	0	0	73	113	**73**	**113**
Miscellaneous provisions	393	450	438	322	**831**	**772**
Other provisions	**1,512**	**1,498**	**1,486**	**1,323**	**2,998**	**2,821**

40.1 Changes in other provisions

€m	Other employee benefits	Restructuring provisions	Technical reserves (insurance)	Postage stamps	Tax provisions	Miscellaneous provisions	Total
Balance at 1 January 2016	829	344	669	252	73	831	**2,998**
Changes in consolidated group	0	0	0	0	–1	4	**3**
Utilisation	–727	–122	–62	–252	–32	–359	**–1,554**
Currency translation differences	8	2	–14	0	–1	4	**–1**
Reversal	–25	–50	–39	0	–4	–113	**–231**
Unwinding of discount/changes in discount rate	7	0	4	0	0	8	**19**
Reclassification	–1	0	0	0	0	0	**–1**
Additions	680	79	112	242	78	397	**1,588**
Balance at 31 December 2016	**771**	**253**	**670**	**242**	**113**	**772**	**2,821**

The provision for other employee benefits primarily covers workforce reduction expenses (severance payments, transitional benefits, partial retirement etc.), stock appreciation rights (SARs) and jubilee payments.

The restructuring provisions comprise all expenses resulting from the restructuring measures within the US express business as well as in other areas of the Group. These measures relate primarily to rentals for idle plant, litigation risks and expenses from the closure of terminals, for example.

Technical reserves (insurance) mainly consist of outstanding loss reserves and IBNR reserves; further details can be found in note 7.

The provision for postage stamps covers outstanding obligations to customers for letter and parcel deliveries from postage stamps sold but still unused by customers. It is based on external expert reports and extrapolations made on the basis of internal data. The provision is measured at the nominal value of the stamps issued.

Of the tax provisions, €47 million (previous year: €28 million) relates to VAT, €22 million (previous year: €7 million) to customs and duties and €44 million (previous year: €38 million) to other tax provisions.

40.2 Miscellaneous provisions

The miscellaneous provisions break down as follows:

€m	2015	2016
Aircraft maintenance	118	149
Litigation costs	231	127
Risks from business activities	69	42
Miscellaneous other provisions	413	454
Miscellaneous provisions	**831**	**772**

Miscellaneous other provisions include a large number of individual items.

40.3 Maturity structure

The maturity structure of the provisions recognised in financial year 2016 is as follows:

€m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years	Total
2016							
Other employee benefits	230	153	72	54	47	215	**771**
Restructuring provisions	181	7	14	12	8	31	**253**
Technical reserves (insurance)	235	219	90	54	5	67	**670**
Postage stamps	242	0	0	0	0	0	**242**
Tax provisions	113	0	0	0	0	0	**113**
Miscellaneous provisions	322	163	95	73	35	84	**772**
Total	**1,323**	**542**	**271**	**193**	**95**	**397**	**2,821**

41 Financial liabilities

€m	Non-current		Current		Total	
	2015	2016	2015	2016	2015	2016
Bonds	4,304	4,217	0	773	**4,304**	**4,990**
Amounts due to banks	11	20	155	138	**166**	**158**
Finance lease liabilities	141	181	26	28	**167**	**209**
Liabilities to Group companies	0	0	26	28	**26**	**28**
Financial liabilities at fair value through profit or loss	17	23	108	98	**125**	**121**
Other financial liabilities	152	130	238	399	**390**	**529**
Financial liabilities	**4,625**	**4,571**	**553**	**1,464**	**5,178**	**6,035**

The amounts due to banks mainly comprise current overdraft facilities due to various banks.

The amounts reported under financial liabilities at fair value through profit or loss relate to the negative fair values of derivative financial instruments.

41.1 Bonds

The following table contains further details on the company's most significant bonds. The bonds issued by Deutsche Post Finance B.V. are fully guaranteed by Deutsche Post AG.

Significant bonds

				2015		2016	
	Nominal coupon %	Issue volume €m	Issuer	Carrying amount €m	Fair value €m	Carrying amount €m	Fair value €m
Bond 2012/2017	1.875	750	Deutsche Post Finance B.V.	748	769	749	758
Bond 2012/2022	2.950	500	Deutsche Post Finance B.V.	497	562	497	572
Bond 2012/2020	1.875	300	Deutsche Post AG	298	318	298	322
Bond 2012/2024	2.875	700	Deutsche Post AG	697	786	697	819
Bond 2013/2018	1.500	500	Deutsche Post AG	497	517	498	514
Bond 2013/2023	2.750	500	Deutsche Post AG	496	557	496	575
Bond 2016/2021	0.375	750	Deutsche Post AG	–	–	744	760
Bond 2016/2026	1.250	500	Deutsche Post AG	–	–	496	515
Convertible bond 2012/2019[1]	0.600	1,000	Deutsche Post AG	954	1,004	405	428

[1] This relates to the debt component of the convertible bond; the equity component is recognised in capital reserves. The fair value of the listed convertible bond was €629 million at the balance sheet date (previous year: €1,318 million).

The €1 billion convertible bond issued on 6 December 2012 has a conversion right which allows holders to convert the bond into a predetermined number of Deutsche Post AG shares if Deutsche Post AG's share price more than temporarily exceeds 130% of the conversion price applicable at that time. The conversion right may be exercised between 16 January 2013 and 22 November 2019.

Conversion price

€	
Conversion price on issue	20.74
Conversion price after adjustment in 2014[1]	20.69
Conversion price after adjustment in 2015[2]	20.63
Conversion price after adjustment in 2016[3]	20.60

[1] Adjustment after payment of a dividend of €0.80 per share.
[2] Adjustment after payment of a dividend of €0.85 per share.
[3] Adjustment after payment of a dividend of €0.85 per share.

In addition, Deutsche Post AG was granted a call option allowing it to repay the bond early at face value plus accrued interest if Deutsche Post AG's share price more than temporarily exceeds 130% of the conversion price applicable at that time. The option can be exercised between 6 December 2017 and 16 November 2019. For contractual reasons, the convertible bond was split into a debt component and an equity component. The equity instrument in the amount of €74 million is reported under capital reserves. The value of the debt component on the issue date calculated in accordance with IFRS 32.31 amounted to €920 million, including transaction costs and the call option granted. Transaction costs of €0.5 million and €5.8 million are included in the aforementioned amounts. In subsequent years, interest will be added to the carrying amount of the bond, up to the issue amount, using the effective interest method and recognised in profit or loss.

Various bond holders exercised their conversion right in December 2016. In total, bonds with a notional volume of €580 million were converted, resulting in 28 million new shares that carry dividend rights in financial year 2016.

41.2 Finance lease liabilities

Finance lease liabilities relate mainly to the following items:

	Leasing partner	Interest rate %	End of term	Asset	2015 €m	2016 €m
Deutsche Post Immobilien GmbH, Germany	Various leasing partners	5.09/5.23	2023/2028	Real estate	103	97
DHL Aviation NV/SA, Belgium	Cercis Parc	4.25	2031	Real estate	0	38
DHL International (UK) Limited, United Kingdom	Howard Lewisham Limited; SEGRO Airport Property Partnership	5.00	2030/2031	Real estate	6	23
Deutsche Post AG, Germany	T-Systems International GmbH	4.25	2019	IT equipment	17	13
DHL Express (Austria) GmbH, Austria	Raiffeisen Impuls Immobilien GmbH	3.62	2019	Real estate	9	9

Leased assets are recognised in property, plant and equipment at carrying amounts of €203 million (previous year: €164 million). The notional amount of the minimum lease payments totals €259 million (previous year: €210 million).

Maturity structure

€m	Present value (finance lease liabilities)		Minimum lease payments (notional amount)	
	2015	2016	2015	2016
Up to 1 year	26	28	32	30
More than 1 year to 5 years	64	74	86	102
More than 5 years	77	107	92	127
Total	**167**	**209**	**210**	**259**

41.3 Other financial liabilities

€m	2015	2016
Obligation from the third tranche of the share buyback programme	0	195
Put option related to the acquisition of the remaining interest in Giorgio Gori Group	27	41
Loan notes related to the acquisition of TAG Group	63	0
Loan notes related to the early termination of a finance lease	18	14
Miscellaneous financial liabilities	282	279
Other financial liabilities	**390**	**529**

42 Other liabilities

42.1 Overview

€m	2015	2016
Other non-current liabilities	234	372
Other current liabilities	4,255	4,292
Other liabilities	**4,489**	**4,664**

42.2 Breakdown of other liabilities

€m	2015	2016
Tax liabilities	1,146	1,109
Incentive bonuses	653	679
Deferred income, of which non-current: 116 (previous year: 86)	376	398
Wages, salaries, severance payments	367	374
Compensated absences	322	335
Payables to employees and members of executive bodies	180	203
Social security liabilities	178	174
Debtors with credit balances	146	159
Liabilities from the sale of residential building loans, of which non-current: 123 (previous year: 142)	144	125
Overtime claims	86	90
COD liabilities	56	61
Accrued rentals	42	45
Liabilities from cheques issued	37	28
Other compensated absences	30	28
Insurance liabilities	24	17
Liabilities from loss compensation	18	17
Accrued insurance premiums for damages and similar liabilities	15	12
Miscellaneous other liabilities, of which non-current: 133 (previous year: 6)	669	810
Other liabilities	**4,489**	**4,664**

Of the tax liabilities, €603 million (previous year: €603 million) relates to VAT, €330 million (previous year: €379 million) to customs and duties, and €176 million (previous year: €164 million) to other tax liabilities.

The liabilities from the sale of residential building loans relate to obligations of Deutsche Post AG to pay interest subsidies to borrowers to offset the deterioration in borrowing terms in conjunction with the assignment of receivables in previous years, as well as pass-through obligations from repayments of principal and interest for residential building loans sold.

Miscellaneous other liabilities include a large number of individual items.

42.3 Maturity structure

€m	2015	2016
Up to 1 year	4,255	4,292
More than 1 year to 2 years	28	131
More than 2 years to 3 years	33	44
More than 3 years to 4 years	6	30
More than 4 years to 5 years	6	20
More than 5 years	161	147
Other liabilities	**4,489**	**4,664**

There is no significant difference between the carrying amounts and the fair values of the other liabilities due to their short maturities or market interest rates. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

43 Trade payables

Most of the trade payables have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

CASH FLOW DISCLOSURES

44 Cash flow disclosures

The cash flow statement is prepared in accordance with IAS 7, Statement of Cash Flows, and discloses the cash flows in order to present the source and application of cash and cash equivalents. It distinguishes between cash flows from operating, investing and financing activities. Cash and cash equivalents are composed of cash, cheques and bank balances with a maturity of not more than three months, and correspond to the cash and cash equivalents reported on the balance sheet. The effects of currency translation and changes in the consolidated group are adjusted when calculating cash and cash equivalents.

Non-cash transactions were entered into in the previous year which were not included in the cash flow statement in accordance with IAS 7.43 and 7.44. They related to 14 properties that were contributed to Deutsche Post Pensions-Treuhand GmbH & Co. KG. Although income was recognised as a result of the contribution, no cash or cash equivalents were received.

44.1 Net cash from operating activities

Cash flows from operating activities are calculated by adjusting consolidated net profit/loss for tax expenses, net financial income/net finance costs and non-cash factors, as well as taxes paid, changes in provisions and in other non-current assets and liabilities (net cash from operating activities before changes in working capital). Adjustments for changes in working capital (excluding financial liabilities) result in net cash from or used in operating activities.

Net cash from operating activities decreased from €3,444 million to €2,439 million in financial year 2016, despite the €1,080 million rise in EBIT.

The depreciation, amortisation and impairment losses contained in EBIT are non-cash effects and are therefore eliminated. They declined from €1,665 million to €1,377 million in the reporting year: in the previous year, impairment losses of €310 million had been recognised in relation to NFE. The gains on the disposal of non-current assets of €113 million are not included in net cash from operating activities in the cash flow statement. They have therefore been adjusted in the net income from the disposal of non-current assets and are presented instead in the cash flows from investing activities. In the previous year, this item comprised income from the sale of equity interests in Sinotrans and King's Cross; in the reporting period, it comprised primarily income from the sale of the remaining shares in King's Cross.

Non-cash income and expenses, which increased EBIT by €40 million but did not lead to a cash inflow, were also adjusted. The change in provisions increased significantly from €495 million to €1,799 million, above all because of further funding of pension obligations, which added €1 billion.

The change in current assets and liabilities led to a net cash outflow of €75 million. In the previous year, the change in this item resulted in an inflow of €788 million. The rise in receivables and other current assets in the reporting year in particular contributed to this development.

Non-cash income and expenses

€m

	2015	2016
Expense from remeasurement of assets	60	94
Income from remeasurement of liabilities	−140	−141
Income from disposal of assets	−31	−26
Staff costs relating to equity-settled share-based payments	37	45
Other	6	−12
Non-cash income	**−68**	**−40**

44.2 Net cash used in investing activities

Cash flows from investing activities mainly result from cash received from disposals of non-current assets (divestitures) and cash paid for investments in non-current assets.

Interest received from investing activities as well as cash inflows and outflows from changes in current financial assets are also included.

At €1,643 million, net cash used in investing activities exceeded the previous year's figure by €181 million. The most significant item was the cash paid to acquire property, plant and equipment, and intangible assets, which was down €138 million on the previous year, at €1,966 million. Investments were focused on expanding our hubs in Leipzig, East Midlands, Brussels and Cincinnati in the Express division. Proceeds from the disposal of non-current assets had an offsetting effect, increasing from €437 million to €838 million. In addition to the sale of real estate, another key factor here was the repayment of state aid in the amount of €378 million.

The cash inflow from the disposal of current financial assets totalling €205 million in the previous year was offset by a cash outflow of €209 million in the reporting period. In the previous year, money market funds of €200 million had been sold, whilst in the reporting year, surplus cash in the same amount was invested in money market funds.

The assets acquired and liabilities assumed in the course of company acquisitions undertaken in financial years 2016 and 2015 are presented below, in accordance with IAS 7.40d, note 2.

€m

	2015	2016
Non-current assets	0	123
Current assets (excluding cash and cash equivalents)	0	97
Non-current provisions and liabilities	0	−15
Current provisions and liabilities	0	−118

The following table shows the calculation of free cash flow:

Calculation of free cash flow

€m

	2015	2016
Net cash from operating activities	**3,444**	**2,439**
Sale of property, plant and equipment and intangible assets	175	265
Acquisition of property, plant and equipment and intangible assets	−2,104	−1,966
Cash outflow arising from change in property, plant and equipment and intangible assets	**−1,929**	**−1,701**
Disposals of subsidiaries and other business units	15	35
Disposals of investments accounted for using the equity method and other investments	223	82
Acquisition of subsidiaries and other business units	0	−304
Acquisition of investments accounted for using the equity method and other investments	0	−19
Cash inflow/outflow arising from divestitures/acquisitions	**238**	**−206**
Interest received	47	50
Interest paid	−76	−138
Net interest paid	**−29**	**−88**
Free cash flow	**1,724**	**444**

Free cash flow is considered to be an indicator of how much cash is available to the company for dividend payments or the repayment of debt.

Free cash flow dropped from €1,724 million in the previous year to €444 million in 2016. This is attributable primarily to the significant decrease in net cash from operating activities due to pension obligation funding. The purchase of UK Mail mainly led to the cash outflow from acquisitions/divestitures rising to €206 million. In the previous year, the proceeds from the sale of Sinotrans and King's Cross had resulted in a net cash inflow.

44.3 Net cash used in financing activities

At €1,233 million, net cash used in financing activities was €134 million lower than in the previous year.

At €1,239 million, the capital raised through the placement of two bonds in April led to an increase in non-current financial liabilities. Net cash used to purchase treasury shares rose from €70 million to €836 million on account of the share buyback programme. The largest payment item, at €1,027 million, was the dividend payment to our shareholders. It fell by €3 million year-on-year due to the increase in treasury shares at the time of the Annual General Meeting.

By contrast, there was an increase in interest paid, to €138 million; in the first quarter of 2015, interest rate swaps for bonds were unwound, leading to a cash inflow. The accounting treatment of these inflows is the same as for the hedged item. For this reason, only small interest payments of €76 million were reported in the previous year.

44.4 Cash and cash equivalents

After adjustment for currency effects and the changes in cash and cash equivalents related to assets held for sale, the cash inflows and outflows described above produced cash and cash equivalents of €3,107 million, note 31. This represents a year-on-year decrease of €501 million.

OTHER DISCLOSURES

45 Risks and financial instruments of the Group

45.1 Risk management

As a result of its operating activities, the Group is exposed to financial risks that may arise from changes in exchange rates, commodity prices and interest rates. Deutsche Post DHL Group manages these risks centrally through the use of non-derivative and derivative financial instruments. Derivatives are used exclusively to mitigate non-derivative financial risks, and fluctuations in their fair value should not be assessed separately from the underlying transaction.

The Group's internal risk guidelines govern the universe of actions, responsibilities and necessary controls regarding the use of derivatives. Financial transactions are recorded, assessed and processed using proven risk management software, which also regularly documents the effectiveness of hedging relationships. Portfolios of derivatives are regularly reconciled with the banks concerned.

To limit counterparty risk from financial transactions, the Group may only enter into this type of contract with prime-rated banks. The conditions for the counterparty limits individually assigned to the banks are reviewed on a daily basis. The Group's Board of Management is informed internally at regular intervals about existing financial risks and the hedging instruments deployed to mitigate them. Financial instruments are accounted for and measured in accordance with IAS 39.

Information on risks and risk mitigation in relation to the Group's defined benefit retirement plans can be found in note 39.5.

Liquidity management

The ultimate objective of liquidity management is to secure the solvency of Deutsche Post DHL Group and all Group companies. Consequently, liquidity in the Group is centralised as much as possible in cash pools and managed in the Corporate Center.

The centrally available liquidity reserves (funding availability), consisting of central short-term financial investments and committed credit lines, are the key control parameter. The target is to have at least €2 billion available in a central credit line.

The Group had central liquidity reserves of €3.9 billion (previous year: €4.2 billion) as at 31 December 2016, consisting of central financial investments amounting to €1.9 billion plus a syndicated credit line of €2.0 billion.

The maturity structure of non-derivative financial liabilities within the scope of IFRS 7 based on cash flows is as follows:

Maturity structure of financial liabilities

€m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years
At 31 December 2016						
Non-current financial liabilities	77	707	1,134	385	823	2,474
Other non-current liabilities	0	1	1	1	1	119
Non-current liabilities	**77**	**708**	**1,135**	**386**	**824**	**2,593**
Current financial liabilities	1,389					
Trade payables	7,178					
Other current liabilities	341					
Current liabilities	**8,908**					
At 31 December 2015						
Non-current financial liabilities	82	943	635	1,096	368	1,984
Other non-current liabilities	0	2	2	1	1	138
Non-current liabilities	**82**	**945**	**637**	**1,097**	**369**	**2,122**
Current financial liabilities	445					
Trade payables	7,069					
Other current liabilities	355					
Current liabilities	**7,869**					

The maturity structure of the derivative financial instruments based on cash flows is as follows:

Maturity structure of derivative financial instruments

€m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years
At 31 December 2016						
Derivative receivables – gross settlement						
Cash outflows	−2,124	−231	0	0	0	0
Cash inflows	2,184	237	0	0	0	0
Net settlement						
Cash inflows	6	0	0	0	0	0
Derivative liabilities – gross settlement						
Cash outflows	−2,675	−188	−2	0	0	0
Cash inflows	2,602	175	1	0	0	0
Net settlement						
Cash outflows	−22	−5	0	0	0	0
At 31 December 2015						
Derivative receivables – gross settlement						
Cash outflows	−1,527	−233	0	0	0	0
Cash inflows	1,553	234	0	0	0	0
Net settlement						
Cash inflows	11	3	0	0	0	0
Derivative liabilities – gross settlement						
Cash outflows	−3,012	−194	−3	−2	0	0
Cash inflows	2,939	187	3	1	0	0
Net settlement						
Cash outflows	−34	−13	0	0	0	0

Derivative financial instruments entail both rights and obligations. The contractual arrangement defines whether these rights and obligations can be offset against each other and therefore result in a net settlement, or whether both parties to the contract will have to perform their obligations in full (gross settlement).

CURRENCY RISK AND CURRENCY MANAGEMENT

The international business activities of Deutsche Post DHL Group expose it to currency risks from recognised or planned future transactions:

Accounting-related currency risks arise from the measurement and settlement of items in foreign currencies that are recognised if the exchange rate on the measurement or settlement date differs from the rate on recognition. The resulting foreign exchange differences directly impact on profit or loss. In order to mitigate this impact as far as possible, all significant accounting-related currency risks within the Group are centralised at Deutsche Post AG through the in-house bank function. The centralised risks are aggregated by Corporate Treasury to calculate a net position per currency, and hedged externally based on value-at-risk limits. The currency-related value at risk (95%/one-month holding period) for the portfolio totalled €5 million (previous year: €5 million) at the reporting date; the current limit was a maximum of €5 million.

The notional amount of the currency forwards and currency swaps used to manage accounting-related currency risks amounted to €2,425 million at the reporting date (previous year: €3,532 million); the fair value was €–20 million (previous year: €–29 million). For simplification purposes, fair value hedge accounting was not applied to the derivatives used, which are reported as trading derivatives instead.

Currency risks arise from planned foreign currency transactions if the future foreign currency transactions are settled at exchange rates that differ from the rates originally planned or calculated. These currency risks are also captured centrally in Corporate Treasury and managed on a rolling 24-month basis as part of a hedging programme. The goal is to hedge an average of up to 50% of all significant currency risks over a 24-month period. This makes it possible to plan reliably and reduce fluctuations in earnings caused by currency movements. At the reporting date, an average of around 36% of the foreign currency risk of the currencies concerned was hedged for the next 24 months. The relevant hedging transactions are recognised using cash flow hedge accounting, note 45.3, Cash flow hedges.

Currency risks also result from translating assets and liabilities of foreign operations into the Group's currency (translation risk). The risks arising from the UK's referendum on leaving the European Union and the decline in the value of the Chinese renminbi were hedged in part with currency forwards and currency swaps.

In total, currency forwards and currency swaps with a notional amount of €5,737 million (previous year: €5,514 million) were outstanding at the balance sheet date. The corresponding fair value was €1 million (previous year: €–44 million). As at the reporting date, there were no currency options or cross-currency swaps.

Of the unrealised gains or losses from currency derivatives recognised in equity as at 31 December 2016 in accordance with IAS 39, €–30 million (previous year: €–20 million) is expected to be recognised in income in the course of 2017.

IFRS 7 requires the disclosure of quantitative risk data showing how profit or loss and equity are affected by changes in exchange rates at the reporting date. The impact of these changes in exchange rates on the portfolio of foreign currency financial instruments is assessed by means of a value-at-risk calculation (95% confidence/one-month holding period). It is assumed that the portfolio as at the reporting date is representative for the full year. Effects of hypothetical changes in exchange rates on translation risk do not fall within the scope of IFRS 7. The following assumptions are used as a basis for the sensitivity analysis:

Primary financial instruments in foreign currencies used by Group companies are hedged by Deutsche Post AG's in-house bank, with Deutsche Post AG setting and guaranteeing monthly exchange rates. Exchange rate-related changes therefore have no effect on the profit or loss and equity of the Group companies. Where, in individual cases, Group companies are not permitted to participate in in-house banking for legal reasons, their currency risks from primary financial instruments are fully hedged locally through the use of derivatives. They therefore have no impact on the Group's risk position.

Hypothetical changes in exchange rates have an effect on the fair values of Deutsche Post AG's external derivatives that is reported in profit or loss; they also affect the foreign currency gains and losses from remeasurement at the closing date of the in-house bank balances, balances from external bank accounts as well as internal and external loans extended by Deutsche Post AG. The foreign currency value at risk of the foreign currency items concerned was €5 million at the reporting date (previous year: €5 million). In addition, hypothetical changes in exchange rates affect equity and the fair values of those derivatives used to hedge unrecognised firm commitments and highly probable forecast currency transactions, which are designated as cash flow hedges. The foreign currency value at risk of this risk position was €76 million as at 31 December 2016 (previous year: €77 million). The total foreign currency value at risk was €80 million at the reporting date (previous year: €76 million). The total amount is lower than the sum of the individual amounts given above, owing to interdependencies.

INTEREST RATE RISK AND INTEREST RATE MANAGEMENT

No interest rate hedging instruments were recognised as at the balance sheet date. The proportion of financial liabilities with short-term interest lock-ins, note 41, amounts to 24% (previous year: 11%) of the total financial liabilities as at the reporting date. The effect of potential interest rate changes on the Group's financial position remains insignificant.

The quantitative risk data relating to interest rate risk required by IFRS 7 is presented in the form of a sensitivity analysis. This method determines the effects of hypothetical changes in market interest rates on interest income, interest expense and equity as at the reporting date. The following assumptions are used as a basis for the sensitivity analysis:

Primary variable-rate financial instruments are subject to interest rate risk and must therefore be included in the sensitivity analysis. Fixed-income financial instruments measured at amortised cost are not subject to interest rate risk.

If the market interest rate level as at 31 December 2016 had been 100 basis points higher or lower, net finance costs would not have been affected (previous year: decrease of €3 million). All interest rate derivatives had expired or been unwound at the reporting date. No interest rate risk with an impact on equity was determined.

MARKET RISK

As in the previous year, most of the risks arising from commodity price fluctuations, in particular fluctuating prices for kerosene and marine diesel fuels, were passed on to customers via operating measures. However, the impact of the related fuel surcharges is delayed by one to two months, so that earnings may be affected temporarily if there are significant short-term fuel price variations.

In addition, a small number of commodity swaps for diesel and marine diesel fuel were used to control residual risks. The notional amount of these commodity swaps was €52 million (previous year: €89 million) with a fair value of €–4 million (previous year: €–29 million).

IFRS 7 requires the disclosure of a sensitivity analysis, presenting the effects of hypothetical commodity price changes on profit or loss and equity.

Changes in commodity prices affect the fair values of the derivatives used to hedge highly probable forecast commodity purchases (cash flow hedges) and the hedging reserve in equity. If, as at the reporting date, the commodity prices underlying the derivatives had been 10% higher than the commodity prices determined on the market, this would have increased the fair values and equity by €3 million (previous year: €4 million). A corresponding decline in commodity prices would have had the opposite effect.

In the interests of simplicity, some of the commodity price hedges are not recognised as cash flow hedges. For these derivatives, commodity price changes affect the fair values of the derivatives and, consequently, the income statement. As in the previous year, if the underlying commodity prices had been 10% higher at the reporting date, this would have increased the fair values in question and, consequently, operating profit by €1 million. A corresponding decline in the commodity prices would have reduced the fair values of the derivatives and operating profit by €1 million.

CREDIT RISK

The credit risk incurred by the Group is the risk that counterparties fail to meet their obligations arising from operating activities and from financial transactions. To minimise credit risk from financial transactions, the Group only enters into transactions with prime-rated counterparties. The Group's heterogeneous customer structure means that there is no risk concentration. Each counterparty is assigned an individual limit, the utilisation of which is regularly monitored. A test is performed at the balance sheet dates to establish whether an impairment loss needs to be charged on the positive fair values due to the individual counterparties' credit quality. This was not the case for any of the counterparties as at 31 December 2016.

In 2016, a factoring agreement was in place on the basis of which the bank is obliged to purchase existing and future trade receivables. The bank's purchase obligation is limited to a maximum portfolio of receivables of €265 million. Deutsche Post DHL Group can decide freely whether and to what extent the revolving notional volume is utilised. The risks relevant to the derecognition of the receivables include credit risk and the risk of delayed payment (late payment risk).

Credit risk represents primarily all the risks and rewards associated with ownership of the receivables. This risk is transferred in full to the bank against payment of a fixed fee for doubtful accounts. A significant late payment risk does not exist. Consequently, credit risk is the main risk associated with the receivables, and this risk is transferred in full to the bank against payment of a fixed fee. The receivables are therefore derecognised in their entirety. In financial year 2016, the Group recognised programme fees (interest, allowances for doubtful accounts) of €1 million as an expense in relation to its continuing exposure. The notional volume of receivables factored as at 31 December 2016 amounted to €159 million.

Default risks are continuously monitored in the operating business. The aggregate carrying amounts of financial assets represent the maximum default risk. Trade receivables amounting to €7,965 million (previous year: €7,694 million) are due within one year. The following table gives an overview of receivables that are past due:

Receivables that are past due

€m

	2015	2016
Carrying amount before impairment losses	7,910	8,133
Neither impaired nor due at the reporting date	5,353	5,517
Past due and not impaired at the reporting date		
Up to 30 days	874	1,027
31 to 60 days	459	426
61 to 90 days	197	187
91 to 120 days	74	70
121 to 150 days	38	29
151 to 180 days	16	11
More than 180 days	13	0

Trade receivables changed as follows:

Receivables

€m

	2015	2016
Gross receivables		
At 1 January	8,045	7,910
Changes	−135	223
At 31 December	**7,910**	**8,133**
Valuation allowances		
At 1 January	−220	−216
Changes	4	48
At 31 December	**−216**	**−168**
Carrying amount at 31 December	**7,694**	**7,965**

All other financial instruments are neither past due nor impaired.

Impairment losses of €23 million (previous year: €25 million) were recognised for other assets.

45.2 Collateral

€188 million (previous year: €554 million) of collateral was recognised in non-current financial assets as at the balance sheet date. In the previous year, €358 million related to the restricted cash transferred to a blocked account with Commerzbank AG for any payments that might have been required due to the EU state aid proceedings. The blocked account was closed following a decision of the General Court of the European Union dated 14 July 2016. An amount of €101 million relates primarily to liabilities in conjunction with the settlement of Deutsche Post AG's residential building loans (previous year: €111 million), and €87 million relates to sureties paid (previous year: €85 million).

Collateral of €35 million is recognised in current financial assets (previous year: €84 million). €8 million (previous year: €8 million) of this amount relates to collateral deposited for US cross-border leases (QTE leases).

45.3 Derivative financial instruments

FAIR VALUE HEDGES

There were no fair value hedges as at 31 December 2016. At the reporting date, the unwinding of interest rate swaps resulted in carrying amount adjustments of €43 million (previous year: €55 million). The adjustments in the carrying amount will be amortised using the effective interest method over the remaining term of the liabilities and will reduce the interest expense in future.

CASH FLOW HEDGES

The Group uses currency forwards and currency swaps to hedge the cash flow risk from future foreign currency operating revenue and expenses. The fair values of currency forwards and currency swaps amounted to €28 million at the reporting date (previous year: €–15 million). The hedged items will have an impact on cash flow by 2018.

The risks from the purchase of diesel, which cannot be passed on to customers, were hedged using commodity swaps that will affect cash flow by 2017. The fair value of these cash flow hedges amounted to €–5 million (previous year: €–25 million).

NET INVESTMENT HEDGES

Currency risks resulting from the translation of foreign operations were hedged in 2016 with currency forwards and currency swaps that will have an impact on cash flow in 2017 and 2018. The fair value of these net investment hedges was €–7 million at the reporting date (previous year: €0 million).

45.4 Additional disclosures on the financial instruments used in the Group

The Group classifies financial instruments in line with the respective balance sheet items. The following table reconciles the financial instruments to the categories given in IAS 39 and their respective fair values as at the reporting date:

Reconciliation of carrying amounts in the balance sheet at 31 December 2016

€m	Carrying amount	Carrying amount by IAS 39 measurement category	Other financial instruments outside IAS 39[1]	Fair value within IFRS 7
ASSETS				
Non-current financial assets at cost, of which	513	469	44	513
Available-for-sale financial assets		11		
Loans and receivables		458		
Non-current financial assets at fair value, of which	176	176		176
Fair value option		145		
Available-for-sale financial assets		21		
Derivatives designated as hedges		10		
Trade receivables at cost, of which	7,965	7,965		n.a.
Loans and receivables		7,965		
Other current assets at cost, of which	852	852		n.a.
Loans and receivables		852		
Other current assets outside IFRS 7	1,324			n.a.
Current financial assets at cost, of which	80	73	7	n.a.
Loans and receivables		73		
Current financial assets at fair value, of which	294	294		294
Trading		75		
Available-for-sale financial assets		200		
Derivatives designated as hedges		19		
Cash and cash equivalents, of which	3,107	3,107		n.a.
Loans and receivables		3,107		
Total ASSETS	14,311			–
EQUITY AND LIABILITIES				
Non-current financial liabilities at cost, of which[2]	4,548	4,367	181	5,102
Other financial liabilities		4,367		
Non-current financial liabilities at fair value, of which	23	23		23
Earn-out obligation		11		
Derivatives designated as hedges		12		
Other non-current liabilities at cost, of which	123	123		123
Other financial liabilities		123		
Other non-current liabilities outside IFRS 7	249			n.a.
Current financial liabilities at cost, of which	1,366	1,338	28	781
Other financial liabilities		1,338		
Current financial liabilities at fair value, of which	98	98		98
Trading		38		
Earn-out obligation		4		
Derivatives designated as hedges		56		
Trade payables at cost, of which	7,178	7,178		n.a.
Other financial liabilities		7,178		
Other current liabilities at cost, of which	313	313		n.a.
Other financial liabilities		313		
Other current liabilities outside IFRS 7	3,979			n.a.
Total EQUITY AND LIABILITIES	17,877			–

[1] Relates to lease receivables or liabilities.
[2] The Deutsche Post AG and Deutsche Post Finance B.V. bonds included in non-current financial liabilities are carried at amortised cost. Where required, the carrying amounts of the unwound interest rate swaps were adjusted. One of the Deutsche Post Finance B.V. bonds was designated as a fair value hedge as at the reporting date. A basis adjustment was recognised for the effective portion of the hedge in accordance with IAS 39. The bonds are therefore not recognised fully at either fair value or amortised cost. The convertible bond issued by Deutsche Post AG in December 2012 had a fair value of €629 million as at the balance sheet date. The fair value of the debt component at the balance sheet date was €428 million.

Reconciliation of carrying amounts in the balance sheet at 31 December 2015

€m	Carrying amount	Carrying amount by IAS 39 measurement category	Other financial instruments outside IAS 39[1]	Fair value within IFRS 7
ASSETS				
Non-current financial assets at cost, of which	**867**	**817**	**50**	**867**
Available-for-sale financial assets		11		
Loans and receivables		806		
Non-current financial assets at fair value, of which	**246**	**246**		**246**
Fair value option		128		
Available-for-sale financial assets		108		
Derivatives designated as hedges		10		
Trade receivables at cost, of which	**7,694**	**7,694**		**n.a.**
Loans and receivables		7,694		
Other current assets at cost, of which	**868**	**868**		**n.a.**
Loans and receivables		868		
Other current assets outside IFRS 7	**1,304**			**n.a.**
Current financial assets at cost, of which	**110**	**105**	**5**	**n.a.**
Loans and receivables		105		
Current financial assets at fair value, of which	**69**	**69**		**69**
Trading		7		
Available-for-sale financial assets		27		
Derivatives designated as hedges		35		
Cash and cash equivalents, of which	**3,608**	**3,608**		**n.a.**
Loans and receivables		3,608		
Total ASSETS	**14,766**			**–**
EQUITY AND LIABILITIES				
Non-current financial liabilities at cost, of which[2]	**4,608**	**4,467**	**141**	**5,192**
Other financial liabilities		4,467		
Non-current financial liabilities at fair value, of which	**17**	**17**		**17**
Derivatives designated as hedges		17		
Other non-current liabilities at cost, of which	**142**	**142**		**142**
Other financial liabilities		142		
Other non-current liabilities outside IFRS 7	**92**			**n.a.**
Current financial liabilities at cost, of which	**445**	**419**	**26**	**n.a.**
Other financial liabilities		419		
Current financial liabilities at fair value, of which	**108**	**108**		**108**
Trading		46		
Derivatives designated as hedges		62		
Trade payables at cost, of which	**7,069**	**7,069**		**n.a.**
Other financial liabilities		7,069		
Other current liabilities at cost, of which	**355**	**355**		**n.a.**
Other financial liabilities		355		
Other current liabilities outside IFRS 7	**3,900**			**n.a.**
Total EQUITY AND LIABILITIES	**16,736**			**–**

[1] Relates to lease receivables or liabilities.
[2] The Deutsche Post AG and Deutsche Post Finance B.V. bonds are carried at amortised cost. Where required, the carrying amounts of the unwound interest rate swaps were adjusted. One of the Deutsche Post Finance B.V. bonds was designated as a fair value hedge as at the reporting date. A basis adjustment was recognised for the effective portion of the hedge in accordance with IAS 39. The bonds are therefore not recognised fully at either fair value or amortised cost. The convertible bond issued by Deutsche Post AG in December 2012 had a fair value of €1,318 million as at the balance sheet date. The fair value of the debt component at the balance sheet date was €1,004 million.

If there is an active market for a financial instrument (e.g., stock exchange), the fair value is determined by reference to the market or quoted exchange price at the balance sheet date. If no fair value is available in an active market, the quoted prices in an active market for similar instruments or recognised valuation techniques are used to determine fair value. The valuation techniques used incorporate the key factors determining the fair value of the financial instruments using valuation parameters that are derived from the market conditions as at the balance sheet date. Counterparty risk is analysed on the basis of the current credit default swaps signed by the counterparties. The fair values of other non-current receivables and held-to-maturity financial investments with remaining maturities of more than one year correspond to the present values of the payments related to the assets, taking into account current interest rate parameters.

Cash and cash equivalents, trade receivables and other receivables have predominantly short remaining maturities. As a result, their carrying amounts as at the reporting date are approximately equivalent to their fair values. Trade payables and other liabilities generally have short remaining maturities; the recognised amounts approximately represent their fair values.

The financial assets classified as available for sale include shares in partnerships and corporations for which there is no active market in the amount of €11 million (previous year: €11 million).

As no future cash flows can be reliably determined, the fair values cannot be determined using valuation techniques. There are no plans to sell or derecognise significant shares of the available-for-sale financial assets reported as at 31 December 2016 in the near future.

Available-for-sale financial assets measured at fair value relate to equity and debt instruments.

Financial assets at fair value through profit or loss include securities to which the fair value option was applied, in order to avoid accounting inconsistencies. An active market exists for the assets, and they are recognised at fair value.

The following table presents financial instruments recognised at fair value and financial instruments whose fair value is required to be disclosed, both presented by the level in the fair value hierarchy to which they are assigned.

The simplification option under IFRS 7.29a was exercised for cash and cash equivalents, trade receivables, other assets, trade payables and other liabilities with predominantly short maturities. Their carrying amounts as at the reporting date are approximately equivalent to their fair values. Not included are financial investments in equity instruments for which there is no quoted price in an active market and which therefore have to be measured at cost.

Financial assets and liabilities

€m

Class	Level 1[1]	Level 2[2]	Level 3[3]	Total
31 December 2016				
Non-current financial assets	166	512	0	**678**
Current financial assets	200	94	0	**294**
Financial assets	**366**	**606**	**0**	**972**
Non-current liabilities	4,730	384	11	**5,125**
Current liabilities	781	94	4	**879**
Financial liabilities	**5,511**	**478**	**15**	**6,004**
31 December 2015				
Non-current financial assets	153	866	83	**1,102**
Current financial assets	27	42	0	**69**
Financial assets	**180**	**908**	**83**	**1,171**
Non-current liabilities[4]	4,871	338	0	**5,209**
Current liabilities[4]	0	108	0	**108**
Financial liabilities	**4,871**	**446**	**0**	**5,317**

[1] Quoted prices for identical instruments in active markets.
[2] Inputs other than quoted prices that are directly or indirectly observable for instruments.
[3] Inputs not based on observable market data.
[4] Prior-period amounts adjusted.

Level 1 mainly comprises equity instruments measured at fair value and debt instruments measured at amortised cost.

In addition to financial assets and financial liabilities measured at amortised cost, commodity, interest rate and currency derivatives are reported under Level 2. The fair values of the derivatives are measured on the basis of discounted expected future cash flows, taking into account forward rates for currencies, interest rates and commodities (market approach). For this purpose, price quotations observable on the market (exchange rates, interest rates and commodity prices) are imported from information platforms customary in the market into the treasury management system. The price quotations reflect actual transactions involving similar instruments on an active market. Any currency options used are measured using the Black-Scholes option pricing model. All significant inputs used to measure derivatives are observable on the market.

Level 3 comprises mainly the fair values of equity investments and subsequent payments associated with M&A transactions. They are measured using recognised valuation models, taking plausible assumptions into account. Financial ratios strongly influence the fair values of assets and liabilities. Increasing financial ratios lead to higher fair values, while decreasing financial ratios result in lower fair values.

No financial instruments were transferred between levels in financial year 2016. The following table shows the effect on net gains and losses of the financial instruments categorised within level 3 as at the reporting date:

Unobservable inputs (Level 3)

€m	2015			2016		
	Assets	Liabilities		Assets	Liabilities	
	Equity instruments	Debt instruments	Derivatives, of which equity derivatives	Equity instruments	Debt instruments	Derivatives, of which equity derivatives
At 1 January	132	0	1	83	0	0
Gains and losses (recognised in profit or loss)[1]	0	0	−1	0	0	0
Gains and losses (recognised in OCI)[2]	38	0	0	0	0	0
Additions	0	0	0	0	15	0
Disposals	−95	0	0	−80	0	0
Currency translation effects	8	0	0	−3	0	0
At 31 December	**83**	**0**	**0**	**0**	**15**	**0**

[1] Fair value losses are presented in finance costs, fair value gains in financial income.
[2] Unrealised gains and losses were recognised in the IAS 39 revaluation reserve.

The net gains and losses on financial instruments classified in accordance with the individual IAS 39 measurement categories are as follows:

Net gains and losses by measurement category

€m	2015	2016
Loans and receivables	−136	−127
Available-for-sale financial assets		
Net gains (+)/losses (–) recognised in OCI	54	−4
Net gains (+)/losses (–) reclassified to profit or loss	172	63
Net gains (+)/losses (–) recognised in profit or loss	−10	−8
Financial assets and liabilities at fair value through profit or loss		
Trading	0	4
Fair value option	0	0
Other financial liabilities	0	−15

The net gains and losses mainly include the effects of the fair value measurement, impairment and disposals (disposal gains/losses) of financial instruments. Dividends and interest are not taken into account for the financial instruments measured at fair value through profit or loss. Income and expenses from interest and commission agreements of the financial instruments not measured at fair value through profit or loss are explained in the income statement disclosures.

The following tables show the impact of netting agreements based on master netting arrangements or similar agreements on financial assets and financial liabilities as at the reporting date:

Offsetting – assets

€m	Gross amount of assets	Gross amount of liabilities set off	Recognised net amount of assets set off	Assets and liabilities not set off in the balance sheet: Liabilities that do not meet offsetting criteria	Assets and liabilities not set off in the balance sheet: Collateral received	Total
At 31 December 2016						
Derivative financial assets[1]	104	0	104	67	0	**37**
Trade receivables	8,015	50	7,965	0	0	**7,965**
Funds	384	331	53	0	0	**53**
At 31 December 2015						
Derivative financial assets[1]	52	0	52	51	0	**1**
Trade receivables	7,850	156	7,694	0	0	**7,694**
Funds	528	185	343	0	0	**343**

[1] Excluding derivatives from M&A transactions.

Offsetting – liabilities

€m	Gross amount of liabilities	Gross amount of assets set off	Recognised net amount of liabilities set off	Assets and liabilities not set off in the balance sheet: Assets that do not meet offsetting criteria	Assets and liabilities not set off in the balance sheet: Collateral provided	Total
At 31 December 2016						
Derivative financial liabilities[1]	107	0	107	67	0	**40**
Trade payables	7,228	50	7,178	0	0	**7,178**
Funds	331	331	0	0	0	**0**
At 31 December 2015						
Derivative financial liabilities[1]	124	0	124	51	0	**73**
Trade payables	7,225	156	7,069	0	0	**7,069**
Funds	185	185	0	0	0	**0**

[1] Excluding derivatives from M&A transactions.

Financial assets and liabilities are set off on the basis of netting agreements (master netting arrangements) only if an enforceable right of set-off exists and settlement on a net basis is intended as at the reporting date.

If the right of set-off is not enforceable in the normal course of business, the financial assets and liabilities are recognised in the balance sheet at their gross amounts as at the reporting date. The master netting arrangement creates a conditional right of set-off that can only be enforced by taking legal action.

To hedge cash flow and fair value risks, Deutsche Post AG enters into financial derivative transactions with a large number of financial services institutions. These contracts are subject to a standardised master agreement for financial derivative transactions. This agreement provides for a conditional right of set-off, resulting in the recognition of the gross amount of the financial derivative transactions at the reporting date. The conditional right of set-off is presented in the table.

Settlement processes arising from services related to postal deliveries are subject to the Universal Postal Convention and the Interconnect Remuneration Agreement – Europe (IRA-E). These agreements, particularly the settlement conditions, are binding on all public postal operators for the specified contractual arrangements. Imports and exports between the parties to the agreement during a calendar year are summarised in an annual statement of account and presented on a net basis in the final annual statement. Receivables and payables covered by the Universal Postal Convention and the IRA-E agreement are presented on a net basis at the reporting date. In addition, funds are presented on a net basis if a right of set-off exists in the normal course of business. The tables show the receivables and payables before and after offsetting.

46 Contingent liabilities

The Group's contingent liabilities break down as follows:

Contingent liabilities

€m

	2015	2016
Guarantee obligations	87	91
Warranties	74	59
Liabilities from litigation risks	69	87
Other contingent liabilities	1,068	746
Total	**1,298**	**983**

The reduction in contingent liabilities is attributable primarily to the discontinuation of the obligation underlying the state aid decision amounting to €440 million (value at 31 December 2015). In a judgement dated 14 July 2016, the General Court of the European Union (EGC) set aside the European Commission's decision dated 25 January 2012 in an action brought by the Federal Republic of Germany (the federal government), see also note 48.

Other contingent liabilities also include a potential obligation to make settlement payments in the USA, which had arisen mainly in 2014 as a result of a change in the estimated settlement payment obligations assumed in the context of the restructuring measures in the USA, and other tax-related obligations, note 48.

47 Other financial obligations

In addition to provisions, liabilities and contingent liabilities, there are other financial obligations amounting to €8,188 million (previous year: €7,582 million) from non-cancellable operating leases as defined by IAS 17.

The Group's future non-cancellable payment obligations under leases are attributable to the following asset classes:

Lease obligations

€m

	2015	2016
Land and buildings	5,929	6,657
Aircraft	1,072	909
Transport equipment	472	495
Technical equipment and machinery	70	79
Other equipment, operating and office equipment	32	41
IT equipment	7	7
Total	**7,582**	**8,188**

The increase in lease obligations by €606 million to €8,188 million is mainly due to the conclusion of new real estate leases.

Maturity structure of minimum lease payments

€m

	2015	2016
Up to 1 year	1,725	1,853
More than 1 year to 2 years	1,298	1,410
More than 2 years to 3 years	1,019	1,027
More than 3 years to 4 years	764	826
More than 4 years to 5 years	534	597
More than 5 years	2,242	2,475
Total	**7,582**	**8,188**

The present value of discounted minimum lease payments is €7,082 million (previous year: €6,311 million), based on a discount factor of 3.25% (previous year: 4.25%). Overall, rental and lease payments amounted to €3,019 million (previous year: €2,982 million), of which €2,143 million (previous year: €2,096 million) relates to non-cancellable leases. Future lease obligations from non-cancellable leases are attributable primarily to Deutsche Post Immobilien GmbH in the amount of €2,789 million (previous year: €2,596 million).

The purchase obligation for investments in non-current assets amounts to €234 million (previous year: €140 million).

48 Litigation

Many of the postal services rendered by Deutsche Post AG and its subsidiaries are subject to sector-specific regulation by the *Bundesnetzagentur* (German federal network agency) pursuant to the *Postgesetz* (PostG – German Postal Act). As the regulatory authority, the *Bundesnetzagentur* approves or reviews such prices, formulates the terms of downstream access and has special supervisory powers to combat market abuse. This general regulatory risk could lead to a decline in revenue and earnings in the event of negative decisions.

Legal risks arise, amongst other things, from pending administrative court appeals by an association against the price approvals granted by the *Bundesnetzagentur* under the price cap procedure for 2016 to 2018. On 5 August 2015, the Federal Administrative Court decided on the appeals by the association against the price approvals granted by the *Bundesnetzagentur* under the price cap procedure for 2003, 2004 and 2005. The Federal Administrative Court revoked the price approvals concerned in relation to the association as a customer of Deutsche Post AG. However, the *Bundesnetzagentur* price approvals concerned remain applicable to the general public and may no longer be contested. In 2016, the association withdrew its actions against the price cap approvals for 2008 and 2013.

In its decision dated 14 June 2011, the *Bundesnetzagentur* concluded that FIRST MAIL Düsseldorf GmbH, a subsidiary of Deutsche Post AG, and Deutsche Post AG had contravened the discounting and discrimination prohibitions under the *Postgesetz*. The companies were instructed to remedy the breaches that had been identified. Both companies appealed against the ruling. Furthermore, FIRST MAIL Düsseldorf GmbH filed an application to suspend the execution of the ruling until a decision was reached in the principal proceedings. The Cologne Administrative Court and the Münster Higher Administrative Court both dismissed this application. FIRST MAIL Düsseldorf GmbH discontinued its mail delivery operations at the end of 2011 and retracted its appeal on 19 December 2011. Deutsche Post AG continues to pursue its appeal against the *Bundesnetzagentur* ruling.

In its ruling of 30 April 2012, the *Bundesnetzagentur* determined that Deutsche Post AG had contravened the discrimination provisions under the *Postgesetz* by charging different fees for the transport of identical invoices and invoices containing different amounts. Deutsche Post AG was requested to discontinue the discrimination determined immediately, but no later than 31 December 2012. The ruling was implemented on 1 January 2013. Deutsche Post does not share the legal opinion of the *Bundesnetzagentur* and appealed the ruling.

In a ruling on 28 June 2016, the *Bundesnetzagentur* determined that the prices for the Dialogpost "Impulspost" product did not meet the pricing standards of the *Postgesetz*. The agency ordered the prices to be adjusted immediately (adjustment request). According to the *Bundesnetzagentur*, the prices did not cover the cost of efficiently providing the service and had anti-competitive effects. On 26 July 2016, the *Bundesnetzagentur* barred Deutsche Post from charging these prices and declared the prices invalid (prohibitive order), since at this time Deutsche Post had not yet complied with the adjustment request. Deutsche Post does not share the legal opinion of the *Bundesnetzagentur* and filed an appeal with the Cologne Administrative Court against the orders issued by the agency.

In a judgement dated 14 July 2016, the General Court of the European Union (EGC) set aside the European Commission's state aid decision dated 25 January 2012 in an action brought by the Federal Republic of Germany. In its state aid decision, the European Commission had argued that the financing of civil servant pensions in part constituted unlawful state aid that had to be repaid to the federal government; further details can be found in notes 49 and 51 in the 2015 Annual Report. In their actions, Deutsche Post AG and the federal government asserted that the state aid decision was unlawful. The EGC has now followed this argument in the action brought by the federal government. The action brought by Deutsche Post AG is still pending. Since the European Commission did not file an appeal against the EGC's judgement dated 14 July 2016, that decision is now legally binding. The state aid decision of the European Commission is therefore null and void with final effect and there are no longer any grounds for the obligation to repay the alleged state aid under the state aid decision. It was therefore possible to release the amount of €378 million deposited in a trustee account.

Since 1 July 2010, as a result of the revision of the relevant tax exemption provisions, the VAT exemption has only applied to those specific universal services in Germany that are not subject to individually negotiated agreements or provided on special terms (discounts, etc.). Deutsche Post AG does not believe that the legislative amendment fully complies with the applicable provisions of European Community law. Due to the legal uncertainty resulting from the new legislation in certain instances, Deutsche Post AG is endeavouring to clarify certain key issues with the tax authorities, note 46.

On 30 June 2014, DHL Express France received a statement of objections from the French competition authority alleging anti-competitive conduct in the domestic express business, a business which had been divested in June 2010. On 15 December 2015, Deutsche Post DHL Group received the decision of the French authority regarding the fuel surcharges and price fixing. The decision has been appealed by the Group. Further details cannot be given at this point in time.

In view of the ongoing or announced legal proceedings mentioned above, no further details are given on their presentation in the financial statements.

49 Share-based payment

Assumptions regarding the price of Deutsche Post AG's shares and assumptions regarding employee fluctuation are taken into account when measuring the value of share-based payments for executives. All assumptions are reviewed on a quarterly basis. The staff costs are recognised pro rata in profit or loss to reflect the services rendered as consideration during the vesting period (lock-up period).

49.1 Share-based payment for executives (Share Matching Scheme)

Under the share-based payment system for executives (Share Matching Scheme), certain executives receive part of their variable remuneration for the financial year in the form of shares of Deutsche Post AG in the following year (deferred incentive shares). All Group executives can specify an increased equity component individually by converting a further portion of their variable remuneration for the financial year (investment shares). After a four-year lock-up period during which the executive must be employed by the Group, they again receive the same number of Deutsche Post AG shares (matching shares). Assumptions are made regarding the conversion behaviour of executives with respect to their relevant bonus portion. Share-based payment arrangements are entered into each year, with 1 December (from financial year 2015; until 2014: 1 January) of the respective year and 1 April of the following year being the grant dates for each year's tranche. Whereas incentive shares and matching shares are classified as equity-settled share-based payments, investment shares are compound financial instruments and the debt and equity components must be measured separately. However, in accordance with IFRS 2.37, only the debt component is measured due to the provisions of the Share Matching Scheme. The investment shares are therefore treated as cash-settled share-based payments.

Share Matching Scheme

		2011 tranche	2012 tranche	2013 tranche	2014 tranche	2015 tranche	2016 tranche
Grant date of incentive shares and associated matching shares		1 Jan. 2011	1 Jan. 2012	1 Jan. 2013	1 Jan. 2014	1 Dec. 2015	1 Dec. 2016
Grant date of matching shares awarded for investment shares		1 Apr. 2012	1 Apr. 2013	1 Apr. 2014	1 Apr. 2015	1 Apr. 2016	1 Apr. 2017
Term	months	63	63	63	63	52	52
End of term		March 2016	March 2017	March 2018	March 2019	March 2020	March 2021
Share price at grant date (fair value)							
Incentive shares and associated matching shares	€	12.90	12.13	17.02	25.91	27.12	29.04
Matching shares awarded for investment shares	€	14.83	18.22	27.18	29.12	23.98	31.50[1]
Number of deferred incentive shares	thousands	660	479	337	332	366	245[2]
Number of matching shares expected							
Deferred incentive shares	thousands	n.a.	431	303	299	329	220
Investment shares	thousands	n.a.	709	567	596	848	564
Matching shares issued	thousands	1,522					

[1] Estimated provisional amount, will be determined on 1 April 2017.
[2] Expected number.

The company increased its share capital in 2015 to settle claims to matching shares under the 2011 tranche. In addition, treasury shares were acquired at an average purchase price per share of €24.62 for a total of €32 million to settle the 2015 tranche. The treasury shares were issued to the executives concerned in April and May 2016.

A total of €63 million (previous year: €65 million) was recognised in capital reserves for the granting of variable remuneration components under this system, note 34.

49.2 Long-Term Incentive Plan (2006 LTIP) for members of the Board of Management

Since 1 July 2006, the members of the Board of Management have received stock appreciation rights (SARs) under the 2006 LTIP. Each SAR under the 2006 LTIP entitles the holder to receive a cash settlement equal to the difference between the average closing price of Deutsche Post shares during the last five trading days before the exercise date and the issue price of the SAR.

The members of the Board of Management each invest 10% of their fixed annual remuneration (annual base salary) as a personal financial investment every year. The number of SARs issued to the members of the Board of Management is determined by the Supervisory Board. Following a four-year waiting period that begins on the issue date, the SARs granted can be fully or partly exercised within a period of two years provided an absolute or relative performance target is achieved at the end of the waiting period. Any SARs not exercised during this two-year period will expire. To determine how many – if any – of the granted SARs can be exercised, the average share price or the average index is compared for the reference period and the performance period. The reference period comprises the last 20 consecutive trading days before the issue date. The performance period is the last 60 trading days before the end of the waiting period. The average (closing) price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system.

The absolute performance target is met if the closing price of Deutsche Post shares is at least 10, 15, 20, or 25% above the issue price. The relative performance target is tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). It is met if the share price equals the index performance or if it outperforms the index by at least 10%.

A maximum of four out of every six SARs can be "earned" via the absolute performance target, and a maximum of two via the relative performance target. If neither an absolute nor a relative performance target is met by the end of the waiting period, the SARs attributable to the related tranche will expire without replacement or compensation.

2006 LTIP

	2011 tranche	2012 tranche	2013 tranche	2014 tranche	2015 tranche	2016 tranche
Issue date	1 July 2011	1 July 2012	1 August 2013	1 September 2014	1 September 2015	1 September 2016
Issue price (€)	12.67	13.26	20.49	24.14	25.89	28.18
Waiting period expires	30 June 2015	30 June 2016	31 July 2017	31 August 2018	31 August 2019	31 August 2020

The members of the Board of Management were granted a total of 1,202,376 SARs in financial year 2016 (previous year: 1,936,470 SARs) with a total value of €6.25 million at the time of issue (1 September 2016) (previous year: €6.66 million as at 1 September 2015). Further disclosures on share-based payment for members of the Board of Management can be found in note 50.2.

A provision for the 2006 LTIP and the SAR Plan was recognised as at the balance sheet date in the amount of €134 million (previous year: €175 million), of which €41 million (previous year: €36 million) was attributable to the Board of Management. Of the total provision, €24 million (previous year: €15 million) related to rights exercisable at the reporting date.

49.3 SAR Plan for executives

From July 2006 to August 2013, selected executives received annual tranches of SARs under the SAR Plan. This allowed them to receive a cash payment within a defined period in the amount of the difference between the respective price of Deutsche Post shares and the fixed issue price if demanding performance targets are met (see disclosures on the 2006 LTIP for members of the Board of Management). Due to the strong share price performance since SARs were issued in 2012, all of the related performance targets were met on expiry of the waiting period on 30 June 2016. All SARs under this tranche were therefore able to be exercised. Most executives exercised them as early as 2016. Starting in 2014, SARs were no longer issued to executives under the SAR Plan. The Performance Share Plan (PSP) for executives replaces the SAR Plan. All earlier tranches issued under the SAR Plan remain valid.

More details on the SAR Plan tranches are shown in the following table:

SAR Plan

	2011 tranche	2012 tranche	2013 tranche
Issue date	1 July 2011	1 July 2012	1 August 2013
Issue price (€)	12.67	13.26	20.49
Waiting period expires	30 June 2015	30 June 2016	31 July 2017

The fair value of the SAR Plan and the 2006 LTIP was determined using a stochastic simulation model. As a result, an expense of €94 million was recognised for financial year 2016 (previous year: €33 million).

49.4 Performance Share Plan for executives

The Annual General Meeting on 27 May 2014 resolved to introduce the Performance Share Plan (PSP) for executives. This plan replaces the former share-based payment system (SAR Plan) for executives. Whereas the SAR Plan involved cash-settled share-based payments, under the PSP shares are issued to participants at the end of the waiting period. Under the PSP, the granting of the shares at the end of the waiting period is also linked to the achievement of demanding performance targets. The performance targets under the PSP are identical to the performance targets under the LTIP for members of the Board of Management.

Performance Share Units (PSUs) were issued to selected executives under the PSP for the first time on 1 September 2014. It is not planned that members of the Board of Management will participate in the PSP. The Long-Term Incentive Plan (2006 LTIP) for members of the Board of Management remains unchanged.

In the consolidated financial statements as at 31 December 2016, a total of €17 million (previous year: €10 million) has been added to capital reserves for the purposes of the plan, with an equal amount recognised in staff costs, notes 14 and 34.

The value of the PSP is measured using actuarial methods based on option pricing models (fair value measurement).

Performance Share Plan

	2014 tranche	2015 tranche	2016 tranche
Grant date	1 Sept. 2014	1 Sept. 2015	1 Sept. 2016
Exercise price	€24.14	€25.89	€28.18
Waiting period expires	31 Aug. 2018	31 Aug. 2019	31 Aug. 2020
Risk-free interest rate	0.11%	−0.10%	−0.62%
Initial dividend yield of Deutsche Post shares	3.52%	3.28%	3.73%
Yield volatility of Deutsche Post shares	23.46%	24.69%	23.94%
Yield volatility of Dow Jones EURO STOXX 600 Index	10.81%	16.40%	16.83%
Covariance of Deutsche Post shares to Dow Jones EURO STOXX 600 Index	1.74%	2.94%	2.93%
Quantity			
Rights outstanding at 1 January 2016	4,269,288	4,213,836	0
Rights granted	0	0	3,808,278
Rights lapsed	276,408	181,326	25,500
Rights outstanding at 31 December 2016	3,992,880	4,032,510	3,782,778

Future dividends were taken into account, based on a moderate increase in dividend distributions over the respective measurement period.

The average remaining maturity of the outstanding PSUs as at 31 December 2016 was 32 months.

50 Related party disclosures

50.1 Related party disclosures (companies and Federal Republic of Germany)

All companies classified as related parties that are controlled by the Group or over which the Group can exercise significant influence are recorded in the list of shareholdings, which can be accessed on the website, dpdhl.com/en/investors, together with information on the equity interest held, their equity and their net profit or loss for the period, broken down by geographical areas.

Deutsche Post AG maintains a variety of relationships with the Federal Republic of Germany (Federal Republic) and other companies controlled by the Federal Republic of Germany.

The Federal Republic is a customer of Deutsche Post AG and as such uses the company's services. Deutsche Post AG has direct business relationships with the individual public authorities and other government agencies as independent individual customers. The services provided for these customers are insignificant in respect of Deutsche Post AG's overall revenue.

RELATIONSHIPS WITH KFW

KfW supports the Federal Republic in continuing to privatise companies such as Deutsche Post AG or Deutsche Telekom AG. In 1997, KfW, together with the Federal Republic, developed a "placeholder model" as a tool to privatise government-owned companies. Under this model, the Federal Republic sells all or part of its investments to KfW with the aim of fully privatising these state-owned companies. On this basis, KfW has purchased shares of Deutsche Post AG from the Federal Republic in several stages since 1997 and executed various capital market transactions using these shares. KfW's current interest in Deutsche Post AG's share capital is 20.5%. Deutsche Post AG is thus considered to be an associate of the Federal Republic.

RELATIONSHIPS WITH BUNDESANSTALT FÜR POST UND TELEKOMMUNIKATION

The *Bundesanstalt für Post und Telekommunikation (*BAnstPT) is a government agency and falls under the technical and legal supervision of the German Federal Ministry of Finance. Under the *Bundesanstalt-Reorganisationsgesetz* (German Federal Agency Reorganisation Act), which entered into force on 1 December 2005, the Federal Republic directly undertakes the tasks relating to holdings in Deutsche Bundespost successor companies through the Federal Ministry of Finance. It is therefore no longer necessary for the BAnstPT to perform the "tasks associated with ownership". The BAnstPT manages the social facilities such as the postal civil service health insurance fund, the recreation programme, the *Versorgungsanstalt der Deutschen Bundespost* (VAP) and the welfare service for Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG, as well as setting the objectives for social housing. Since 1 January 2013, the BAnstPT has undertaken the tasks of the *Postbeamtenversorgungskasse* (postal civil servant pension fund). Further disclosures on the postal civil servant pension fund and the VAP can be found in notes 7 and 39. The tasks mentioned are performed on the basis of agency agreements. In 2016, Deutsche Post AG was invoiced for €103 million (previous year: €104 million) in instalment payments relating to services provided by the BAnstPT.

RELATIONSHIPS WITH THE GERMAN FEDERAL MINISTRY OF FINANCE

In financial year 2001, the German Federal Ministry of Finance and Deutsche Post AG entered into an agreement that governs the terms and conditions of the transfer of income received by Deutsche Post AG from the levying of the settlement payment under the *Gesetze über den Abbau der Fehlsubventionierung im Wohnungswesen* (German Acts on the Reduction of Misdirected Housing Subsidies) relating to housing benefits granted by Deutsche Post AG. Deutsche Post AG transfers the amounts to the Federal Republic on a monthly basis.

Deutsche Post AG entered into an agreement with the Federal Ministry of Finance dated 30 January 2004 relating to the transfer of civil servants to German federal authorities. Under this agreement, civil servants are seconded with the aim of transferring them initially for six months, and are then transferred permanently if they successfully complete their probation. Once a permanent transfer is completed, Deutsche Post AG contributes to the cost incurred by the Federal Republic by paying a flat fee. In 2016, this initiative resulted in 84 permanent transfers (previous year: 122) and 29 secondments with the aim of a permanent transfer in 2017 (previous year: 39).

RELATIONSHIPS WITH THE GERMAN FEDERAL EMPLOYMENT AGENCY

Deutsche Post AG and the German Federal Employment Agency entered into an agreement dated 12 October 2009 relating to the transfer of Deutsche Post AG civil servants to the Federal Employment Agency. In 2016, as in the previous year, this initiative resulted in no transfers.

RELATIONSHIPS WITH DEUTSCHE TELEKOM AG AND ITS SUBSIDIARIES

The Federal Republic holds around 32% of the shares of Deutsche Telekom AG directly and indirectly (via KfW). A control relationship exists between Deutsche Telekom AG and the Federal Republic because the Federal Republic, despite its non-controlling interest, has a secure majority at the Annual General Meeting due to its average presence there. Deutsche Telekom AG is therefore a related party of Deutsche Post AG. In financial year 2016, Deutsche Post DHL Group provided goods and services (mainly transport services for letters and parcels) for Deutsche Telekom AG and purchased goods and services (such as IT products) from Deutsche Telekom AG.

RELATIONSHIPS WITH DEUTSCHE BAHN AG AND ITS SUBSIDIARIES

Deutsche Bahn AG is wholly owned by the Federal Republic. Owing to this control relationship, Deutsche Bahn AG is a related party to Deutsche Post AG. Deutsche Post DHL Group has various business relationships with the Deutsche Bahn Group. These mainly consist of transport service agreements.

RELATIONSHIPS WITH PENSION FUNDS

The real estate with a fair value of €1,358 million (previous year: €1,305 million), of which Deutsche Post Pensions-Treuhand GmbH & Co. KG, Deutsche Post Altersvorsorge Sicherung e.V. & Co. Objekt Gronau KG and Deutsche Post Grundstücks-Vermietungsgesellschaft beta mbH Objekt Leipzig KG are the legal or beneficial owners, is exclusively let to Deutsche Post Immobilien GmbH. Rental expense for Deutsche Post Immobilien GmbH amounted to €109 million in 2016 (previous year: €95 million). The rent was always paid on time. Deutsche Post Pensions-Treuhand GmbH & Co. KG holds all of the shares of Deutsche Post Pensionsfonds AG. Deutsche Post Betriebsrenten-Service e.V. (DPRS) was liquidated in the reporting year and the corresponding benefits have been directly provided by Deutsche Post AG since 1 May 2016. Further disclosures on pension funds can be found in notes 7 and 39.

RELATIONSHIPS WITH UNCONSOLIDATED COMPANIES, INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND JOINT OPERATIONS

In addition to the consolidated subsidiaries, the Group has direct and indirect relationships with unconsolidated companies, investments accounted for using the equity method and joint operations deemed to be related parties of the Group in the course of its ordinary business activities. As part of these activities, all transactions for the provision of goods and services entered into with unconsolidated companies were conducted on an arm's length basis at standard market terms and conditions.

Transactions were conducted in financial year 2016 with major related parties, resulting in the following items in the consolidated financial statements:

€m	2015	2016
Trade receivables	**9**	**16**
from investments accounted for using the equity method	5	4
from unconsolidated companies	4	12
Loans	**28**	**52**
to investments accounted for using the equity method	0	21
to unconsolidated companies	28	31
Receivables from in-house banking	**2**	**6**
from investments accounted for using the equity method	2	0
from unconsolidated companies	0	6
Financial liabilities	**26**	**28**
to investments accounted for using the equity method	15	15
to unconsolidated companies	11	13
Trade payables	**7**	**5**
to investments accounted for using the equity method	3	0
to unconsolidated companies	4	5
Revenue	**4**	**3**
from investments accounted for using the equity method	3	2
from unconsolidated companies	1	1
Expenses[1]	**37**	**23**
due to investments accounted for using the equity method	14	3
due to unconsolidated companies	23	20

[1] Relate to materials expense and staff costs.

Deutsche Post AG issued letters of commitment in the amount of €53 million (previous year: €68 million) for these companies. Of this amount, €48 million (previous year: €63 million) was attributable to investments accounted for using the equity method, €1 million (previous year: €1 million) to joint operations and €4 million (previous year: €4 million) to unconsolidated companies.

50.2 Related party disclosures (individuals)

In accordance with IAS 24, the Group also reports on transactions between the Group and related parties or members of their families. Related parties are defined as the Board of Management, the Supervisory Board and the members of their families.

There were no reportable transactions or legal transactions involving related parties in financial year 2016.

The remuneration of key management personnel of the Group requiring disclosure under IAS 24 comprises the remuneration of the active members of the Board of Management and the Supervisory Board.

The active members of the Board of Management and the Supervisory Board were remunerated as follows:

€m	2015	2016
Short-term employee benefits (excluding share-based payment)	13	15
Post-employment benefits	3	2
Termination benefits	4	0
Share-based payment	7	24
Total	**27**	**41**

As well as the aforementioned benefits for their work on the Supervisory Board, the employee representatives on the Supervisory Board and employed by the Group also receive their normal salaries for their work in the company. These salaries are determined at levels that are commensurate with the salary appropriate for the function or work performed in the company.

Post-employment benefits are recognised as the service cost resulting from the pension provisions for active members of the Board of Management. The corresponding liability amounted to €35 million as at the reporting date (previous year: €31 million).

The share-based payment amount relates to the relevant expense recognised for financial years 2015 and 2016; further details can be found in notes 49.2 and 49.3. The expense is itemised in the following table:

Share-based payment

Thousands of €	2015 SARS	2016 SARS
Dr Frank Appel, Chairman	1,760	9,603
Ken Allen	1,061	4,175
Jürgen Gerdes	1,109	4,430
John Gilbert	91	600
Melanie Kreis	35	241
Lawrence Rosen (until 30 Sept. 2016)	1,029	5,071
Roger Crook (until 27 April 2015)	1,822	–
Share-based payment	**6,907**	**24,120**

50.3 Remuneration disclosures in accordance with the HGB

BOARD OF MANAGEMENT REMUNERATION

The total remuneration paid to the active members of the Board of Management in financial year 2016 including the components with a long-term incentive effect totalled €18.5 million (previous year: €17.4 million). Of this amount, €6.6 million (previous year: €7.1 million) is attributable to non-performance-related components (annual base salary and fringe benefits), €5.6 million (previous year: €3.7 million) to performance-related components (variable components) and €6.3 million (previous year: €6.7 million) to components with a long-term incentive effect (SARs). The number of SARs was 1,202,376 (previous year: 1,936,470).

FORMER MEMBERS OF THE BOARD OF MANAGEMENT

Benefits paid to former members of the Board of Management or their surviving dependants amounted to €5.4 million (previous year: €25.3 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSs was €97 million (previous year: €94 million).

REMUNERATION OF THE SUPERVISORY BOARD

The total remuneration of the Supervisory Board in financial year 2016 amounted to around €2.6 million (previous year: €2.7 million); as in the prior year, €2.4 million of this amount was attributable to a fixed component and €0.2 million (previous year: €0.3 million) to attendance allowances.

Further information on the itemised remuneration of the Board of Management and the Supervisory Board can be found in the remuneration report, which forms part of the Group Management Report.

SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As at 31 December 2016, shares held by the Board of Management and the Supervisory Board of Deutsche Post AG amounted to less than 1% of the company's share capital.

REPORTABLE TRANSACTIONS

The transactions of Board of Management and Supervisory Board members involving securities of the company and notified to Deutsche Post AG in accordance with section 15a of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) can be viewed on the company's website at dpdhl.com/en/investors.

51 Auditor's fees

The fee for the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, amounted to €11 million in financial year 2016 and was recognised as an expense.

Auditor's fee, 2016

€m	
Audit services	10
Other assurance services	0
Tax advisory services	0
Other services	1
Total	**11**

The audit services category includes the fees for auditing the consolidated financial statements and for auditing the annual financial statements prepared by Deutsche Post AG and its German subsidiaries. The fees for reviewing the interim reports and those fees for voluntary audits beyond the statutory audit engagement, such as audits of the internal control system, are also reported in this category. The other services item relates to fees which cannot be allocated to the aforementioned categories and includes mainly services in the area of information technology.

52 Exemptions under the HGB and local foreign legislation

For financial year 2016, the following German subsidiaries have exercised the simplification options under section 264(3) of the HGB or section 264b of the HGB:

- Agheera GmbH
- Albert Scheid GmbH
- All you need GmbH
- Cillox GmbH
- CSG GmbH
- CSG.PB GmbH
- CSG.TS GmbH
- Danzas Deutschland Holding GmbH
- Deutsche Post Adress Beteiligungsgesellschaft mbH
- Deutsche Post Assekuranz Vermittlungs GmbH
- Deutsche Post Beteiligungen Holding GmbH
- Deutsche Post Consult GmbH
- Deutsche Post Customer Service Center GmbH
- Deutsche Post DHL Beteiligungen GmbH

- Deutsche Post DHL Corporate Real Estate Management GmbH
- Deutsche Post DHL Corporate Real Estate Management GmbH & Co. Logistikzentren KG
- Deutsche Post DHL Express Holding GmbH
- Deutsche Post DHL Research and Innovation GmbH
- Deutsche Post Dialog Solutions GmbH
- Deutsche Post Direkt GmbH
- Deutsche Post E-Post Development GmbH
- Deutsche Post E-POST Solutions GmbH
- Deutsche Post Fleet GmbH
- Deutsche Post Ident GmbH
- Deutsche Post Immobilien GmbH
- Deutsche Post InHaus Services GmbH
- Deutsche Post Investments GmbH
- Deutsche Post IT BRIEF GmbH
- Deutsche Post IT Services GmbH
- Deutsche Post Mobility GmbH
- Deutsche Post Shop Essen GmbH
- Deutsche Post Shop Hannover GmbH
- Deutsche Post Shop München GmbH
- DHL Airways GmbH
- DHL Automotive GmbH
- DHL Automotive Offenau GmbH
- DHL Consulting GmbH
- DHL Delivery GmbH
- DHL Delivery Augsburg GmbH
- DHL Delivery Bayreuth GmbH
- DHL Delivery Berlin GmbH
- DHL Delivery Bonn GmbH
- DHL Delivery Braunschweig GmbH
- DHL Delivery Bremen GmbH
- DHL Delivery Dortmund GmbH
- DHL Delivery Dresden GmbH
- DHL Delivery Duisburg GmbH
- DHL Delivery Düsseldorf GmbH
- DHL Delivery Erfurt GmbH
- DHL Delivery Essen GmbH
- DHL Delivery Frankfurt GmbH
- DHL Delivery Freiburg GmbH
- DHL Delivery Freising GmbH
- DHL Delivery Gießen GmbH
- DHL Delivery Göppingen GmbH
- DHL Delivery Hagen GmbH
- DHL Delivery Halle GmbH
- DHL Delivery Hamburg GmbH
- DHL Delivery Hannover GmbH
- DHL Delivery Herford GmbH
- DHL Delivery Karlsruhe GmbH
- DHL Delivery Kassel GmbH
- DHL Delivery Kiel GmbH
- DHL Delivery Koblenz GmbH
- DHL Delivery Köln West GmbH
- DHL Delivery Leipzig GmbH
- DHL Delivery Lübeck GmbH
- DHL Delivery Magdeburg GmbH
- DHL Delivery Mainz GmbH
- DHL Delivery Mannheim GmbH
- DHL Delivery München GmbH
- DHL Delivery Münster GmbH
- DHL Delivery Neubrandenburg GmbH
- DHL Delivery Nürnberg GmbH
- DHL Delivery Oldenburg GmbH
- DHL Delivery Ravensburg GmbH
- DHL Delivery Reutlingen GmbH
- DHL Delivery Rosenheim GmbH
- DHL Delivery Saarbrücken GmbH
- DHL Delivery Straubing GmbH
- DHL Delivery Stuttgart GmbH
- DHL Delivery Wiesbaden GmbH
- DHL Delivery Würzburg GmbH
- DHL Delivery Zwickau GmbH
- DHL Express Customer Service GmbH
- DHL Express Germany GmbH
- DHL Express Network Management GmbH
- DHL Fashion Retail Operations GmbH
- DHL FoodLogistics GmbH (formerly: DHL Foodservices GmbH)
- DHL Freight Germany Holding GmbH
- DHL Freight GmbH
- DHL Global Forwarding GmbH
- DHL Global Forwarding Management GmbH
- DHL Global Management GmbH
- DHL Home Delivery GmbH
- DHL Hub Leipzig GmbH
- DHL International GmbH
- DHL Inventory Finance Services GmbH
- DHL Paket GmbH
- DHL Paketzentrum Obertshausen GmbH
- DHL Solutions Fashion GmbH
- DHL Solutions GmbH
- DHL Sorting Center GmbH
- DHL Supply Chain (Leipzig) GmbH
- DHL Supply Chain Management GmbH
- DHL Supply Chain VAS GmbH
- DHL Trade Fairs & Events GmbH
- DHL Verwaltungs GmbH
- Erste End of Runway Development Leipzig GmbH
- Erste Logistik Entwicklungsgesellschaft MG GmbH
- European Air Transport Leipzig GmbH
- Gerlach Zolldienste GmbH
- interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH
- StreetScooter GmbH
- Werbeagentur Janssen GmbH
- Williams Lea Tag GmbH

The following companies in the UK make use of the audit exemption under section 479A of the UK Companies Act:

- DHL Exel Supply Chain Limited
- DHL Freight & Contract Logistics (UK) Limited
- Exel Freight Management (UK) Limited
- Exel Investments Limited
- Exel Overseas Limited
- Freight Indemnity and Guarantee Company Limited
- F.X. Coughlin (U.K.) Limited
- Joint Retail Logistics Limited
- KXC (Exel) GP Investment Limited
- National Carriers Limited (formerly Trucks and Child Safety Limited)
- Ocean Group Investments Limited
- Ocean Overseas Holdings Limited
- Power Europe Development No 3 Limited
- Power Europe Operating Limited
- Tibbett & Britten Applied Limited

53 Declaration of Conformity with the German Corporate Governance Code

The Board of Management and the Supervisory Board of Deutsche Post AG jointly submitted the Declaration of Conformity with the German Corporate Governance Code for financial year 2016 required by section 161 of the AktG. This Declaration of Conformity can be accessed online at corporate-governance-code and at dpdhl.com/en/investors.

54 Significant events after the reporting date and other disclosures

There were no significant reportable events after the reporting date.

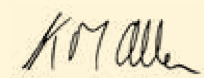
RESPONSIBILITY STATEMENT

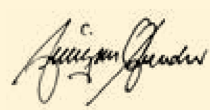
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, 16 February 2017

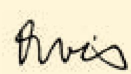
Deutsche Post AG
The Board of Management


Dr Frank Appel


Ken Allen


Jürgen Gerdes


John Gilbert


Melanie Kreis

INDEPENDENT AUDITOR'S REPORT

To Deutsche Post AG, Bonn

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion on the Consolidated Financial Statements

We have audited the consolidated financial statements of Deutsche Post AG, Bonn, and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, to December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

According to § (Article) 322 Abs. (paragraph) 3 Satz (sentence) 1 zweiter Halbsatz (second half sentence) HGB ("Handelsgesetzbuch": German Commercial Code), we state that, in our opinion, based on the findings of our audit, the accompanying consolidated financial statements comply, in all material respects, with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2016, as well as the results of operations for the financial year from January 1, to December 31, 2016, in accordance with these requirements.

According to § 322 Abs. 3 Satz 1 erster Halbsatz HGB, we state that our audit has not led to any reservations with respect to the propriety of the consolidated financial statements.

Basis for Audit Opinion on the Consolidated Financial Statements

We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), and additionally considered the International Standards on Auditing (ISA). Our responsibilities under those provisions and standards, as well as supplementary standards, are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group entities in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other German ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, to December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate audit opinion on these matters.

In our view, the key audit matters were as follows:

❶ Recoverability of goodwill
❷ Pension obligations and plan assets
❸ Deferred taxes on deductible temporary measurement differences and loss carryforwards
❹ Other provisions

Our presentation of these key audit matters has been structured as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

❶ **Recoverability of goodwill**

① In the consolidated financial statements of Deutsche Post AG, a total amount of €11.7 billion in goodwill was reported under the line item "intangible assets" of the balance sheet, thus representing approximately 30 % of total assets and exceeding the Group's reported equity by €0.3 billion. Goodwill is tested by the Company for impairment ("impairment test") as of the balance sheet date on an annual basis or if there are indications that goodwill may be impaired. Impairment of goodwill is tested based on the value in use, which is determined by applying a valuation model using the discounted cash flow method. This matter was of particular significance to our audit, because the result of this measurement depends to a large extent on the Company's management's assessment of future cash inflows and the discount rate used, and is therefore subject to considerable uncertainty.

② We satisfied ourselves as to the appropriateness of the future cash inflows used in the measurement by, inter alia, comparing this data with the current budgets in the three-year plan prepared by the management and approved by the supervisory board, and reconciling it against general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate can have material effects on the value in use calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the measurement model. Due to the materiality of goodwill and the fact that its measurement also depends on economic conditions which are outside of the Company's sphere of influence, we carried out own sensitivity analyses for cash-generating units with low coverage (net book value compared to value in use) and found that the respective goodwill is sufficiently covered by discounted future cash flows. Overall, we consider the measurement parameters and assumptions used by management to be reproducible.

③ The Company's disclosures regarding goodwill are contained in note 21 of the notes to the consolidated financial statements.

❷ Pension obligations and plan assets

① A total of €5.6 billion was reported in the consolidated financial statements of Deutsche Post AG under the line item "Provisions for pensions and similar obligations" of the balance sheet. The net pension provisions amounting to €5.4 billion (after consideration of the reported pension assets of €0.2 billion) were calculated on the basis of the present value of the obligations amounting to €17.7 billion, netted against the plan assets of €12.3 billion, which were measured at fair value. The obligations from defined benefit pension plans were measured using the projected unit credit method in accordance with IAS 19. This requires in particular that assumptions be made as to the long-term salary and pension trend and average life expectancy. Furthermore, the discount rate applied as of the balance sheet date must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent terms. Changes to these actuarial assumptions are recognized directly in equity as actuarial gains or losses. The decrease in the discount rate resulted in actuarial losses of €1.6 billion. From our point of view, these matters were of particular importance, as the measurement of pension obligations and plan assets is to a large extent based on Company's management's estimates and assumptions.

② With the knowledge that estimated values bear an increased risk of accounting misstatements and that management's measurement decisions have a direct and significant effect on the consolidated financial statements, we assessed the appropriateness of the calculated amounts, in particular the measurement parameters used in the calculation of pension provisions, inter alia on the basis of actuarial reports made available to us and taking into account the specialist expertise of our internal specialists for pension valuation. In particular, our evaluation of the fair values of plan assets was based on bank confirmations submitted to us, as well as other statements of assets and real estate appraisals. On the basis of our audit procedures, we were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently documented and supported to justify the recognition and measurement of the material pension provisions.

③ The Company's disclosures relating to provisions for pensions and similar obligations are contained in note 39 of the notes to the consolidated financial statements.

❸ Deferred taxes on deductible temporary measurement differences and loss carryforwards

① Within the consolidated financial statements of Deutsche Post AG deferred tax assets of €2.2 billion (of which €1.3 billion for tax loss carryforwards) have been reported in the balance sheet. From our point of view, the deferred tax assets were of particular importance as they depend to a large extent on the estimates and assumptions made by management and therefore are subject to uncertainties.

② Within our audit of these tax matters we included internal tax accounting specialists in our audit team. With their support, we assessed inter alia the internal processes and controls implemented for the recording of tax matters. Furthermore, we evaluated the recognition and measurement of the deferred taxes. We assessed the recoverability of the deferred tax assets relating to deductible temporary differences and loss carryforwards on the basis of Company-internal forecasts of the Company's future tax income situation and evaluated the appropriateness of the assumptions used. Furthermore, we examined the reconciliation to the tax expense. We were able to follow the assumptions made by management concerning the recognition and measurement of deferred taxes, and agree with the assessments arrived at by management.

③ The Company's disclosures relating to deferred taxes are contained in note 27 of the notes to the consolidated financial statements.

❹ Other provisions

① A total of €2.8 billion was reported in the consolidated financial statements of Deutsche Post AG under the line items "Other non-current provisions" and "Current provisions" of the balance sheet. In addition, there are risks for which management estimated the likelihood of occurrence to be not predominantly. €1.0 billion in contingent liabilities was disclosed for these risks, for which no provisions were recognized. From our point of view, these matters were of particular importance, as recognition and measurement of these material items are to a large extent based on the Company's management's estimates and assumptions.

② With the knowledge that estimated values bear an increased risk of accounting misstatements and that the management's measurement decisions have a direct effect on consolidated profit, we assessed the appropriateness of the carrying amounts inter alia by comparing these amounts with historical data and by referring to the underlying contracts and expert opinions provided to us. In doing so, we were able to satisfy ourselves that the estimates applied and the assumptions made by the management were sufficiently documented and supported to justify the recognition and measurement of the material other provisions and other items where judgment was involved.

③ The Company's disclosures relating to other provisions are contained in note 40 and its disclosures on other items where judgment was involved are contained in notes 46 and 48 of the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises

- the Corporate Governance Report according to section 3.10 of the German Corporate Governance Code,
- the Corporate Governance Statement pursuant to § 289a HGB and § 315 Abs. 5 HGB, as well as
- other parts of the annual report of Deutsche Post AG, Bonn, for the financial year ended on December 31, 2016, which were not subject of our audit.

Our audit opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements, which comply with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit opinion on the consolidated financial statements. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW), under additional consideration of the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or the Group management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional German legal requirements applicable under § 315a Abs. 1 HGB.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report on the audit of the consolidated financial statements unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Group Management Report

Audit Opinion on the Group Management Report

We have audited the group management report of Deutsche Post AG, Bonn, for the financial year from January 1, to December 31, 2016.

In our opinion, based on the findings of our audit, the accompanying group management report as a whole provides a suitable view of the Group's position. In all material respects, the group management report is consistent with the consolidated financial statements, complies with legal requirements and suitably presents the opportunities and risks of future development.

Our audit has not led to any reservations with respect to the propriety of the group management report.

Basis for Audit Opinion on the Group Management Report

We conducted our audit of the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Group Management Report

Management is responsible for the preparation of the group management report, which as a whole provides a suitable view of the Group's position, is consistent with the consolidated financial statements, complies with legal requirements, and suitably presents the opportunities and risks of future development. Furthermore, management is responsible for such policies and procedures (systems) as management determines are necessary to enable the preparation of a group management report in accordance with the German legal requirements applicable under § 315 Abs. 1 HGB and to provide sufficient and appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the group management report.

Auditor's Responsibilities for the Audit of the Group Management Report

Our objective is to obtain reasonable assurance about whether the group management report as a whole provides a suitable view of the Group's position as well as, in all material respects, is consistent with the consolidated financial statements as well as the findings of our audit, complies with legal requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the group management report.

As part of an audit, we examine the group management report in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of management reports promulgated by the IDW. In this connection, we draw attention to the following:

- The audit of the group management report is integrated into the audit of the consolidated financial statements.
- We obtain an understanding of the policies and procedures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these policies and procedures (systems).
- We perform audit procedures on the prospective information presented by management in the group management report. Based on appropriate and sufficient audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the reasonableness of these assumptions as well as the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.
- We are also not issuing a separate audit opinion on individual disclosures in the group management report; our audit opinion covers the group management report as a whole.

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Verena Heineke.

Düsseldorf, February 16, 2017
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Eggemann	Verena Heineke
Wirtschaftsprüfer	*Wirtschaftsprüferin*
(German Public Auditor)	(German Public Auditor)

/04 FURTHER INFORMATION

MULTI-YEAR REVIEW

Key figures 2009 to 2016

€m	2009 adjusted	2010 adjusted	2011 adjusted	2012 adjusted	2013 adjusted	2014	2015	2016
Revenue								
Post - eCommerce - Parcel (until 2013 Mail)	13,912	13,913	13,973	13,972	15,291	15,686	16,131	16,797
Express	9,917	11,111	11,691	12,778	11,821	12,491	13,661	14,030
Global Forwarding, Freight	11,243	14,341	15,118	15,666	14,787	14,924	14,890	13,737
Supply Chain	12,183	13,061	13,223	14,340	14,227	14,737	15,791	13,957
Divisions total	47,255	52,426	54,005	56,756	56,126	57,838	60,473	58,521
Corporate Center/Other[1]	1,527	1,302	1,260	1,203	1,251	1,345	1,269	1,279
Consolidation[1]	−2,581	−2,340	−2,436	−2,447	−2,465	−2,553	−2,512	−2,466
Total (continuing operations)	**46,201**	**51,388**	**52,829**	**55,512**	**54,912**	**56,630**	**59,230**	**57,334**
Discontinued operations	1,634	–	–	–	–	–	–	–
Profit/loss from operating activities (EBIT)								
Post - eCommerce - Parcel (until 2013 Mail)	1,391	1,120	1,107	1,048	1,286	1,298	1,103	1,443
Express	−790	497	916	1,110	1,083	1,260	1,391	1,548
Global Forwarding, Freight	174	383	440	514	478	293	−181	287
Supply Chain	−216	231	362	419	441	465	449	572
Divisions total	559	2,231	2,825	3,091	3,288	3,316	2,762	3,850
Corporate Center/Other	−328	−395	−389	−423	−421	−352	−351	−359
Consolidation	0	−1	0	−3	−2	1	0	0
Total (continuing operations)	**231**	**1,835**	**2,436**	**2,665**	**2,865**	**2,965**	**2,411**	**3,491**
Discontinued operations	−24	–	–	–	–	–	–	–
Consolidated net profit for the period	**693**	**2,630**	**1,266**	**1,762**	**2,211**	**2,177**	**1,719**	**2,781**
Cash flow/capex/depreciation, amortisation and impairment losses								
Net cash used in/from operating activities	−584	1,927	2,371	−203	2,989	3,040	3,444	2,439
Net cash used in/from investing activities	−2,710	8	−1,129	−1,697	−1,765	−1,087	−1,462	−1,643
Net cash from/used in financing activities	1,676	−1,651	−1,547	1,199	−110	−2,348	−1,367	−1,233
Free cash flow	–	484	749	−1,885	1,669	1,345	1,724	444
Capex	1,171	1,262	1,716	1,697	1,747	1,876	2,024	2,074
Depreciation, amortisation and impairment losses	1,620	1,296	1,274	1,339	1,337	1,381	1,665	1,377
Assets and capital structure								
Non-current assets	22,022	24,493	21,225	21,568	21,370	22,902	23,727	24,166
Current assets	12,716	13,270	17,183	12,289	14,091	14,077	14,143	14,129
Equity (excluding non-controlling interests)	8,176	10,511	11,009	9,019	9,844	9,376	11,034	11,087
Non-controlling interests	97	185	190	209	190	204	261	263
Current and non-current provisions	9,677	9,427	9,008	8,978	8,481	10,411	9,361	8,507
Current and non-current liabilities	16,788	17,640	18,201	15,651	16,946	16,988	17,214	18,438
Total assets	**34,738**	**37,763**	**38,408**	**33,857**	**35,461**	**36,979**	**37,870**	**38,295**

04/01

		2009	2010	2011	2012 adjusted	2013 adjusted	2014	2015	2016
Employees/staff costs (continuing operations)									
Number of employees[2]	At Dec. 31	477,280	467,088	471,654	473,626	479,690	488,824	497,745	508,036
Full time equivalents[3]	At Dec. 31	424,686	418,946	423,502	428,129	434,974	443,784	450,508	459,262
Average number of employees[2]		488,518	464,471	467,188	472,321	478,903	484,025	492,865	498,459
Staff costs	€m	17,021	16,609	16,730	17,770	17,776	18,189	19,640	19,592
Staff cost ratio[4]	%	36.8	32.3	31.7	32.0	32.4	32.1	33.2	34.2
Key figures revenue/income/ assets and capital structure									
Return on sales[5]	%	0.5	3.6	4.6	4.8	5.2	5.2	4.1	6.1
Return on equity (ROE) before taxes[6]	%	3.0	29.8	15.2	23.6	26.7	26.3	19.7	27.7
Return on assets[7]	%	0.2	5.1	6.4	7.4	8.3	8.2	6.4	9.2
Tax rate[8]	%	5.4	6.9	23.7	20.2	14.0	15.5	16.4	11.2
Equity ratio[9]	%	23.8	28.3	29.2	27.3	28.3	25.9	29.8	29.6
Net debt (+)/net liquidity (–)[10]	€m	–1,690	–1,382	–938	1,952	1,499	1,499	1,093	2,261
Net gearing[11]	%	–25.7	–14.8	–9.1	17.5	13.0	13.5	8.8	16.6
Dynamic gearing[12]	years	–1.4	–0.7	–0.4	–9.6	0.5	0.5	0.4	0.9
Key stock data									
Basic earnings per share[13]	€	0.53	2.10	0.96	1.36	1.73	1.71	1.27	2.19
Diluted earnings per share[14]	€	0.53	2.10	0.96	1.30	1.66	1.64	1.22	2.10
Cash flow per share[13, 15]	€	–0.48	1.59	1.96	–0.17	2.47	2.51	2.84	2.03
Dividend distribution	€m	725	786	846	846	968	1,030	1,027	1,271[16]
Payout ratio	%	112.6	30.9	72.7	51.6	46.3	49.7	66.7	48.2
Dividend per share	€	0.60	0.65	0.70	0.70	0.80	0.85	0.85	1.05[16]
Dividend yield	%	4.4	5.1	5.9	4.2	3.0	3.1	3.3	3.4
Price-to-earnings ratio[17]		25.5	6.0	12.4	12.2	15.3	15.8	20.4	14.3
Number of shares carrying dividend rights	millions	1,209.0	1,209.0	1,209.0	1,209.0	1,209.0	1,211.2	1,208.7	1,210.0[18]
Year-end closing price	€	13.49	12.70	11.88	16.60	26.50	27.05	25.96	31.24

[1] 2014: Adjustment due to reorganisation in accordance with "Strategy 2020". [2] Headcount including trainees. [3] Excluding trainees. [4] Staff costs/revenue. [5] EBIT/revenue. [6] Profit before income taxes/average equity (including non-controlling interests). [7] EBIT/average total assets. [8] Income taxes/profit before income taxes. [9] Equity (including non-controlling interests)/total assets. [10] Group Management Report, page 58. [11] Net debt/net debt and equity (including non-controlling interests). [12] Net debt/cash flow from operating activities. [13] The average number of shares outstanding is used for the calculation. [14] The average number of shares outstanding is adjusted for the number of all potentially dilutive shares. [15] Cash flow from operating activities. [16] Proposal. [17] Year-end closing price/basic earnings per share. [18] Estimate.

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GLOSSARY

Deutsche Post

Cross-border mail (outbound)
All outbound international mail.

Dialogue marketing
Market-orientated activities that apply direct communications to selectively reach target groups using a personal, individualised approach.

E-POST
Secure, confidential and reliable electronic communication platform.

German federal network agency (*Bundesnetzagentur*)
German national regulator for electricity, gas, telecommunications, post and railway.

German Postal Act (*Postgesetz*)
The purpose of the German Postal Act, which took effect on 1 January 1998, is to promote postal competition through regulation and ensure the nationwide provision of appropriate and sufficient postal services. It includes regulations on licensing, price control and the universal service.

Packstation
Parcel machine where parcels and small packages can be deposited and collected around the clock.

Paketbox
Parcel box for franked parcels and small packages (maximum dimensions: 50 × 40 × 30 cm).

Price-cap procedure
Procedure whereby the German federal network agency approves prices for certain mail products. The agency approves prices on the basis of parameters it stipulates in advance, which set the average changes in these prices within baskets of services defined by the agency.

Standard letter
Letter measuring a maximum of 235 × 125 × 5 mm and weighing up to 20 g.

DHL

B2C
The exchange of goods, services and information between businesses and consumers.

Block space agreement
Freight forwarders or shippers enter into block space agreements with airline companies which provide them with defined freight capacities on a regular flight against payment of a fee.

Contract logistics
Complex logistics and logistics-related services along the value chain that are performed by a contract logistics service provider. Services are tailored to a particular industry or customer and are generally based on long-term contracts.

Day Definite
Delivery of shipments on a specified day.

DHL Customer Solutions & Innovation (CSI)
DHL's cross-divisional commercial and innovation unit.

Direct-to-market solutions (D2M)
End-to-end logistics solution that integrates DHL's warehouse management services with order-to-cash services. This enables manufacturers to bypass traditional wholesalers and/or distributors and build a direct trading relationship with their end customer – either the point of dispensing, e.g., pharmacy or direct with the patient in an e-commerce channel.

Fulfilment Centre
Sites providing customer services such as order processing, warehousing, order picking, packaging and return management.

Gateway
Collection point for goods intended for export and for further distribution of goods upon import.

Hub
Collection point for transferring and connecting international shipments from and to multiple countries.

Lead logistics provider
A logistics service provider who assumes the organisation of all or key logistics processes for the customer.

Medical Express
The transport of time-critical or temperature-critical medical shipments such as blood and tissue samples to medical facilities, hospitals, laboratories or research institutes, usually related to clinical trials of new medications.

Multimodal transport
Combines a minimum of two different means of transport for a shipment, such as air, sea, rail and ground.

Supply chain
A series of connected resources and processes from sourcing materials to delivering goods to consumers.

Time Definite
Delivery of time-critical shipments by a pre-selected time.

Transported Asset Protection Association (TAPA)
A forum that unites manufacturers, logistics providers, freight carriers, law enforcement authorities and other stakeholders with the common aim of reducing losses from international supply chains.

Twenty-foot equivalent unit (TEU)
Standardised container unit, 20 feet long and 8 feet wide (6 × 2.4 metres).

GRAPHS AND TABLES

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