2017 Annual Report

COM MIT MENT

CURIOSITY EXPERIENCE PERSPECTIVE ENDURANCE TEAM SPIRIT INNOVATION SPEED

Deutsche Post DHL Group

COM·MIT·MENT

/kəˈmɪtmənt/ *noun* :
The state or quality of being dedicated to a cause, activity etc.

In this time of rapid environmental, economic and political change, there is a growing need for credibility and certainty. How can businesses meet this need? Not only is everything around us changing, our own business, our corporate culture and the way we work are also transforming. As a Group, we need to systematically improve the quality of our services and invest continuously in our business whilst also sharpening our customer centricity.

Through all this change, we rely upon our strengths: dependability, dedication and continuous innovation based upon wide-ranging experience. The management team at Deutsche Post DHL Group is absolutely committed to this system of values and the company's long-term success – and each board member embodies this in their own way and according to their own personal strengths. On the following pages, we illustrate what we stand for and how that fuels our drive towards the future – in images and words and with pleasing figures for the 2017 financial year.

Yours faithfully,

4

Once a year he goes mountain biking with colleagues, gaining new insights on the way.
DR FRANK APPEL

8

She wants to understand things and therefore asks the right questions.
MELANIE KREIS

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With his team he supports other teams in the company.
DR THOMAS OGILVIE

16

Always wanting to get
better, that's his demand.
DR H.C. JÜRGEN GERDES

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Being fast, but never losing
control of processes, is his focus.
KEN ALLEN

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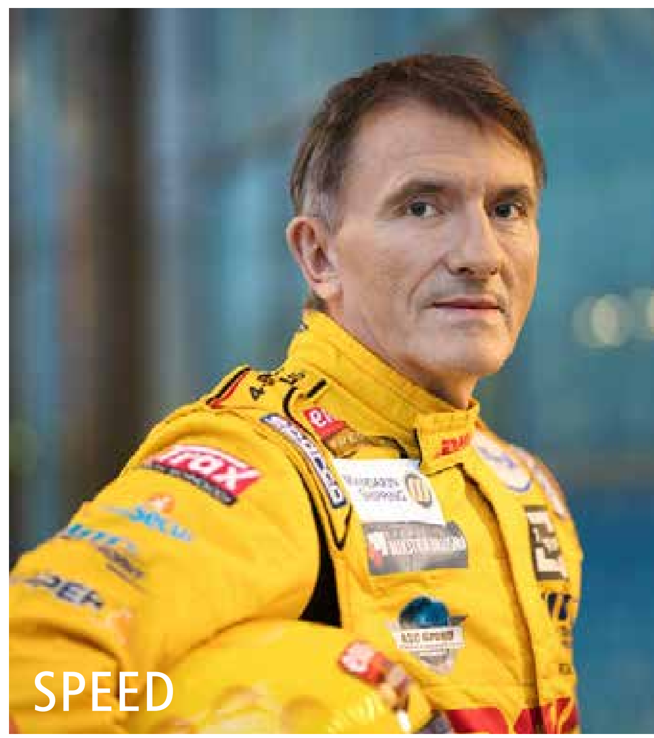
He has learnt to simplify and
thereby reduce complexity.
TIM SCHARWATH



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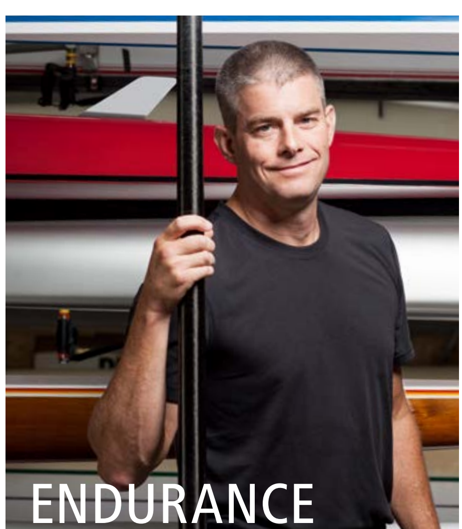
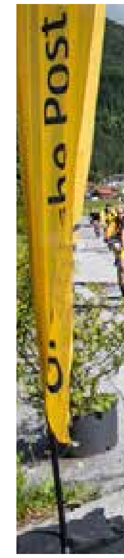
The strategy gives him the goal
and he doesn't lose sight of it.
JOHN GILBERT



PERSPECTIVE

DR FRANK APPEL



FRANK APPEL NOT ONLY ENJOYS THE PHYSICAL CHALLENGE OF MOUNTAIN BIKING, THE CEO SAYS THE SPORT ALSO PROVIDES NEW OUTLOOKS AND PERSPECTIVES. ONCE A YEAR, HE GOES ON A BIKE TRIP WITH COLLEAGUES TO PEDAL MOUNTAIN TRAILS, PUSH HIMSELF AND GET A VIEW OF WHAT'S TO COME.

KILOMETRE: ZERO; ELEVATION: 944 M, ACHENKIRCH

SADDLE UP! — Around three dozen Group employees have joined Frank Appel for a mountain bike ride near picture-perfect Lake Achensee, in the Austrian state of Tyrol. It's about 8.30 in the morning, and the temperature is a pleasant 17° Celsius with light easterly winds as they hop on their saddles and start pedalling on what is going to be a 53km tour with a total climb of 1,150m. The first stage proves the hardest: the trail to a mountain cabin some 550m above their starting point is a steep climb with gradients up to 14%. It's exactly the kind of trail that appeals to Frank Appel: "What I love about mountain biking is that your hard work and sweat are rewarded with panoramic views and great, exhilarating downhills. And it's even better when you're riding in a group. Everyone gives it their all – and we all share the reward when we reach the top. It's a pure endorphin rush."

Frank Appel says that at 1.92m he's actually too tall for mountain biking. But no other sport offers a faster way to experience so many challenging ascents and beautiful views in such a short time.

KILOMETRE: 13.2; ELEVATION: 1,434 M, GUFFERTHÜTTE

MAKING HEADWAY — "One way this mirrors professional life is that you also have to work hard in business if you want to achieve something. And like rolling down a mountain on two wheels, there are also times when everything seems to work on its own. Unfortunately, the easy stages in which you can just coast along are shorter than the ones in which you have to give it your all. No matter what, we always want Deutsche Post DHL Group to make headway. So while things are rolling along smoothly, we have to prepare for the times when the economy and our company face an uphill battle. Because there's no doubt that those times will come. That said, if you always have your hands on the brakes, you're going to quickly lose interest. Whether you're steering a bike or a company, you have to take risks if you want to achieve ambitious goals. But they shouldn't be incalculable risks. Otherwise you may easily slide off the trail at the next curve."

KILOMETRE: 28.7; ELEVATION: 710 M, DESCENT FROM KAISERHAUS

DOING GOOD — "In my view, a company's purpose is not only to create value for shareholders. It's also about offering people a good job and a future. We want to give something back to society. For example, a logistics company like ours is naturally a major emitter of carbon emissions. In light of global warming, we're making efforts to reduce these emissions. Our electric delivery vehicle, StreetScooter, which has become a real success story, is one example. This shows that we can do things that are both good for the environment and good for business. After all, when we burn less fuel and reduce our carbon footprint, of course we also save money. What's more, efforts to make our business more sustainable also motivate our employees. People would rather work for – and are more committed to – companies that aren't focussed solely on making money. That boosts our image as a Group, which in turn helps us recruit top talent. That's another reason sustainable projects such as StreetScooter play an important role in our economic success."

KILOMETRE: 33.4; ELEVATION: 822 M, ASCENT TO WALDHÄUSL

STAYING FOCUSSED — "It's correct to say that we currently find ourselves speeding along in what some consider limited visibility. No one can confidently predict today how technologies such as big data, robotics and artificial intelligence will transform our world tomorrow. On the other hand, the change won't happen overnight. In our Group, we have solid teams that are monitoring and analysing these trends and developments. And we're always looking very closely into whether and how we can improve our products and processes. At the same time, we're also exploring ways to use our specialised skills and capabilities to pursue new business opportunities. We can take a rational look at all of these things and determine how important they are to our business. As a leader, it helps to have the experience to distinguish between what's relevant and what's not; to recognise the moment when more information is not going to lead to deeper knowledge or better decisions – the moment when it's time to take action. For example, I'm not the type of person who needs to be constantly inundated with 'breaking news'. What's the point? I prefer to stay focussed on what lies ahead – and rely on the expertise within our company."

"Those who have a clear perspective find their way."

DR FRANK APPEL

CEO

Global Business Services

Born in 1961
Member of the Board of Management since November 2002
CEO since February 2008
Appointed until October 2022

NEUROBIOLOGIST

FREQUENT TRAVELLER

KILOMETRE: 44; ELEVATION: 1,080 M, WALDHÄUSL

KNOWING WHERE YOU WANT TO GO —

“If you want to keep your eye on a goal and make progress towards it, you obviously need to know where you want to go – and be able to communicate that vision to your team. The Deutsche Post DHL Group vision is clear: we want to be the most global, customer-centric and digital logistics company in the world. When people think of logistics – no matter where they are in the world – we want them to think of us first.”

KILOMETRE: 51.2; ELEVATION: 902 M, RETURN TO ACHENKIRCH

LOOKING AT WHAT LIES AHEAD —

“As a Group, we need to systematically improve the quality of our services, permanently invest in our business and continuously improve customer satisfaction. That means some long ascents lie ahead, including some turning points where we will need to peek around the corner and adapt our business models. As long as we continue to have good people with the right abilities on board, we’ll be able to make the adjustments necessary to deal with the new conditions and continue to move forwards. The same is true for mountain biking: When you come to a fork in the trail, you consult your map, get your bearings, and take a look at where you want to go and what lies ahead. And sometimes that means you have to adjust your speed and head in a new direction. That’s it.”

MELANIE KREIS

CURIOSITY

"When curiosity is directed at serious things, we call it thirst for knowledge."

MARIE VON EBNER-ESCHENBACH

Naturally I'm a numbers person. As a physicist, I have, however, also learnt that it's not enough to line up individual measurements. Instead you have to understand the laws of nature behind them – the overall meaning, the patterns. Physics teaches you to have a feel for numbers and patterns. You recognise it relatively quickly when something on your data sheet isn't quite right. In the lab, the measurements speak for themselves. It's all quite clear. But in business, you need to communicate what you see – and motivate other people to work together for a common goal.

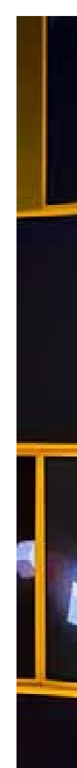
HOW CAN WE LEARN FROM ONE ANOTHER?

As exciting as individual details are, I always ask myself: how would I sum up the problem – and the solution – in just a few of my own words? That's the only way to get to the bottom of it. Curiosity involves asking questions so that you can explain correlations. I want to understand things, and that's a real challenge in today's world because often there's not enough time to really delve into the subject matter. That's where I'm grateful for my team's support.

It's a privilege to meet so many interesting people who work with state-of-the-art technology. I encounter new things all the time – at presentations and by talking to colleagues and outside experts. What interests me is how we can learn from one another and how can we share our knowledge.

I've always been fascinated with travel – getting to know new countries and cultures. And that's taught me something: to help spark good ideas, there's no substitute for practical experience. That means getting out and watching your operations, things like the way aircraft are loaded and unloaded at our air hub. I have to do that if I want to translate our business intelligently into numbers.

Numbers are not neutral. What's important is how we interpret them and what stories are behind them. That's what makes it all so interesting: do we recognise a trend? Can we tell early enough whether things are going in the right direction? Some might find this dreadfully dry, but it's a delightful prism through which to view the world.

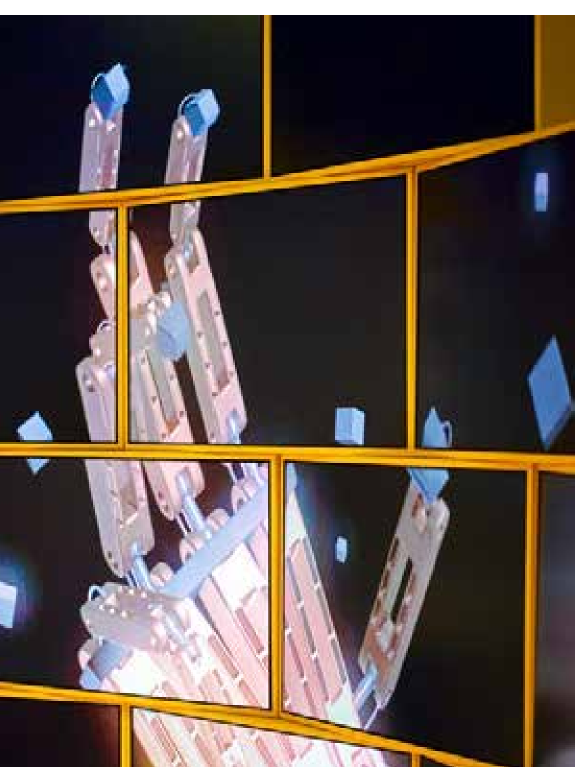


I'M EXCITED ABOUT THE FUTURE

And that world is changing radically. When people think of Deutsche Post DHL Group, many have a more traditional picture in mind. But if you take a closer look at how our company has transformed in recent decades, you won't find many others that have gone through such a dynamic process of change. In the 1990s, we were a purely German company. Today, we are more than 500,000 people, 60% of whom work outside Germany – and we now generate 70% of our revenue outside our home country. This transformation will continue; we'll keep changing – because logistics is an industry driven heavily by innovation.

I'm excited about the future; it harbours both opportunities and risks. Take the traditional letter: each year we lose two to three per cent of our volume to electronic substitution. By contrast, we're witnessing an e-commerce boom on the parcel side, where we're very clear beneficiaries of digitalisation. It's been an incredible change – and we shall continue to use the new opportunities of e-commerce.

> "Curiosity means asking questions so that you can explain correlations, I want to understand things."



THERE ARE INCREDIBLE OPPORTUNITIES

Sometimes you have to purposefully power down for new things. When I'm struggling with an issue, I sometimes try to sleep on it. Then I wake up and think, I could actually do it that way. What you have to do is free your mind and try to organise your thoughts.

We're faced with incredible opportunities today; it's comparable to the period about 40 years ago when globalisation began to set in on a massive scale. We can offer customers new products and innovative services. And we can simplify things in our operations and thereby support customers in a way no one could have dreamt of ten years ago. That's a huge opportunity.

MELANIE KREIS

Finance

Born in 1971
Member of the Board of Management since October 2014
Appointed until June 2022

FROM BONN

WITH A DEGREE IN PHYSICS

DR THOMAS OGILVIE

Human Resources

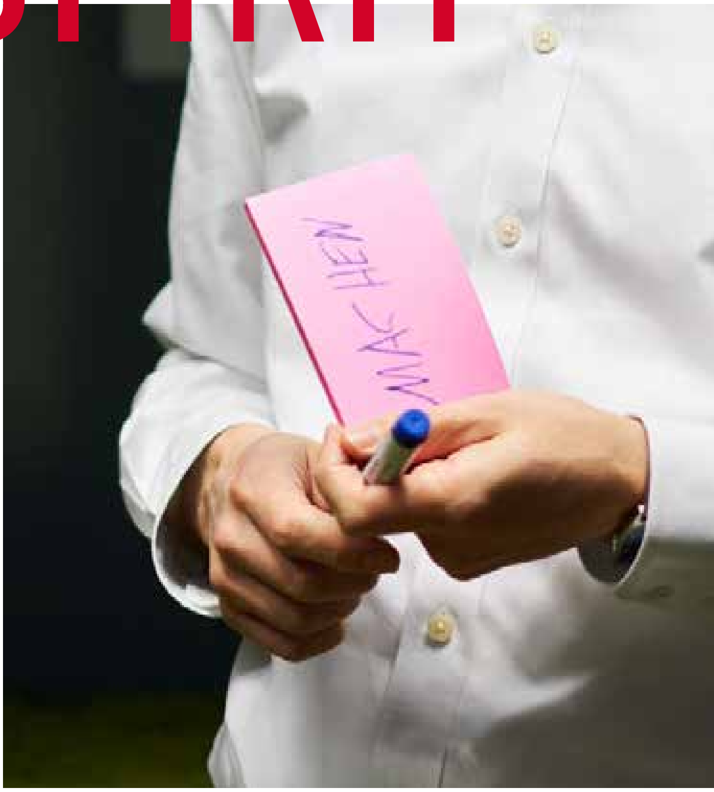
Born in 1976
Member of the Board of Management since September 2017
Appointed until August 2020

TEAM MANAGER

CHANGE LEADER

DR THOMAS OGILVIE

TEAM SPIRIT



MR OGILVIE, EVERYONE VALUES IT, MANY ASPIRE TO IT, BUT NOT ALL SUCCEED. WHY IS TEAM SPIRIT SO IMPORTANT?

That's easy: we're a service company and we wouldn't be able to provide our services if we didn't work together as a team. And that's doubly important for my human resources team. We have to work together to help other teams throughout the company work together.

BUT THERE ARE ALSO OUTSTANDING INDIVIDUAL PLAYERS WHO DON'T NECESSARILY NEED A TEAM.

Teamwork means cherishing success. And that in turn means looking at what's needed to achieve success. To win, leaders have to make sure they have the right players in the right positions. In football for instance, sending eleven superstars such as Neymar onto the pitch is definitely not a good idea. A combination of players who operate more as individuals and those who tend to be team players is likely to yield more success. At the end of the day, a good mix of both is what you need.

ISN'T THAT A CONTRADICTION? ON A TEAM, EVERYONE IS ESSENTIALLY ON A LEVEL PLAYING FIELD – BUT THAT'S NOT THE CASE IN A BUSINESS, WHICH IS A FUNDAMENTALLY HIERARCHICAL ORGANISATION.

No. A large corporation such as ours with nearly 520,000 employees can only function with clear hierarchies. At the same time, we need a culture that puts good ideas above one's position on the corporate ladder. There's no other way to survive in today's age of rapid digital transformation.

“Our employees should be able to make an impact and to stand out when they perform well.”

SO ARE YOU SAYING THAT WHAT MATTERS MOST IS WHOSE IDEA IS BETTER – REGARDLESS OF WHO WAS THE INITIATOR OF THIS IDEA?

Our company is driven by the performance, dedication and motivation of our employees. They need to be able to make an impact and to stand out when they perform well. Not only for their work day in and day out, but also for coming up with ideas for entirely different areas or future business models. After all, our people are the ones who are right in the thick of things – they're much more directly involved in developments and sometimes have a much clearer picture of what we need to do to succeed.

WHY IS CHANGE SO IMPORTANT RIGHT NOW?

First, because digitalisation has dramatically accelerated the pace of change. Second, because things are getting more complex and there are more potential courses of action. Our task is twofold: on the one hand, our leaders must ensure that stability and operational excellence are the order of the day; on the other hand, we need to leave room for experiments, curiosity and tolerating mistakes. That makes us agile and able to adapt to changing conditions and to develop new business models.

WHAT WILL THE WORKING CULTURE AT DEUTSCHE POST DHL GROUP LOOK LIKE IN A FEW YEARS?

Our private lives today give us a taste of the changes to come. Most of us are involved in one self-organised social media group or another, be it for sport, cooking or other activities. These are networks that we as individuals can join at any time, adopting a specific but different role depending on the group.

We're going to see something similar in the workplace, because such temporary groups are much better at adapting to market changes.

WE USED TO CALL THIS PROJECT WORK.

Right, but the classic example of project work has a clear structure – a project lead, a project plan and a nice, neat organisational chart. In the future, teamwork will be more agile and adaptable. Teams will be autonomous clans and squads that operate independently and are responsible for individual components of a whole. But that will require a meticulous master plan and equally meticulous management components. The more clearly we map out our corporate strategy and goals, the less precisely we'll need to prescribe the way to get there.

WHAT WILL THAT MEAN FOR EMPLOYEES? WHAT SKILLS WILL BE MORE OR LESS IN DEMAND IN THE FUTURE?

If you exclude specialist skills, which will always be essential, there will be a higher demand for people who are self-reflective and proactive. Self-reflection means not simply completing your assignments but also always asking yourself where and how you can make a difference. And being proactive means being helpful and putting your skills to use.

DR H.C. JÜRGEN GERDES

Post - eCommerce - Parcel

Born in 1964
Member of the Board of Management since July 2007
Appointed until June 2020

ENTREPRENEUR

PIONEER

INNOVATION

THREE QUESTIONS FOR **DR H.C. JÜRGEN GERDES**

“Impossible is not an option. That’s what drives me.”

1

MR GERDES, THE GROUP’S MOST TRADITIONAL BUSINESS, POST - ECOMMERCE - PARCEL, IS NOW THE MOST INNOVATIVE. WHAT IS DRIVING YOU?

We’ve always been innovators. In the past, we focussed primarily on using the latest inventions to get faster. Today we not only want to be faster, we want to use each innovation to do more to meet our customers’ needs – to offer them better services and real added value. Our Packstations, Parcel Boxes and in-car delivery service are some examples. We’re also developing a broad portfolio of online products and services, such as AllyouneedFresh – our online supermarket.

2

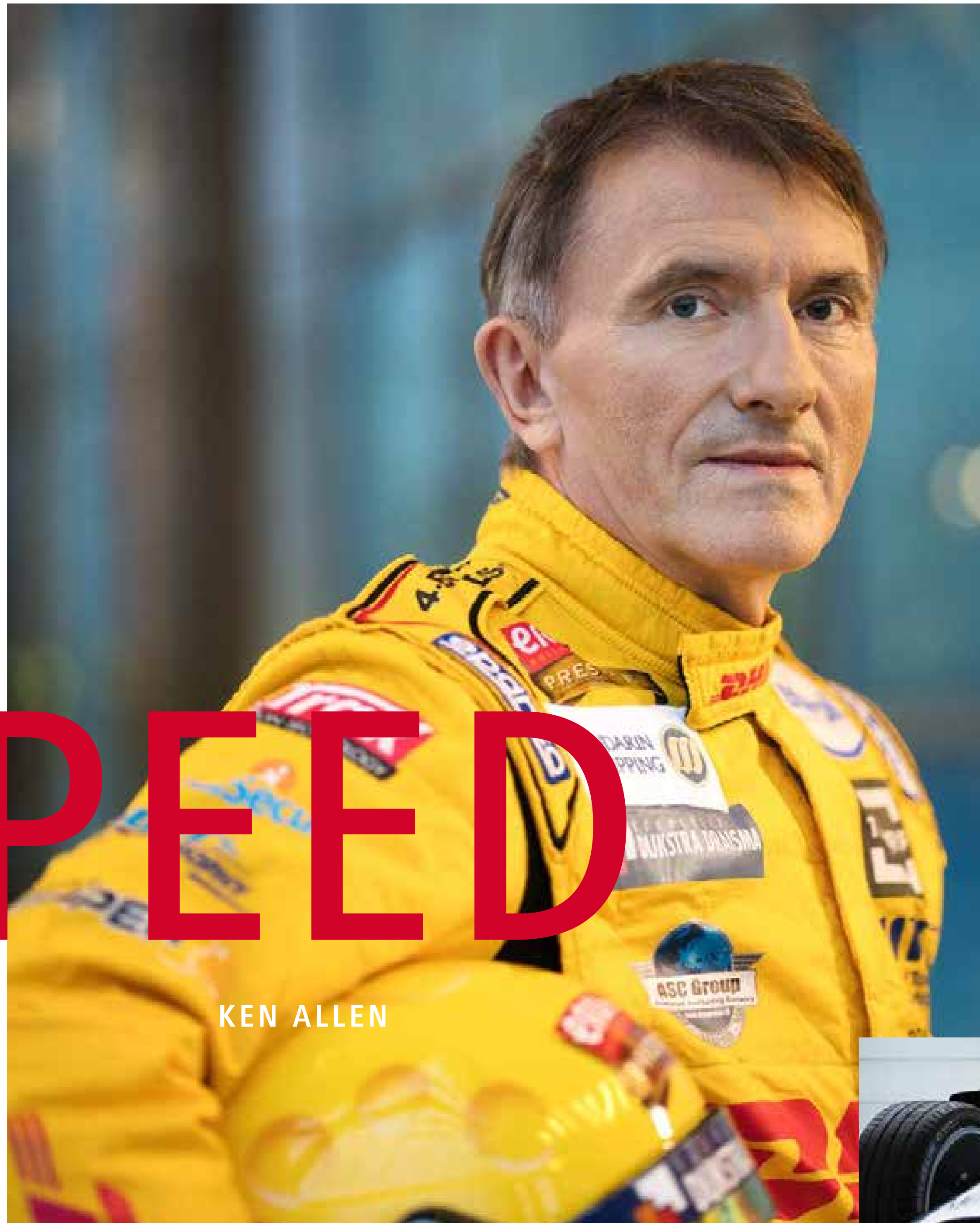
YOUR INNOVATIVE STREETSCOOTER HAS REALLY CAPTURED THE SPOTLIGHT.

And rightly so. After all, we’ve created a whole new market by developing this electric delivery vehicle. It’s precisely customised to the ergonomic needs of our employees – and it’s economical in every sense of the word. But above all, it’s quiet and generates zero emissions. Considering that increasing noise and air pollution remain problems in our inner cities, the StreetScooter will play a very important role in helping us reach our climate goals. And the more customers use it, the more we’ll be able to do for the environment together.

3

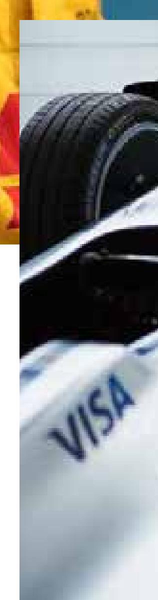
WHAT ARE THE DEFINING CHARACTERISTICS OF A SUSTAINABLE INNOVATOR?

Sustainable innovators can’t be administrators – they need to be driven by the desire to change things themselves. They shouldn’t see themselves as managers, but as doers and decision makers – as entrepreneurs. They have to constantly question their own actions. And when they recognise the need for change, they must also have the courage to follow through. They must have and embody a “can do” attitude, which in our company means setting an example for all employees and personifying the very same mentality we teach them in our PeP expert seminars. Sustainable innovators object to statements such as “That’s impossible!” – and they live and breathe the PeP expert programme motto: always strive to be better in order to remain the best. That’s what I’m committed to – that’s what drives me.



SPEED

KEN ALLEN

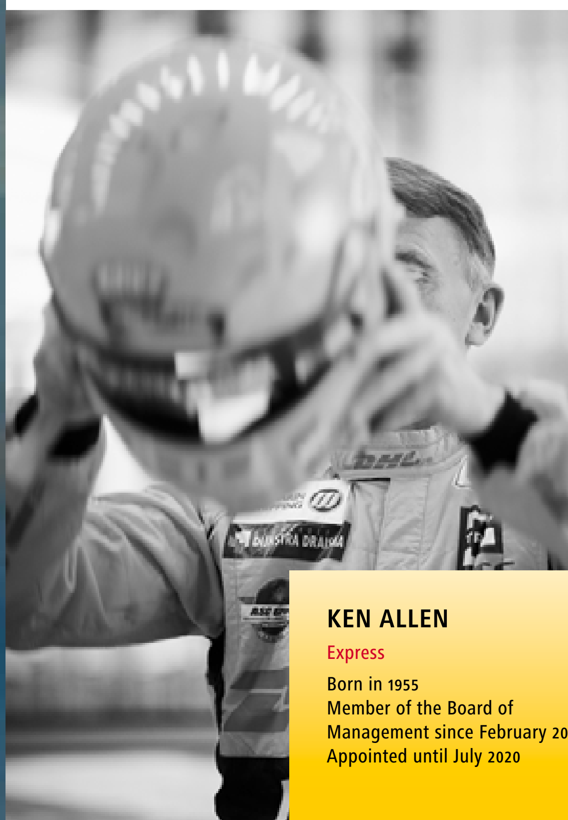


MR ALLEN, HOW DO YOU STAY ON TOP IN A BUSINESS THAT'S A CONSTANT RACE AGAINST THE CLOCK?

The main thing is to be better and faster than anything that might get in your way. When I visit the paddock at a racetrack, what fascinates me the most is the perfect synchronisation of the team at work. Drivers, mechanics, engineers – everyone has a job to do and they all have to work together to win. We're also a perfectly co-ordinated network of employees and processes in which the focus is always upon the customer. That's what makes us fast and that's what makes us successful.

“IF EVERYTHING SEEMS UNDER CONTROL, YOU’RE NOT GOING FAST ENOUGH,” SAID AUTO RACING LEGEND MARIO ANDRETTI. TRUE OR FALSE?

In racing, true but in logistics, false. We have to be fast but we can never lose control of our processes. That’s the secret of our success. Technology is what has changed our sector the most. We were already fast but now we have an end-to-end network to boot. Not only that – and this is extremely important – we won’t lose our common culture in that network.



WHAT CHARACTERISES THAT CULTURE?

DHL Express is THE most international company in the world. That’s something I’m proud of. And I encourage all of our employees to tell that to their families and everyone else they know. Because no matter whether you’re a courier at DHL Express or the CEO of the company, you’re the best in the international logistics industry.

KEN ALLEN

Express

Born in 1955
Member of the Board of Management since February 2009
Appointed until July 2020

GLOBETROTTER | SPORTSMAN

“My goal is not just to manage but to coach.”

TIM SCHARWATH

Global Forwarding, Freight

Born in 1965
Member of the Board of Management since June 2017
Appointed until May 2020

25
YEARS IN THE LOGISTICS BUSINESS

NOT A FAN OF TIES

TIM SCHARWATH

EXPERIENCE

10

RULES

Tim Scharwath spent much of his first months as a new board member visiting the division's many facilities and getting to know employees. Based upon this experience, he and his executive team have developed ten rules to clearly define the responsibilities and co-operation within the network and support the entire organisation in implementing current priorities.

PASSION

The great passion of the employees of Global Forwarding, Freight and their desire for change – that was a pleasant surprise for Tim Scharwath during his first months in the Group. Outside of work, his greatest passion is cars. He owns four.

2017

On 1 June 2017, he officially joined the Board of Management of Deutsche Post DHL Group as the new board member for the Global Forwarding, Freight division.

↑

2011

He became Executive Vice President and a member of the board, Air Logistics, Switzerland, at Kuehne + Nagel.

↑

2009

From 2006 to 2009, Tim Scharwath held a number of different positions at Kuehne + Nagel in Europe; in 2009 he became Regional President, North-west Europe, London.

↑

2004

After a variety of posts at Kuehne + Nagel, he became Senior Vice President Airfreight and a member of the board in Germany.

↑

1992

Tim Scharwath graduated from the University of Hamburg with a degree in business administration and began his career at Kuehne + Nagel Germany.

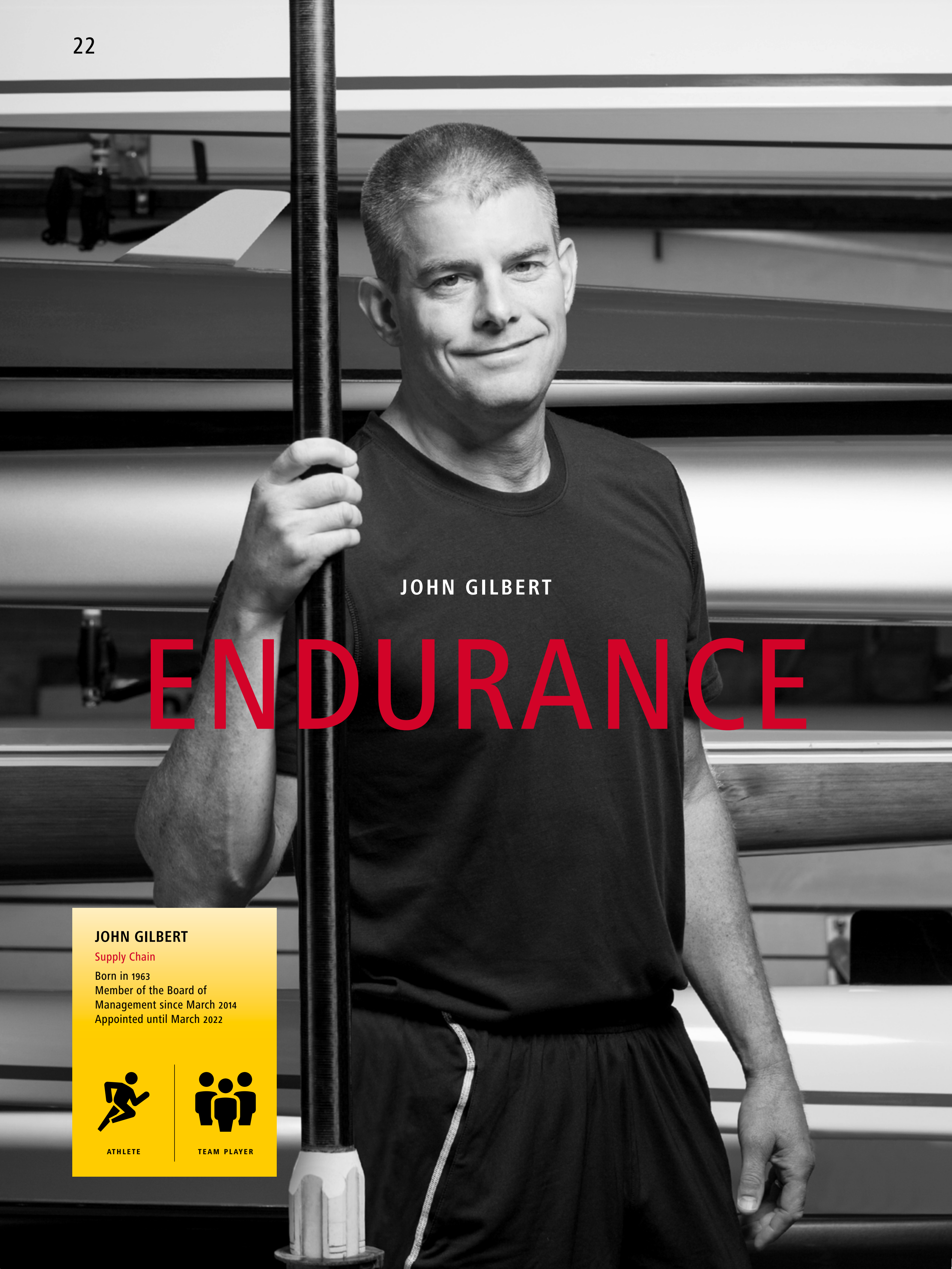
"It always helps to simplify, to reduce complexity. I learnt this way of thinking at a medium-sized company. And that's also the foundation of the experience that will benefit me here."

BALANCE

He always tries to find the right balance between work and his family.

COMING HOME

Although he just said goodbye to his chosen home of Switzerland, he will maintain contact with his friends there. He rang in the year 2018 together with his wife back on the River Elbe.



JOHN GILBERT

ENDURANCE

JOHN GILBERT
Supply Chain
Born in 1963
Member of the Board of Management since March 2014
Appointed until March 2022

ATHLETE | TEAM PLAYER

"In the supply chain business, the key to success is perseverance."

THE TARGET

To reach your objective, you need to keep your eye on the goal. The first step in any endeavour – whether in sports or in our business – is to identify the target. Our target comes from our strategy: we want to be the global leader in supply chain solutions. We can only achieve this by offering our customers the kind of added value that always puts us a step ahead of our competitors.

THE PHILOSOPHY

Continuous training is the only way for athletes to reach their goals. Athletes require both endurance and strength. They have to know their bodies and what they are capable of. When I train, I enjoy running a familiar path as much as I am intrigued by exploring routes off the beaten track. In the supply chain business, we're also constantly analysing our processes and investing in new technologies and innovations – always with the goal of becoming even better.

THE TEAM

In many types of sports, you cannot succeed without team effort. If the team does not work well together, it does not matter how talented the individual players are. The team will not reach its goals. I can rely on an excellent team who are highly enthusiastic and put enormous effort into working together to improve the business. Our team is truly better than the sum of its parts and I am very proud of that.

PERSEVERANCE

In our business, you need endurance. Peak seasons are followed by calmer waters. Only when you push yourself in intervals will you succeed in marathons. We work with our customers year after year, and we get better and better together. Knowing where you want to go and how the process works, relying on your teammates and staying on track – that is the only way to succeed in the supply chain business.

41 floors or 828 steps and 147 metres – for the Deutsche Post Tower Run you need stamina. John Gilbert took on the challenge in 2015.

SELECTED KEY FIGURES

01

EBIT 2017

Profit from operating activities.
€m

3,741

2016
3,491

Change
+7.2%

EMPLOYEES 2017

Headcount at the end of the year, including trainees.

519,544

2016
508,036

Change
+2.3%

CONSOLIDATED NET PROFIT FOR THE PERIOD

After deduction of non-controlling interests.
€m

2017
2,713

2016
2,639

Change
+2.8%

RETURN ON SALES 2017

%

6.2

2016
6.1

EARNINGS PER SHARE

Basic earnings per share.
€

2017
2.24

2016
2.19

Change
+2.3%

REVENUE 2017

€m

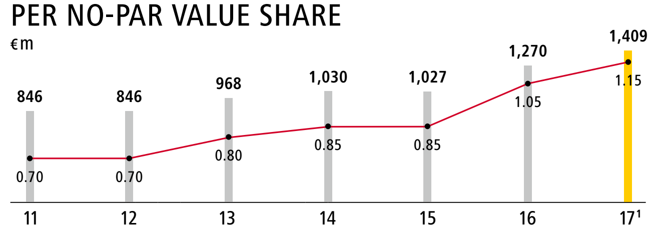
60,444

2016
57,334

Change
+5.4%

TOTAL DIVIDEND AND DIVIDEND PER NO-PAR VALUE SHARE

€m



Dividend per no-par value share (€)

[1] Proposal.

		2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Revenue	€m	57,334	60,444	5.4	15,410	16,109	4.5
Profit from operating activities (EBIT)	€m	3,491	3,741	7.2	1,111	1,181	6.3
Return on sales[1]	%	6.1	6.2	–	7.2	7.3	–
EBIT after asset charge (EAC)	€m	1,963	2,175	10.8	733	796	8.6
Consolidated net profit for the period[2]	€m	2,639	2,713	2.8	841	837	–0.5
Free cash flow	€m	444	1,432	> 100	1,201	975	–18.8
Net debt[3]	€m	2,261	1,938	–14.3	–	–	–
Return on equity before taxes	%	27.7	27.5	–	–	–	–
Earnings per share[4]	€	2.19	2.24	2.3	0.70	0.69	–1.4
Dividend per share	€	1.05	1.15[5]	9.5	–	–	–
Number of employees[6]		508,036	519,544	2.3	–	–	–

[1] EBIT/revenue.
[2] After deduction of non-controlling interests.
[3] Calculation Group Management Report, page 62.
[4] Basic earnings per share.
[5] Proposal.
[6] Headcount at the end of the year, including trainees.

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GROUP MANAGEMENT REPORT
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GENERAL INFORMATION

Business model and organisation

Four operating divisions

Deutsche Post AG is a listed corporation domiciled in Bonn, Germany. Under the Deutsche Post and DHL brands, the Group provides an international service portfolio consisting of letter and parcel dispatch, express delivery, freight transport, supply chain management and e-commerce solutions. It is organised into the four operating divisions of Post - eCommerce - Parcel, Express, Supply Chain and Global Forwarding, Freight, whose products and services we describe in the Business units and market positions section, page 28 ff. Each of the divisions is managed by its own divisional headquarters and subdivided into functions, business units and regions for reporting purposes.

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

Organisational structure A.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 • Frank Appel	**Board member** • Melanie Kreis	**Board member** • Thomas Ogilvie	**Board member** • Jürgen Gerdes	**Board member** • Ken Allen	**Board member** • Tim Scharwath	**Board member** • John Gilbert
Functions • Board Services • Corporate Legal • Corporate Office • Corporate Development & First Choice • 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

Effective 1 June 2017, Tim Scharwath assumed responsibility for the Global Forwarding, Freight division in his new capacity as a member of the Group Board of Management.

Effective 1 September 2017, Thomas Ogilvie assumed the position of Board Member for Human Resources and Labour Director for the Group.

Responsibility for Customer Solutions & Innovation passed to Ken Allen after the balance sheet date.

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 A.02 provides an overview of market volumes in key regions. Our market shares are detailed in the business units and market positions section below.

Market volumes[1] A.02

Global
(2016)

21 M TONNES
Air freight[2]

51 M TEUs
Ocean freight[3]

€24 BN
International express market[5]

€202 BN
Contract logistics[4]

Germany
(2017)

€10.8 BN
Parcel[6]

€4.5 BN
Mail communication[6]

€27.1 BN
Advertising market[7]

(2016)	Middle East/Africa	Americas	Europe	Asia Pacific
Air freight (m tonnes)[2]	1.3	4.8	5.5	9.8
Ocean freight (m TEUs)[3]	4.8	8.2	7.2	30.5
Contract logistics (€ bn)[4]	7.2	61.0	66.5	66.9
International express market (€ bn)[5]	–	8.2	7.1	8.0
Road transport (€ bn)[8]	–	–	195	–

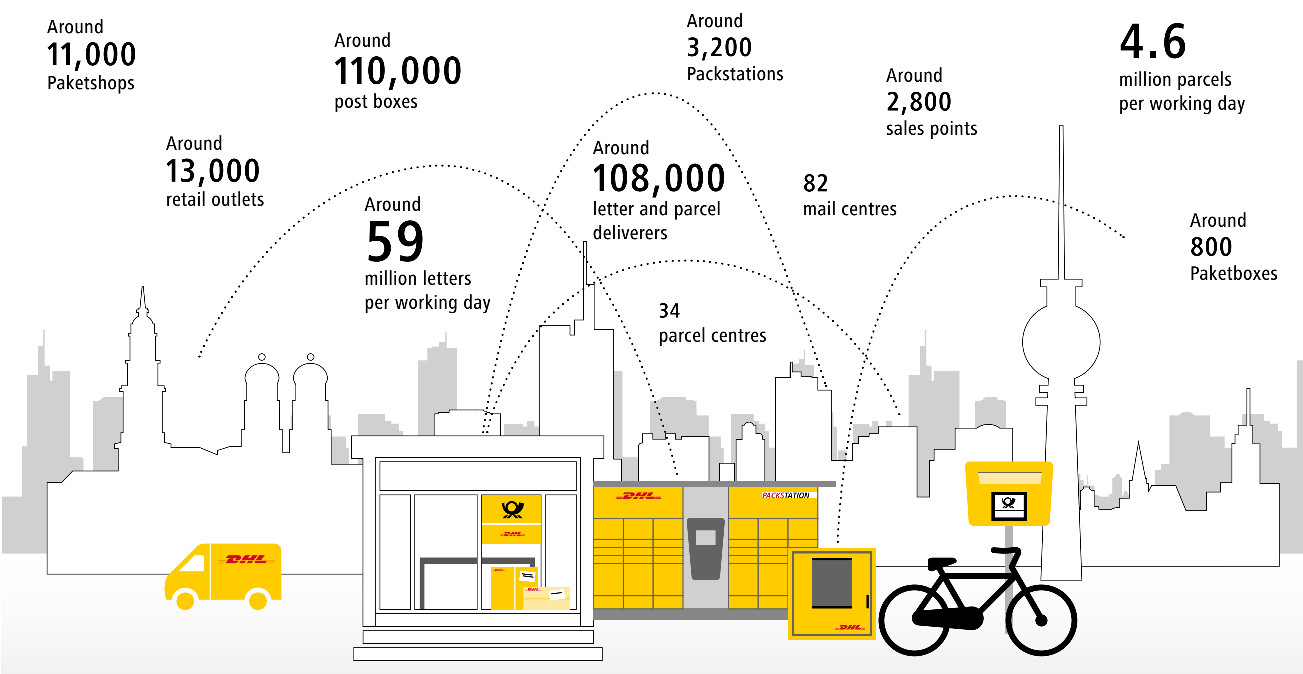
1 Regional volumes do not add up to global volumes due to rounding.
2 Data based solely upon export freight tonnes. Source: Seabury Cargo Advisory.
3 Twenty-foot equivalent units; estimated part of overall market controlled by forwarders. Data based solely upon export freight tonnes. Source: company 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); AR, BR, CA, CL, CO, MX, PA, US (Americas); AT, CZ, DE, ES, FR, IT, NL, PL, RO, RU, SE, TR, UK (Europe); AU, CN, HK, IN, JP, KR, SG, TW (Asia Pacific). Source: Market Intelligence, 2017, annual reports and desk research.
6 Germany only. Source: company estimates.
7 Includes all advertising media with external distribution costs Source: company estimate.
8 Market volume covers 25 European countries, excluding bulk and specialties transport. Source: DHL Market Intelligence Study 2017, based upon company calculations and content supplied by IHS Markit Group, copyright © IHS Global Inc., 2017. All rights reserved.

Business units and market positions

POST - ECOMMERCE - PARCEL DIVISION

Nationwide transport and delivery network in Germany, 2017

A.03



The postal service for Germany

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

In the year under review, the German market for business communications was around €4.5 billion (previous year: around €4.5 billion). Here we look at the business customer market in which we compete, including the companies that operate as service providers in this market – i.e., both competitors offering end-to-end services and consolidators providing partial services. Our market share increased slightly to 61.7% compared with the prior year (61.3%).

German mail communication market, business customers, 2017

A.04

Market volume: €4.5 billion

Deutsche Post	61.7%
Competition	38.3%

Source: company estimates.

Targeted and cross-channel advertising

On request, our dialogue marketing unit offers end-to-end solutions to advertisers – from address services and tools for design and creation all the way to printing, delivery and evaluation. This supports cross-channel, personalised and automated customer dialogue so that digital and physical items with inter-related content reach recipients according to a co-ordinated timetable and without any coverage waste. Our digital solutions allow companies to open a cross-channel dialogue with their customers.

The advertising market in Germany gained 1.3% in 2017 to reach a volume of €27.1 billion, primarily because companies increased their advertising expenditures. Our share of the highly fragmented media market rose slightly to 8.2%. As a result of a more accurate enquiry method in the digital media segment, the previous year's total market volume increased arithmetically by €2.4 billion to €26.8 billion. As a result, our market share for the previous year decreased arithmetically to 7.9%.

German advertising market[1], 2017 A.05

Market volume: €27.1 billion

Competition	91.8%
Deutsche Post	8.2%

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

Source: company estimates.

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 solutions for international shipments to consumers (B2C). Our portfolio also comprises consulting and services to meet 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 amounted to around €5.9 billion in 2017 (previous year: around €5.8 billion). Our market share was slightly above the prior-year level at 16.4%.

International mail market (outbound), 2017 A.06

Market volume: €5.9 billion

Competition	83.6%
DHL	16.4%

Source: company estimates.

Worldwide portfolio of parcel and e-commerce services

We maintain a dense network of parcel acceptance and drop-off points in Germany. Our portfolio of products and services allows recipients to choose whether they wish to receive their parcels during a specific delivery window, on the same day or as quickly as possible. They can also decide at short notice whether their parcels should be delivered to an alternative address, a specific retail outlet or a Paketshop. We offer support to business customers to grow their online retail businesses. We are able to cover the entire logistics chain through to returns management on request.

The German parcel market had a volume of around €10.8 billion in 2017 (previous year: around €10.1 billion). We succeeded in increasing our market share to 45.4% (previous year: 45.1%).

German parcel market, 2017 A.07

Market volume: €10.8 billion

Competition	54.6%
DHL	45.4%

Source: company estimates.

We expanded our cross-border portfolio of e-commerce services during the year under review. We grew our B2C network in Europe thanks to our entry into the UK market through the takeover of UK Mail at the end of 2016. At the beginning of 2017, we added the Spanish and Portuguese markets by reassigning companies from the Express division. Moreover, we expanded our European parcel business to include a total of 26 countries (including the German domestic market) via co-operation agreements in Ireland, Romania, Croatia and Bulgaria. There are more than 60,000 acceptance and drop-off points available to our customers in Europe.

Outside of Europe, we began operating national parcel networks in Chile, Malaysia and Vietnam. In the United States, we offer especially fast B2C delivery to customers in a range of metropolitan areas. Locations in Australia and Columbia were added to our network of fulfilment centres, Glossary, page 181. In India, we are testing the use of electric vehicles. We also reinforced our international parcel network by adding a new distribution centre in Japan to support increased cross-border deliveries.

EXPRESS DIVISION

A global express network

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 100,000 employees provide services to 2.7 million customers.

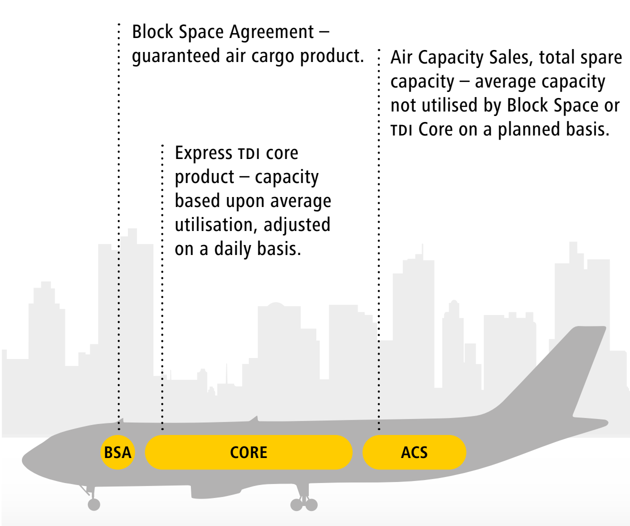
Time-definite international shipments as our core business

With the main product, Time Definite International (TDI), we provide services 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 that includes several airlines, some of which we own 100%. The combination of our own and purchased capacities, which include varied contract periods, allows us to respond flexibly to fluctuating demand. Figure A.08 illustrates how the available freight capacity is organised and offered on the market. The largest buyer of the available freight capacities is the DHL Global Forwarding business unit.

Available capacity A.08



In the year under review, we signed another agreement with Elbe Flugzeugwerke GmbH to convert an additional four Airbus A330-300s from passenger aircraft to cargo planes. Similar to the aircraft already converted, the newly converted planes will be used to cover medium to high-demand levels for cargo space capacity, which will both increase our flexibility and improve our fuel efficiency per kilogram transported.

Trade boosts international express business

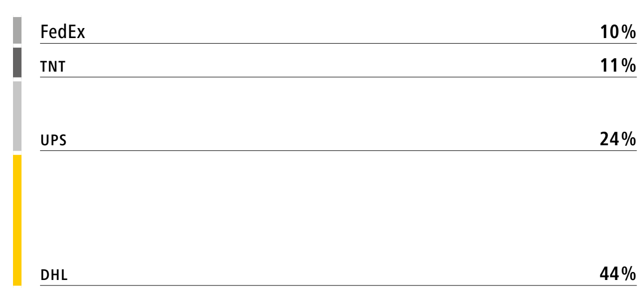
The international express business is benefiting from cross-border e-commerce and the growing importance of small and medium-sized enterprises in international trade. In 2016, we had a market share of 38% based upon TDI revenues.

Expanding the network in the Europe region

The European market leadership of 44% in 2016 encourages us to keep expanding the network in the region. In the year under review, we took new hubs into operation at the existing sites in London and Brussels and opened Germany's largest (in terms of area) Express distribution centre in Hamburg. We shall also substantially enlarge our hub at East Midlands airport in the United Kingdom, thus significantly increasing throughput capacity.

International express market – Europe, 2016:[1] top 4 A.09

Market volume: €7.1 billion



[1] Country base: AT, CZ, DE, ES, FR, IT, NL, PL, RO, RU, SE, TR, UK.
Source: Market Intelligence 2017, annual reports and desk research.

Expanding service in the Americas region

Our market share in the Americas region amounted to 20% in 2016. In the year under review, we opened a total of more than 1,000 service points there, established additional service centres in Mexico and expanded our gateway in Mexico City.

International express market – the Americas, 2016:[1] top 4 A.10

Market volume: €8.2 billion

TNT	< 1%
DHL	20%
UPS	33%
FedEx	43%

[1] Country base: AR, BR, CA, CL, CO, MX, PA, US.
Source: Market Intelligence 2017, annual reports and desk research.

Further investing in Asia

In the Asia Pacific region, our expanded gateway went into operation at the New Delhi airport in India. We also began upgrading our Hong Kong hub, incorporating additional technical innovations. It will be expanded further in the coming years. Our market share of 49% in 2016 illustrates the importance of the Asia Pacific market for us.

International express market – Asia Pacific, 2016:[1] top 4 A.11

Market volume: €8.0 billion

TNT	4%
UPS	11%
FedEx	19%
DHL	49%

[1] Country base: AU, CN, HK, IN, JP, KR, SG, TW.
Source: Market Intelligence 2017, annual reports and desk research.

Reliable partner in the MEA region

In the MEA (Middle East and Africa) region, the Middle East continued to suffer in 2017 from the sometimes unstable political situation. We were nonetheless able to maintain our operations whilst adhering to legal requirements and ensuring the safety of our employees. Flight frequency to Cairo was increased and capacity was doubled at the Dubai hub.

GLOBAL FORWARDING, FREIGHT DIVISION

The air, ocean and overland freight forwarder

Our air, ocean and overland freight forwarding services include standardised transport as well as multimodal and sector-specific solutions, together with individualised industrial projects.

Compared with other divisions, our operating business model is asset-light, as it is based upon brokering transport services between customers and freight carriers. Our network's global presence allows us to offer efficient routing and multimodal transport.

Air freight market, 2016: top 4 A.12

Thousands of tonnes[1]

Panalpina	921
DB Schenker	1,179
Kuehne + Nagel	1,304
DHL	2,081

[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 year under review grew by 9.0%. Transport capacities are increasing steadily, due mainly to new passenger aircraft. On some routes, however, the available cargo space was scarce. This applies in particular to routes out of Asia. With around 2.1 million transported export freight tonnes, we remained the air freight market leader in 2016, as shown in table A.12.

Consolidation continues in the ocean freight market

Additional mergers and alliances of freight carriers changed the ocean freight market landscape in 2017. The market also experienced growth on the whole, with volume growth driven primarily by routes between the Asia Pacific region and Europe. The container ship market continued to be impacted by surplus capacities, forcing freight carriers to attempt to adapt to the situation. With around 3.1 million transported twenty-foot equivalent units, we remained the second-largest provider of ocean freight services in 2016, as shown in the following table.

Ocean freight market, 2016: top 4 A.13

Thousands of TEUs[1]

[1] Twenty-foot equivalent units.
Source: annual reports, publications and company estimates.

European overland freight market posts moderate growth

The European road transport market saw moderate expansion in the year under review, fuelled by increases in prices and volumes in most European countries as well as a modest rise in oil prices. In the middle of 2017, we launched our premium product EURAPID in 22 European countries. DHL remained the second-largest provider in 2016, with a market share of 2.2%, in what continues to be a highly competitive environment.

European road transport market, 2016: top 5 A.14

Market volume: €195 billion[1]

[1] Total market for 25 European countries, excluding bulk goods and specialties transports.
Source: DHL Market Intelligence Study 2017, based upon the company's calculations and content supplied by IHS Markit Group, Copyright © IHS Global Inc, 2017. All rights reserved.

SUPPLY CHAIN DIVISION

Customer-centric outsourcing solutions

As the world leader in contract logistics, we offer customers standardised warehousing, transport and value-added services that can be combined to form customised supply chain solutions.

Our contract logistics services include planning, sourcing and production activities as well as packaging, repairs and returns. These services are rounded out by e-commerce fulfilment services, real estate solutions and management capabilities – one example being our assumption of ground handling operations for easyJet at London Gatwick airport in 2017.

Industry expertise in key sectors

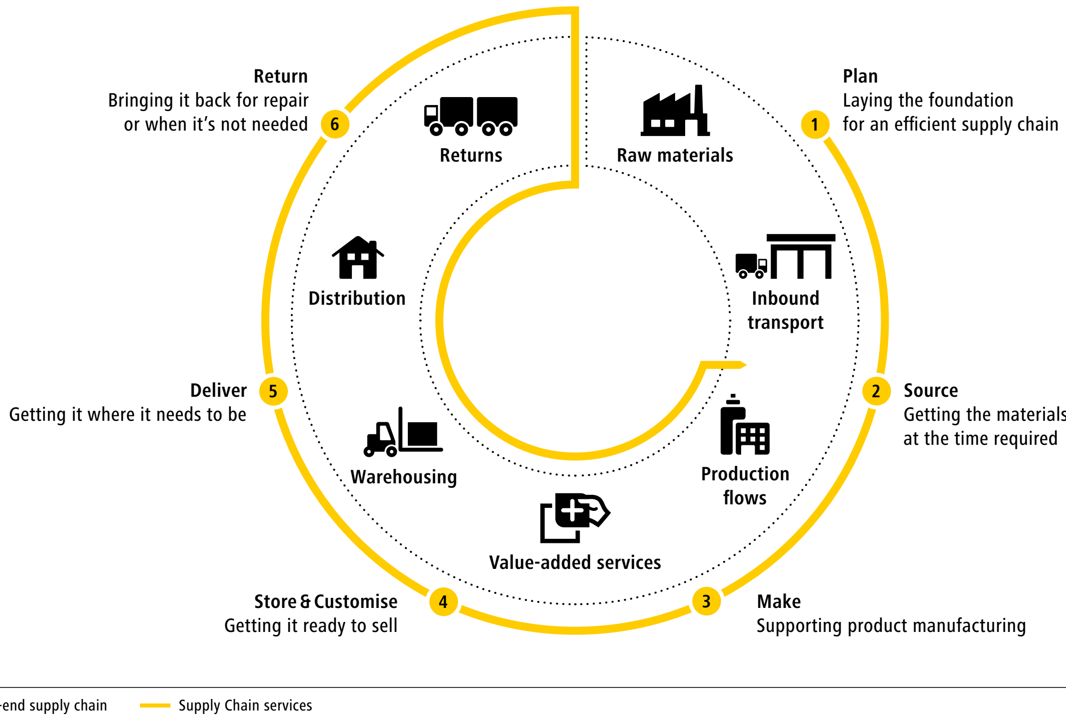
We have in-depth knowledge and experience across all sectors, along with a strategic growth focus upon Automotive, Technology and Life Sciences & Healthcare. The acquisition of Olimpo Holding, Results of operations, page 54, has given us expanded service coverage in the Brazilian Life Sciences industry and has strengthened our market position.

In the Automotive sector, production is increasingly shifting towards emerging markets in eastern Europe and Asia, particularly given the growth of auto manufacturers in India and China. Integrated solutions such as Lead Logistics Partner (LLP), Glossary, page 181, and Inbound to Manufacturing, Glossary, page 181, services offer growth opportunities in this highly competitive outsourcing sector.

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 customers to respond to market demand, particularly in telecommunications, are creating business opportunities in this sector.

Companies in the Life Sciences & Healthcare sector are increasingly outsourcing parts of their supply chains to providers that can ensure compliance with stringent regulatory requirements and through labelling (serialisation) offer solutions to combat product counterfeiting. Rising demand for packaging services, temperature-controlled transport, warehousing and direct-to-market solutions, Glossary, page 181, is driving growth in this sector.

Logistics and value-added services along the supply chain A.15



Leading position in a fragmented market

In the fragmented market DHL remains the global leader in contract logistics with a market share of 6.2% (2016) and operations in more than 50 countries. Our market share declined compared with 2015 due to the change in revenue recognition in connection with the UK National Health Service (NHS) as a result of revised contract terms. The contract logistics market is estimated at around €202 billion, with the top ten players only accounting for around 20% of the total volume. We lead the market in mature regions such as North America and Europe and are well positioned in rapidly growing markets throughout the Asia Pacific region and Latin America.

Contract logistics market, 2016: top 10 A.16

Market volume: around €202 billion

DHL	6.2%
XPO Logistics	2.4%
Kuehne + Nagel	2.1%
Hitachi Transport System	1.8%
CEVA	1.6%
SNCF Geodis	1.4%
Neovia	1.3%
DB Schenker	1.2%
UPS SCS	1.2%
Ryder	0.7%

Source: company estimates; Transport Intelligence. Revenue figures are estimates based upon gross revenue from external customers; exchange rates as at 2016.

Objectives and strategies

CORPORATE STRATEGY

Proactively shaping the Group's digital future

With our "Strategy 2020: Focus.Connect.Grow." Deutsche Post DHL Group underscores its global leadership in the logistics industry. Since increasing digitalisation, accelerated e-commerce growth and momentum in the developing markets and emerging economies offer us significant opportunities, we have set the following priorities for our investments and actions:

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 a benchmark for responsible business. In order to deliver consistent, first-class service to our customers, we conduct frequent surveys to determine their needs and align our offer accordingly. 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 are of interest to various parts of our Group, for example, environmentally friendly solutions and an optimised IT landscape. "Certified" is our Group-wide initiative that enables our employees to gain specific skills and knowledge relevant to their roles. Around 80% of the employees in the Group are to be certified internally by 2020. The 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 year under review, we developed new programme modules and certified additional employees.

Grow: We intend to benefit from growth in the e-commerce segment and in the developing and emerging markets. For instance, we invested in the domestic and cross-border parcel business in Europe as well as in our already comprehensive Express network. We also entered additional markets in Malaysia, Vietnam and Chile through our DHL eCommerce business. 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.

We are proactively shaping the digital future of the Group. Key building blocks include the "Saloodo!" freight platform and our StreetScooter electric vehicles. We also introduced an internal incubator programme and entered into a strategic partnership with Plug and Play, a global start-up ecosystem and venture capital fund. As a corporate partner in Plug and Play's accelerator programme, we aim to work with young start-ups to develop and implement new solutions in the areas of mobility, supply chain and logistics.

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

Our goal is 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 aim to certify our employees as PeP Experts by 2020, because for us dedicated and satisfied 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 of the Group as well as with other Group divisions.

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 also cut costs wherever possible and sensible, whilst investing in technologies, automation, innovation and growth areas.

EXPRESS division

Our return on sales improves when growing volumes lead to economies of scale in the network, innovation and automation enhance productivity, and costs are strictly managed. We optimise indirect costs by standardising processes. For example, we are gradually streamlining our IT systems architecture and are ensuring adherence to global standards and quality requirements, especially as regards facilities and operating resources.

We concentrate upon shipments whose size and weight make them a match for our network, thereby using it as well as possible. 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 often benefit from increasing exports.

The majority of our costs are attributable to our air and ground network. Old aeroplanes are replaced 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. 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 carried out by our own employees, both within their departments and at a cross-functional level. This enhances mutual understanding whilst reinforcing the team atmosphere and loyalty within the division. We want to keep our employees around the world motivated and to systematically recognise outstanding performance.

GLOBAL FORWARDING, FREIGHT division

In the Global Forwarding business unit, we intend to increase the profitability of contracts. We also want to bring costs into line with our business performance, thus improving the conversion rate from gross profit to profit from operating activities. Over the medium term, we aim to reach a conversion rate on a level with our leading competitors.

IT in the Global Forwarding business unit will be renewed in accordance with the IT Renewal Roadmap, with a view to enhancing or replacing existing systems and thus integrating industry-proven solutions. In future, we shall focus upon improved shipment visibility, electronic document management and a new transport management system.

In the Freight business unit, the new FREIGHT 2020 strategy includes ten individual initiatives. We aim to increase quality and data transparency whilst enhancing productivity. Our systems environment is to be harmonised, the international network optimised and supplier relationships systematically improved. We want to continue growing by means of an optimised sales organisation. At the beginning of 2017, we launched “Saloodo!”, our digital freight platform. We plan to expand the platform internationally in the future.

SUPPLY CHAIN division

As the supply chain solutions company for the world, we want to capitalise on market opportunities and continue along a growth trajectory. 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 including Centres of Excellence improves our cost base and establishes proven and efficient routines. The Certified Supply Chain Specialist programme empowers and motivates our employees worldwide to perform at their best.

Finally, the Grow pillar focuses upon 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. Digitalisation facilitates the delivery of our strategy. Implementing augmented reality glasses and robotic process automation yield efficiency gains and predictive analytics are being used to optimise processes.

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 year under review is described in the Report on economic position on page 51 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.

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 of asset charge with previous figures, in 2017 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 A.17 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

A.17

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

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[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 executives. The results of the Employee Opinion Survey carried out in the reporting year can be found in the Employees section on page 71.

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 73 f.

Disclosures required by takeover law

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

Composition of issued capital, voting rights and transfer of shares

As at 31 December 2017, the company's share capital totalled €1,228,707,545 and was composed of the same number of no-par value registered shares. Each share carries the same rights and obligations stipulated by law and/or in the company's Articles of Association 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 statutory provisions and the company's Articles of Association; the latter do not restrict either of these activities.

Shareholdings exceeding 10% of voting rights

KfW Bankengruppe (KfW), Frankfurt am Main, is our largest shareholder, holding 20.7% of the share capital. The Federal Republic of Germany holds an indirect stake in Deutsche Post AG via KfW.

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 statutory provisions (cf. sections 84 and 85 of the *Aktiengesetz* (AktG – German Stock Corporation Act) and section 31 of the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act)). 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.

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.

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 160,000,000 new, no-par value registered shares (Authorised Capital). Details may be found in article 5 (2) of the Articles of Association. The Articles of Association may be viewed on the company's website or in the electronic company register. They may also be viewed in the commercial register of the Bonn Local Court.

The Board of Management has furthermore been authorised by resolution of the Annual General Meetings of 25 May 2011 (agenda item 6), 27 May 2014 (agenda item 8) and 28 April 2017 (agenda item 7) to issue share subscription rights. The authorisation resolutions are included in the notarised minutes of the AGM that can be viewed in the commercial register of the Bonn Local Court. In order to service both current subscription rights and those yet to be issued, the Annual General Meeting approved conditional capital increases. The details are stipulated in article 5 (3) to (5) of the company's Articles of Association. As at 31 December 2017, the subscription rights already issued conferred rights to up to 37,625,184 Deutsche Post AG shares, assuming the prerequisites are met. Under the approvals granted, up to 82,788,141 additional subscription rights may be issued.

The AGM of 28 April 2017 authorised the company to buy back shares on or before 27 April 2022 up to an amount not to exceed 10% of the share capital existing as at the date of adoption of the resolution. Further details may be found in the authorisation resolution adopted by the AGM of 28 April 2017 (agenda item 8). In addition to this, the AGM of 28 April 2017 also authorised the Board of Management, within the scope specified in agenda item 8, to buy back shares, including through the use of derivatives (agenda item 9). Based on that authorisation resolution, the company had repurchased no shares as at 31 December 2017.

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 bonds issued in December 2012 and December 2017 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.

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 regard to the Annual Bonus Plan with Share Matching 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 a 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

The remuneration report describes the principles of the remuneration systems for the members of the Board of Management and the Supervisory Board and provides information about the remuneration granted and paid to the members of the Board of Management and the remuneration of the Supervisory Board in financial year 2017. It has been prepared in accordance with the recommendations of the German Corporate Governance Code (DCGK) and the requirements of the *Handelsgesetzbuch* (HGB – German Commercial Code), the German Accounting Standards and the International Financial Reporting Standards (IFRSs).

Remuneration structure of the Group Board of Management in financial year 2017

The remuneration system for the Board of Management is aligned to the company's strategy and is geared toward performance-based and sustainable corporate governance. It creates an incentive for the members of the Board of Management to work for and on behalf of the company over the long term.

The Supervisory Board regularly examines the appropriateness of this remuneration. Criteria for evaluating the appropriateness of remuneration are the tasks performed by each individual Board of Management member, his or her personal performance, the economic situation, the company's success and future perspectives, and the customary level of remuneration, taking into consideration the peer group and the overall remuneration structure in the company. In this process the Supervisory Board takes into consideration the relation thereof to the remuneration of the senior management level and to the workforce overall, including its development over time. In evaluating the appropriateness of remuneration, the Supervisory Board is supported by an independent external remuneration expert.

The remuneration of the Board of Management is composed of a non-performance-related component and variable – in other words performance-related – components with a short, medium and long-term effect, as well as pension commitments and fringe benefits.

REMUNERATION CAPS

The remuneration as a whole as well as its variable components have been capped.

For remuneration granted in financial year 2017 and thereafter, an overall cap of €8 million for the chairman and €5 million for the ordinary members (plus fringe benefits in each case) was introduced in addition to the previously existing thresholds that additionally limit the maximum amount attainable from the target remuneration of a single financial year (overall cap on remuneration granted).

In addition to this overall cap on remuneration granted in a financial year, a second overall cap to apply beginning in 2022 will ensure that remuneration paid in a single financial year does not exceed the amount of €8 million for the chairman and €5 million for each ordinary member of the Board of Management (overall cap on remuneration paid). These caps also do not take into account additional fringe benefits.

The maximum amounts applicable to the individual variable remuneration components and the maximum amount paid from remuneration granted in 2017 are broken down in table A.23.

Example illustration of the included remuneration components A.18

Overall cap on remuneration granted Example: 2017	Overall cap on remuneration paid Example: 2022
Remuneration components included	**Remuneration components included**
• 2017 base salary • Proportion of 2017 annual bonus for immediate payout • Deferral from 2017 annual bonus • Long-Term Incentive Plan 2017 tranche • 2017 pension expense (service cost)	• 2022 base salary • Proportion of 2022 annual bonus for immediate payout • Deferral from 2020 annual bonus • Long-Term Incentive Plan 2016/2017/2018[1] tranches • 2022 pension expense (service cost)

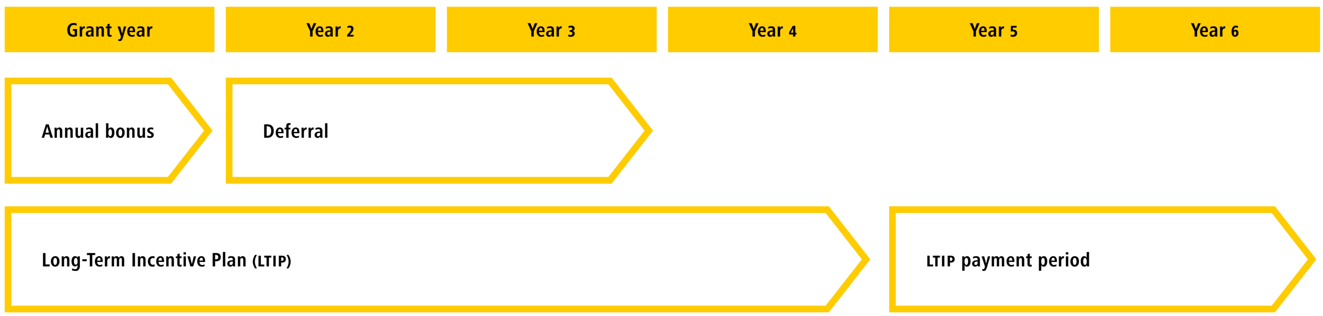
[1] The time the tranches are paid out depends on when they are exercised within the two-year exercise period.

NON-PERFORMANCE-RELATED COMPONENTS

Non-performance-related components are the annual base salary (fixed annual remuneration) and fringe benefits.

The annual base salary is paid in twelve equal monthly instalments retroactively at the end of each month. Fringe benefits comprise particularly the use of a company car, subsidies for health and long-term care insurance in accordance with the provisions of the German Social Security Code, and special allowances and benefits for assignments outside the members' home country.

Terms of variable remuneration in target remuneration A.19

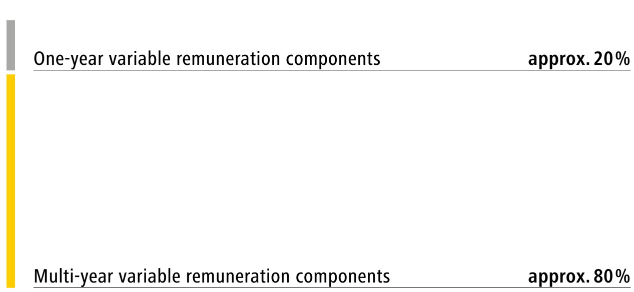


PERFORMANCE-RELATED COMPONENTS

The variable remuneration paid to the Board of Management is almost entirely multi-annual, in other words based on medium- and long-term performance. More than half of the variable target remuneration for 2017 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). All of the variable remuneration components are forward-looking.

Less than a quarter of the variable remuneration component is granted on the basis of a one-year calculation, as shown in the following graphic.

Weighting of one-year and multi-year variable remuneration components (variable target remuneration) A.20



ANNUAL BONUS

The members of the Board of Management receive an annual bonus whose individual amount reflects the extent to which predefined targets are achieved, missed or exceeded. 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.

The Supervisory Board assesses achievement based on the agreed performance criteria. The maximum amount of the annual bonus may not exceed 100% of the annual base salary.

The same performance criteria were used to calculate the amount of the annual bonus for the year under review 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. Target setting is based on the capital market guidance. Furthermore, an employee-related target is agreed with all Board of Management members based upon the annual Employee Opinion Survey. In financial year 2017, the employee engagement KPI was relevant for the performance assessment. As in the previous years, further targets are additionally agreed with the members of the Board of Management that reflect the focus of their work in the respective financial year, in accordance with the Group strategy. The granted variable annual bonus consists of financial targets (75%) and non-financial targets (25%).

DEFERRAL

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 with a performance phase of one year and a sustainability phase of two years (deferral). That medium-term component will be paid out after expiry of the sustainability phase subject to the condition that EAC – an indicator of sustainability – is additionally reached during the sustainability phase. This is the case when at least the cost of capital has been earned. 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.

LONG-TERM INCENTIVE PLAN

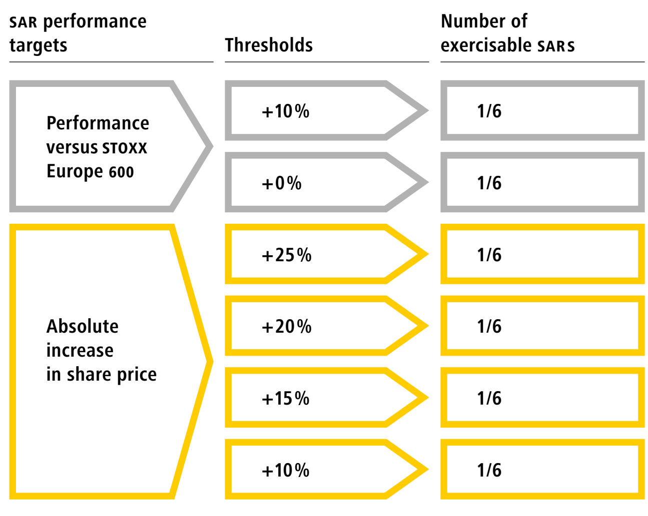
Since financial year 2006, the company has granted the Board of Management members share-price-based, long-term cash remuneration by issuing stock appreciation rights (SARs) within the scope of a long-term incentive plan (LTIP). To participate in the LTIP, the Board of Management members have to make a personal financial investment consisting of 10% of their annual base salary on the grant date, primarily in stock.

In financial year 2017, the Board of Management members received SARs with a value of one base salary on the grant date. Beginning in financial year 2018, they will receive SARs with a value of 50% to 150% of one base salary on the grant date, depending on the attainment of one-year strategic targets. The relevant target categories for the granting of SARs in 2018 are the development of the share price compared with the company's competitors and strategic individual targets, including a digital transformation target in each case.

The SARs granted can be fully or partly exercised after the expiration of a four-year waiting period at the earliest, provided absolute or relative performance targets have been achieved at the end of this waiting period. SARs lapse if they are not exercised within two years after the waiting period expires (exercise period).

To determine whether and how many of the SARs granted are exercisable, four share-price-related (absolute) and two reference-index-based (relative) performance targets are measured. Within the scope of the absolute performance targets, a sixth of the SARs granted is earned in each case if the closing price of Deutsche Post shares at the end of the waiting period exceeds the issue price by at least 10, 15, 20 or 25%. Both relative performance targets are tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). They are met if the share price equals the index performance or outperforms it by more than 10%.

Mechanism of the stock appreciation rights A.21



To determine the share price performance, the average price of Deutsche Post shares or the average index value for a reference period is compared with that of a performance period. The reference period comprises the last 20 consecutive trading days prior to the issue date. The average price of Deutsche Post shares during the reference period of the 2017 tranche was €34.72 and the average index value was 375.59 points. 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. If absolute or relative performance targets are not met by the end of the waiting period, the SARs attributable to them will expire without replacement or compensation.

Each exercised SAR entitles the Board of Management member 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. The proceeds from stock appreciation rights are limited to a maximum amount. Table A.23

shows the individual maximum amounts for the 2017 tranche. The remuneration from stock appreciation rights may be limited by the Supervisory Board in the event of extraordinary circumstances.

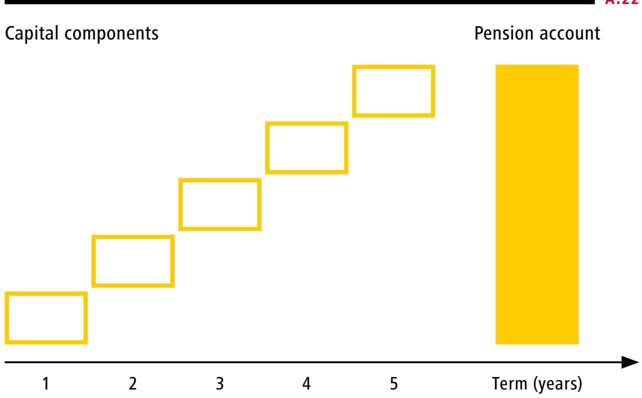
Pension commitments (retirement and surviving dependants' benefits)

The members of the Board of Management have been granted contribution-based pension commitments; Frank Appel and Jürgen Gerdes still have final-salary-based existing pension commitments. Under the contribution-based pension plan, the company credits an annual amount of 35% of the annual base salary to a virtual pension account for each Board of Management member. 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 whilst in office or death.

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.

Function of the contribution-based pension plan A.22



Upon their initial appointment to the Board of Management, Frank Appel and Jürgen Gerdes were granted the final-salary-based direct pension commitments customary in the company at the time which provide for benefits in the case of permanent invalidity, death or retirement. After five years of service on the Board of Management, the entitlements they have acquired will vest in full; both Frank Appel and Jürgen Gerdes have exceeded this minimum duration of service. Frank Appel's pension commitment provides for retirement benefits to be granted at the earliest from the age of 55. As he has been appointed to the Board of Management beyond this age, he has not availed himself of this provision. Jürgen Gerdes will not be eligible for retirement benefits until he turns 62.

The pensions of Frank Appel and Jürgen Gerdes are geared towards annuity payments. They also have the option of choosing a lump sum instead. 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. Both Frank Appel and Jürgen Gerdes attained the maximum pension level (50%) after ten years of service. Subsequent retirement benefits increase or decrease to reflect changes in the consumer price index in Germany.

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 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 of 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 to 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 *Aktiengesetz* (AktG – German Stock Corporation Act) 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 that 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.

Amount of remuneration paid to members of the Group Board of Management in financial year 2017

The remuneration paid to members of the Board of Management in financial year 2017 totalled €11.57 million (previous year: €12.26 million) in accordance with the applicable accounting standards. That amount comprised €7.57 million (previous year: €6.63 million) in non-performance-related components and €4.00 million (previous year: €5.63 million) in performance-related components, i.e., paid-out annual bonus amounts. The target criteria for the annual bonus are explained on page 41. An additional €3.06 million of the annual bonus was transferred to the medium-term component (deferral) and will be paid out in 2020 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 2,003,970 SARs in financial year 2017 with a total value of €7.19 million (previous year: €6.25 million) at the time of issue (1 September 2017). The waiting period for the tranche issued in 2017 ends on 31 August 2021.

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, table A.23 "Target remuneration" (or "benefits granted" in DCGK terminology) does show any actual payments of performance-based remuneration. Instead of the payment amount, 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 2017 or for the previous year. In addition, the long-term remuneration (LTIP with a four-year waiting period) granted in the year under review or in the previous year is reported at its fair value at the grant date. 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 A.23

€	Dr Frank Appel Chairman				Ken Allen Express			
	2016	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017
a) Non-performance-related remuneration								
Base salary	1,962,556	1,978,911	1,978,911	1,978,911	976,500	1,000,913	1,000,913	1,000,913
Fringe benefits	35,099	35,294	35,294	35,294	102,375	98,197	98,197	98,197
Total (lit. a)	**1,997,655**	**2,014,205**	**2,014,205**	**2,014,205**	**1,078,875**	**1,099,110**	**1,099,110**	**1,099,110**
b) Performance-related remuneration								
One-year variable remuneration	785,022	791,564	0	989,456	390,600	400,365	0	500,457
Multi-year variable remuneration	2,747,596	2,754,138	0	5,895,891	1,367,129	1,406,175	0	4,523,698
LTIP with four-year waiting period	1,962,574	1,962,574	0	4,906,435	976,529	1,005,810	0	4,023,241
Deferral with three-year waiting period	785,022	791,564	0	989,456	390,600	400,365	0	500,457
Total (lit. a and b)	**5,530,273**	**5,559,907**	**2,014,205**	**8,899,552**	**2,836,604**	**2,905,650**	**1,099,110**	**6,123,265**
c) Pension expense (service cost)	**899,257**	**1,041,772**	**1,041,772**	**1,041,772**	**337,497**	**332,801**	**332,801**	**332,801**
Total DCGK remuneration (lit. a to c)	**6,429,530**	**6,601,679**	**3,055,977**	**9,941,324**	**3,174,101**	**3,238,451**	**1,431,911**	**6,456,066**
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2017				**8,000,000**				**5,000,000**
d) Variable cash remuneration pursuant to DRS 17								
One-year variable remuneration (payment amount)	950,662	952,351			482,147	487,945		
Payout from medium-term component	928,682	288,300			447,935	203,680		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**3,876,999**	**3,254,856**			**2,008,957**	**1,790,735**		

	Dr h.c. Jürgen Gerdes Post - eCommerce - Parcel				John Gilbert Supply Chain			
	2016	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017
a) Non-performance-related remuneration								
Base salary	1,005,795	1,005,795	1,005,795	1,005,795	823,750	912,500	912,500	912,500
Fringe benefits	35,011	36,289	36,289	36,289	174,576	173,167	173,167	173,167
Total (lit. a)	**1,040,806**	**1,042,084**	**1,042,084**	**1,042,084**	**998,326**	**1,085,667**	**1,085,667**	**1,085,667**
b) Performance-related remuneration								
One-year variable remuneration	402,318	402,318	0	502,898	329,500	365,000	0	456,250
Multi-year variable remuneration	1,408,144	1,408,128	0	4,526,139	1,189,528	1,295,011	0	4,176,294
LTIP with four-year waiting period	1,005,826	1,005,810	0	4,023,241	860,028	930,011	0	3,720,044
Deferral with three-year waiting period	402,318	402,318	0	502,898	329,500	365,000	0	456,250
Total (lit. a and b)	**2,851,268**	**2,852,530**	**1,042,084**	**6,071,121**	**2,517,354**	**2,745,678**	**1,085,667**	**5,718,211**
c) Pension expense (service cost)	**277,604**	**344,288**	**344,288**	**344,288**	**239,316**	**273,132**	**273,132**	**273,132**
Total DCGK remuneration (lit. a to c)	**3,128,872**	**3,196,818**	**1,386,372**	**6,415,409**	**2,756,670**	**3,018,810**	**1,358,799**	**5,991,343**
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2017				**5,000,000**				**5,000,000**
d) Variable cash remuneration pursuant to DRS 17								
One-year variable remuneration (payment amount)	478,406	464,074			389,263	434,806		
Payout from medium-term component	470,331	167,256			277,726	156,406		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**1,989,543**	**1,673,414**			**1,665,315**	**1,676,879**		

	Melanie Kreis Finance				Dr Thomas Ogilvie Human Resources (since 1 September 2017)			
	2016	2017	Min. 2017	Max. 2017	2016	2017	Min. 2017	Max. 2017
a) Non-performance-related remuneration								
Base salary	739,167	871,667	871,667	871,667	–	238,333	238,333	238,333
Fringe benefits	18,990	17,029	17,029	17,029	–	3,159	3,159	3,159
Total (lit. a)	**758,157**	**888,696**	**888,696**	**888,696**	**–**	**241,492**	**241,492**	**241,492**
b) Performance-related remuneration								
One-year variable remuneration	295,667	348,667	0	435,834	–	95,333	0	119,167
Multi-year variable remuneration	1,010,677	1,208,673	0	3,875,858	–	810,353	0	2,979,248
LTIP with four-year waiting period	715,010	860,006	0	3,440,024	–	715,020	0	2,860,081
Deferral with three-year waiting period	295,667	348,667	0	435,834	–	95,333	0	119,167
Total (lit. a and b)	**2,064,501**	**2,446,036**	**888,696**	**5,200,388**	**–**	**1,147,178**	**241,492**	**3,339,907**
c) Pension expense (service cost)	**241,937**	**276,923**	**276,923**	**276,923**	**–**	**–**	**–**	**–**
Total DCGK remuneration (lit. a to c)	**2,306,438**	**2,722,959**	**1,165,619**	**5,477,311**	**–**	**1,147,178**	**241,492**	**3,339,907**
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2017				**5,000,000**				**n.a.**
d) Variable cash remuneration pursuant to DRS 17								
One-year variable remuneration (payment amount)	364,964	405,892			–	116,188		
Payout from medium-term component	58,056	120,656			–	–		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**1,181,177**	**1,415,244**			**–**	**357,680**		

	Tim Scharwath Global Forwarding, Freight (since 1 June 2017)			
	2016	2017	Min. 2017	Max. 2017
a) Non-performance-related remuneration				
Base salary	–	417,083	417,083	417,083
Fringe benefits	–	29,812	29,812	29,812
Total (lit. a)	**–**	**446,895**	**446,895**	**446,895**
b) Performance-related remuneration				
One-year variable remuneration	–	166,833	0	208,542
Multi-year variable remuneration	–	881,853	0	3,068,623
LTIP with four-year waiting period	–	715,020	0	2,860,081
Deferral with three-year waiting period	–	166,833	0	208,542
Total (lit. a and b)	**–**	**1,495,581**	**446,895**	**3,724,060**
c) Pension expense (service cost)	**–**	**–**	**–**	**–**
Total DCGK remuneration (lit. a to c)	**–**	**1,495,581**	**446,895**	**3,724,060**
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2017				**n.a.**
d) Variable cash remuneration pursuant to DRS 17				
One-year variable remuneration (payment amount)	–	196,780		
Payout from medium-term component	–	–		
Total remuneration (cash components) pursuant to DRS 17 (lit. a and d)	**–**	**1,394,339**		

Table A.24 "Payments" below includes the same figures for base salary and fringe benefits as table A.23 "Target remuneration". In contrast to the target remuneration table, this payment table states the one-year variable remuneration paid out in financial year 2017 or in the previous year (the payment amount); therefore, the share of the annual bonus transferred to the medium-term component in these years is not included in this table. With regard to the medium-term component (the deferral), the payment amount reported is that of the deferral whose calculation period ended upon expiry of the year under review or the previous year. The table also reflects the amount paid (the payment amount) from the tranches of the long-term components that were exercised in financial year 2017 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 A.24

€	Dr Frank Appel Chairman		Ken Allen Express		Dr h.c. Jürgen Gerdes Post - eCommerce - Parcel	
	2016	2017	2016	2017	2016	2017
Base salary	1,962,556	1,978,911	976,500	1,000,913	1,005,795	1,005,795
Fringe benefits	35,099	35,294	102,375	98,197	35,011	36,289
Total	**1,997,655**	**2,014,205**	**1,078,875**	**1,099,110**	**1,040,806**	**1,042,084**
One-year variable remuneration	950,662	952,351	482,147	487,945	478,406	464,074
Multi-year variable remuneration	6,086,462	5,844,840	3,637,093	4,492,254	3,479,244	4,958,436
Medium-term component 2014	928,682	–	447,935	–	470,331	–
Medium-term component 2015	–	288,300	–	203,680	–	167,256
LTIP (2011 tranche)	5,157,780	838,025	–	–	3,008,913	–
LTIP (2012 tranche)	–	4,718,515	3,189,158	1,808,056	–	2,422,380
LTIP (2013 tranche)	–	–	–	2,480,518	–	2,368,800
Other	–	–	–	–	–	–
Total	**9,034,779**	**8,811,396**	**5,198,115**	**6,079,309**	**4,998,456**	**6,464,594**
Pension expense (service cost)	899,257	1,041,772	337,497	332,801	277,604	344,288
Total	**9,934,036**	**9,853,168**	**5,535,612**	**6,412,110**	**5,276,060**	**6,808,882**

	John Gilbert Supply Chain		Melanie Kreis Finance		Dr Thomas Ogilvie Human Resources (since 1 September 2017)	
	2016	2017	2016	2017	2016	2017
Base salary	823,750	912,500	739,167	871,667	–	238,333
Fringe benefits	174,576	173,167	18,990	17,029	–	3,159
Total	**998,326**	**1,085,667**	**758,157**	**888,696**	**–**	**241,492**
One-year variable remuneration	389,263	434,806	364,964	405,892	–	116,188
Multi-year variable remuneration	277,726	156,406	58,056	120,656	–	–
Medium-term component 2014	277,726	–	58,056	–	–	–
Medium-term component 2015	–	156,406	–	120,656	–	–
LTIP (2011 tranche)	–	–	–	–	–	–
LTIP (2012 tranche)	–	–	–	–	–	–
LTIP (2013 tranche)	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	**1,665,315**	**1,676,879**	**1,181,177**	**1,415,244**	**–**	**357,680**
Pension expense (service cost)	239,316	273,132	241,937	276,923	–	–
Total	**1,904,631**	**1,950,011**	**1,423,114**	**1,692,167**	**–**	**357,680**

	Tim Scharwath Global Forwarding, Freight (since 1 June 2017)	
	2016	2017
Base salary	–	417,083
Fringe benefits	–	29,812[1]
Total	**–**	**446,895**
One-year variable remuneration	–	196,780
Multi-year variable remuneration	–	–
Medium-term component 2014	–	–
Medium-term component 2015	–	–
LTIP (2011 tranche)	–	–
LTIP (2012 tranche)	–	–
LTIP (2013 tranche)	–	–
Other	–	–
Total	**–**	**643,675**
Pension expense (service cost)	–	–
Total	**–**	**643,675**

[1] Mr Scharwath also received a payment of €750,664 (included in the total remuneration (cash components) pursuant to DRS 17) as compensation for the lapsing of long-term remuneration rights granted by his previous employer.

Long-Term Incentive Plan: number of SARS granted A.25

Number of shares	Number of SARS 2016 tranche	Number of SARS 2017 tranche
Dr Frank Appel, Chairman	377,418	546,678
Ken Allen	187,794	280,170
Dr h.c. Jürgen Gerdes	193,428	280,170
John Gilbert	165,390	259,056
Melanie Kreis	137,502	239,556
Dr Thomas Ogilvie (since 1 September 2017)	–	199,170
Tim Scharwath (since 1 June 2017)	–	199,170

Contribution-based pension commitments: individual breakdown A.26

€	Total contribution for 2016	Total contribution for 2017	Present value (DBO) as at 31 Dec. 2016	Present value (DBO) as at 31 Dec. 2017
Ken Allen	341,775	341,775	2,506,156	2,903,991
John Gilbert	250,250	301,000	704,837	1,020,273
Melanie Kreis	250,250	301,000	1,049,012	1,359,361
Dr Thomas Ogilvie (since 1 September 2017)	–	83,417	–	136,411
Tim Scharwath (since 1 June 2017)	–	145,979	–	146,294
Total	**842,275**	**1,173,171**	**4,260,005**	**5,566,330**

Final-salary-based existing pension commitments: individual breakdown A.27

	Pension commitments				
	Pension level on 31 Dec. 2016 %	Pension level on 31 Dec. 2017 %	Maximum pension level %	Present value (DBO) as at 31 Dec. 2016 €	Present value (DBO) as at 31 Dec. 2017 €
Dr Frank Appel, Chairman	50	50	50	18,606,680	20,171,783
Dr h.c. Jürgen Gerdes	25	50	50	8,366,436	8,973,098
Total				**26,973,116**	**29,144,881**

Benefits for former Board of Management members

Benefits paid to former members of the Board of Management or their surviving dependants amounted to €7.0 million in financial year 2017 (previous year: €5.4 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSs was €95 million (previous year: €97 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 they receive only 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 2017 totalled €2,641,000 (previous year: €2,622,000). Table A.28 shows both totals, broken down as the remuneration paid to each Supervisory Board member.

Remuneration paid to Supervisory Board members

A.28

€	2016			2017		
Board members	Fixed component	Attendance allowance	Total	Fixed component	Attendance allowance	Total
Prof. Dr Wulf von Schimmelmann (Chair)	315,000	20,000	**335,000**	315,000	21,000	**336,000**
Andrea Kocsis (Deputy Chair)	245,000	19,000	**264,000**	245,000	21,000	**266,000**
Rolf Bauermeister	140,000	15,000	**155,000**	140,000	17,000	**157,000**
Dr Nikolaus von Bomhard	43,750	3,000	**46,750**	72,917	7,000	**79,917**
Ingrid Deltenre	43,750	2,000	**45,750**	70,000	6,000	**76,000**
Jörg von Dosky	70,000	5,000	**75,000**	70,000	6,000	**76,000**
Werner Gatzer	140,000	16,000	**156,000**	140,000	16,000	**156,000**
Prof. Dr Henning Kagermann	105,000	7,000	**112,000**	105,000	10,000	**115,000**
Thomas Koczelnik	175,000	21,000	**196,000**	175,000	21,000	**196,000**
Anke Kufalt	70,000	5,000	**75,000**	70,000	6,000	**76,000**
Ulrike Lennartz-Pipenbacher (since 1 July 2017)	–	–	**–**	35,000	4,000	**39,000**
Simone Menne	105,000	11,000	**116,000**	105,000	11,000	**116,000**
Roland Oetker	140,000	15,000	**155,000**	140,000	15,000	**155,000**
Andreas Schädler	70,000	5,000	**75,000**	70,000	6,000	**76,000**
Sabine Schielmann	70,000	4,000	**74,000**	70,000	6,000	**76,000**
Dr Ulrich Schröder	105,000	6,000	**111,000**	102,083	0	**102,083**
Dr Stefan Schulte	140,000	12,000	**152,000**	140,000	13,000	**153,000**
Stephan Teuscher[1]	105,000	12,000	**117,000**	105,000	13,000	**118,000**
Helga Thiel (until 30 June 2017)	105,000	11,000	**116,000**	52,500	6,000	**58,500**
Stefanie Weckesser	105,000	10,000	**115,000**	122,500	15,000	**137,500**
Prof. Dr-Ing. Katja Windt	70,000	5,000	**75,000**	70,000	6,000	**76,000**

[1] Stephan Teuscher receives €1,500 per year for his service on the Supervisory Board of DHL Hub Leipzig GmbH.

Annual Corporate Governance Statement and non-financial report

The Annual Corporate Governance Statement can be found at dpdhl.com/en/investors and in the Corporate Governance Report, page 96 ff. The separate, summarised non-financial report for Deutsche Post AG and the Group with the disclosures in accordance with sections 289b ff. and 315b f. of the HGB can be found in the Corporate Responsibility Report, dpdhl.com/cr-report2017.

REPORT ON ECONOMIC POSITION

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

In financial year 2017, Deutsche Post DHL Group increased revenue in all divisions and consolidated EBIT was in line with our expectations at €3.74 billion. The Post - eCommerce - Parcel division continues to see dynamic growth in the German parcel business. The DHL divisions are also performing well. Express is registering steady growth, and the turnaround measures implemented within Global Forwarding, Freight and Supply Chain are proving effective: all divisions increased revenue despite negative currency effects. Capital expenditure increased year-on-year and, at €1.43 billion, free cash flow significantly exceeded the prior-year level. All in all, the Board of Management views the Group's financial position as being very sound.

Forecast/actual comparison

Forecast/actual comparison A.29

Targets 2017

EBIT

- 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.

Cash flow

- Free cash flow of more than €1.4 billion.

Capital expenditure (capex)

- Increase investments to around €2.3 billion.

Dividend distribution

- 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.

Greenhouse gas efficiency

- CEX will increase by one index point.

Results 2017

EBIT

- Group: €3.74 billion.
- PeP division: €1.50 billion.
- DHL divisions: €2.59 billion.
- Corporate Center/Other: €–0.35 billion.

EAC

- Developed in line with EBIT and increased.

Cash flow

- Free cash flow increased to €1.43 billion.

Capital expenditure (capex)

- Invested: €2.3 billion.

Dividend distribution

- Proposal: pay out 51.9% of net profit as dividend.

Employee Opinion Survey

- Approval rating of key performance indicator Active Leadership increased by one percentage point to 75%.

Greenhouse gas efficiency

- CEX increased by two index points to 32.

Targets 2018

EBIT

- Group: around €4.15 billion.
- PeP division: around €1.50 billion.
- DHL divisions: around €3.00 billion.
- Corporate Center/Other: around €–0.35 billion.

EAC

- Will decrease due to initial application of IFRS 16.

Cash flow

- Free cash flow of more than €1.5 billion.

Capital expenditure (capex)

- Invest (excluding leasing) around €2.5 billion.

Dividend distribution

- 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.

Greenhouse gas efficiency

- CEX will increase by another index point.

Economic parameters

Global economy picks up

The global economy picked up speed in 2017, mainly on the back of broad-based economic growth. In the industrial countries, average GDP growth came in at 2.3%. The growth rate for the emerging markets rose to 4.7%. A number of the larger threshold economies succeeded in overcoming recessions, some of them quite severe. On the whole, global economic output grew by 3.7% (previous year: 3.2%) after adjusting for purchasing power. This development pushed up global trade even more (IMF: 4.7%; OECD: 4.8%) to the strongest figures seen in several years.

Global economy: growth indicators, 2017 A.30

%	Gross domestic product (GDP)	Export	Domestic demand
China	6.9	7.9	n.a.
Japan	1.6	6.8	1.1
USA	2.3	3.4	2.4
Euro zone	2.5	4.8	2.2
Germany	2.2	4.7	2.2

Some data estimated, as at 14 February 2018.
Source: Postbank, national statistics.

The Asian threshold economies again provided the strongest economic momentum. At 6.5%, GDP growth slightly exceeded the prior-year figure of 6.4%. China provided for a pleasant surprise with a slight acceleration in growth to 6.9% (previous year: 6.7%). The main boost to the Chinese economy came from the sharp rise in export activity. In Japan, the economy witnessed a notable revival. Private consumption was up moderately, and gross fixed capital formation increased significantly. Strong momentum also came from exports, which benefitted from rising demand and a slightly weaker yen. All in all, GDP growth rose to 1.8% (previous year: 0.9%).

In the United States, the economy sped up noticeably and corporate investment shot up substantially. Private consumption expanded considerably once more and remained the key driver of growth. Foreign trade put a slight damper on growth, despite the fact that export activity registered a notable increase. Total GDP growth was 2.3%, rising from 1.5% in the previous year, whilst the unemployment rate dropped again significantly from its already low level.

In the euro zone, the economic upswing gathered strength in the year under review, with domestic demand providing for strong momentum once again. Pronounced increases continued to be seen in private consumption and gross fixed capital formation, whilst government spending experienced weaker growth. Foreign trade contributed positively to economic growth, unlike in the previous year where it had a pronounced negative effect. The growth in foreign trade was ultimately responsible for the acceleration in GDP growth to 2.5% (previous year: 1.8%). From a regional perspective, economic growth was more balanced than in previous years. The average unemployment rate dropped significantly to 9.1% in line with the robust upturn.

Once again, domestic demand provided for sustained momentum in the German economy. Private consumption increased substantially thanks to a sharp increase in incomes, whilst government spending expanded only moderately. Investments in machinery and equipment posted stronger growth, however. Construction spending and exports also reported impressive growth rates, resulting in an increase in GDP growth to 2.2% (previous year: 1.9%). The unemployment rate fell to 5.7% on an annual average (previous year: 6.1%). At the same time, the average number of employed persons rose to 44.3 million (previous year: 43.6 million).

Rise in crude oil prices over the course of 2017

At the end of 2017, the price for one barrel of Brent Crude was US$66.73 (previous year: US$55.21). Over the course of the year, the price of oil fluctuated between US$44 and US$67 per barrel, with the average price for the year increasing by around 24% on the previous year to just over US$54 per barrel. Oil prices hit bottom in June, after which the growing global economy led to steadily increasing demand and prices.

Stronger euro thanks to healthy euro zone economy

The European Central Bank (ECB) initiated a cautious change in its monetary policy during 2017. In the spring, the bank reduced the monthly volume of its bond-buying programme by €20 billion to €60 billion. As the year progressed, the ECB decided to reduce the monthly volume even further to €30 billion effective from the start of 2018. Euro zone monetary policy nonetheless remained quite expansive. The ECB left its key refinancing rate at 0.00%, and the deposit rate for the year as a whole was –0.40%. In the United States, the Federal Reserve continued its gradual exit from crisis-related monetary policy. Against the backdrop of solid economic growth and falling unemployment rates, the Fed raised its key interest rate in three steps of 0.25 percentage points each to 1.25% to 1.50% at year-end.

The euro made noticeable gains on the dollar in 2017, benefitting above all from the growing euro zone economy. At the end of the year, the euro listed at just over US$1.20, a rise of 14.0% year-on-year. The pound sterling was under downwards pressure throughout much of 2017 due to the UK's expected exit from the EU and the ensuing negotiations, which have proved lengthy and complicated. However, the Bank of England then propped up the pound by raising its key interest rate. Overall, the euro gained 4.0% on the pound sterling in 2017.

Significant decline in risk premiums for corporate bonds

The euro zone bond markets continued to be impacted during 2017 by the ECB's expansionary monetary policy, and capital market interest rates remained at a very low level. Towards the end of the year, favourable economic prospects and rising expectations that the ECB would soon tighten its monetary policy led to a slight increase in capital market interest rates. At year-end 2017, yields on ten-year German government bonds had risen to 0.43% (previous year: 0.21%). By contrast, yields on ten-year US government bonds fell by 0.03 percentage points year-on-year to 2.41%. Risk premiums for corporate bonds with good ratings were not only well below the prior-year level at the end of 2017 but also low compared with long-term levels.

Stock market prices made pronounced gains during the course of 2017, supported by the acceleration in global GDP growth on the back of extremely low interest rates. Many companies were able to increase revenue and profits, which laid the foundation for rising share prices. Not even the political uncertainty resulting from the euro zone elections and the Brexit negotiations was able to halt the upwards trend more than momentarily. The DAX ended the year at 12,918 points, a year-on-year gain of 12.5%. The EURO STOXX 50 was up just 6.5% year-on-year, whilst in the US the broad-market S&P 500 gained an impressive 19.4%.

International trade makes significant gains

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 5.1% in the year under review (previous year: 1.7%). Air freight volumes performed especially well. Ocean freight and air freight imports to Asia evidenced the highest growth rates.

Trade volumes: compound annual growth rate, 2016 to 2017 A.31

% Export \ Import	Asia Pacific	Europe	Latin America	MEA (Middle East and Africa)	North America
Asia Pacific	6.3	4.7	6.8	–1.5	5.6
Europe	6.0	0.5	7.8	2.6	4.4
Latin America	6.4	0.9	3.4	2.5	3.3
MEA (Middle East and Africa)	8.3	4.2	8.7	5.7	8.2
North America	8.8	4.2	–1.1	8.9	5.4

Source: Seabury Cargo Advisory, as at 28 November 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 46 to the consolidated financial statements.

Significant events

By way of a resolution of the Board of Management dated 21 March 2017, a capital reduction was implemented through retirement of 27.3 million treasury shares, notes 3 and 32 to the consolidated financial statements.

In November 2017, Deutsche Post DHL Group and Advent International completed the sale of Williams Lea Tag Group after approval was issued by the competition authorities, note 2 to the consolidated financial statements.

In December 2017, we placed two bonds in an aggregate principal amount of €1.5 billion: a convertible bond in the amount of €1.0 billion and a term of 7.5 years and a traditional bond in the amount of €500 million and a term of ten years, note 40 to the consolidated financial statements.

Results of operations

Selected indicators for results of operations A.32

		2016	2017	Q4 2016	Q4 2017
Revenue	€m	57,334	60,444	15,410	16,109
Profit from operating activities (EBIT)	€m	3,491	3,741	1,111	1,181
Return on sales[1]	%	6.1	6.2	7.2	7.3
EBIT after asset charge (EAC)	€m	1,963	2,175	733	796
Consolidated net profit for the period[2]	€m	2,639	2,713	841	837
Earnings per share[3]	€	2.19	2.24	0.70	0.69
Dividend per share	€	1.05	1.15[4]	–	–

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

Changes in the portfolio

In early July 2017, we acquired Brazil-based company Olimpo Holding S.A. including its subsidiaries Polar Transportes Ltda. and Rio Lopes Transportes Ltda. They provide temperature-controlled transport in the Life Sciences & Healthcare sector for the Supply Chain division.

In the fourth quarter, we sold Williams Lea Tag Group and deconsolidated all associated assets and liabilities.

Consolidated revenue rises to €60.4 billion

Consolidated revenue in financial year 2017 increased by €3,110 million to €60,444 million, with all divisions contributing to the improvement. Currency effects reduced the increase by €1,270 million. The proportion of revenue generated abroad increased from 68.8% to 69.6%. At €16,109 million, revenue for the fourth quarter of 2017 exceeded the comparable prior-year figure by 4.5%. Currency effects decreased revenue by €639 million.

Other operating income fell by €17 million to €2,139 million in the year under review. The figure for the previous year included a gain of €63 million on the disposal of the remaining shares in King's Cross. In the current reporting period, this item includes higher income from work performed and capitalised relating to the production of StreetScooter electric vehicles.

Materials expense markedly higher

Materials expense rose by €2,155 million to €32,775 million in 2017. Higher crude oil prices and other factors lifted transport and fuel costs, whilst currency effects served to reduce them. The increase in headcount at the Post - eCommerce - Parcel and Express divisions was the main factor behind the rise in staff costs, although currency effects partially offset this. Depreciation, amortisation and impairment losses rose by €94 million to €1,471 million partly because customer relationship assets from past acquisitions in the Supply Chain division were written down. At €4,526 million, other operating expenses were up year-on-year (2016: €4,414 million), due, amongst other things, to higher expenses for advertising and public relations.

Changes in revenue, other operating income and operating expenses, 2017 A.33

	€m	+/– %	
Revenue	60,444	5.4	• Growth recorded in all four divisions • Currency effects reduce amount by €1,270 million
Other operating income	2,139	–0.8	• Contains income from work performed and capitalised • Prior-year figure included higher income from the sale of equity interests
Materials expense	32,775	7.0	• Higher transport and fuel costs • Currency effects reduce figure by €692 million
Staff costs	20,072	2.4	• Rise in headcount
Depreciation, amortisation and impairment losses	1,471	6.8	• Include write-down of customer relationships in the Supply Chain division
Other operating expenses	4,526	2.5	• Higher expenses for advertising and public relations

Consolidated EBIT up 7.2%

Profit from operating activities (EBIT) improved by 7.2% in the year under review, rising from €3,491 million to €3,741 million. In the fourth quarter of 2017, it increased by 6.3% to €1,181 million. At €411 million, net finance costs for the year as a whole were down on the prior year (€359 million). Profit before income taxes rose by €198 million to €3,330 million. Income taxes increased by €126 million to €477 million.

Consolidated net profit above prior-year level

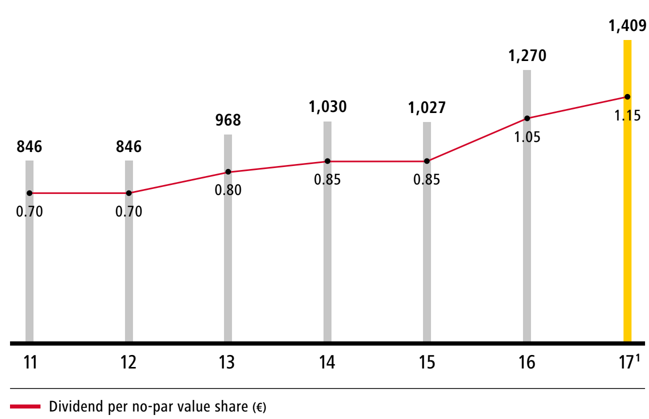
At €2,853 million, consolidated net profit in financial year 2017 exceeded the prior-year figure of €2,781 million by 2.6%. Of this amount, €2,713 million was attributable to Deutsche Post AG shareholders and €140 million to non-controlling interest holders. Basic earnings per share improved from €2.19 to €2.24 and diluted earnings per share from €2.10 to €2.15.

Dividend of €1.15 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 €1.15 per share for financial year 2017 to shareholders at the Annual General Meeting on 24 April 2018 (previous year: €1.05). Expressed in terms of net profit, which is defined as the consolidated net profit for the period after the deduction of non-controlling interests, the distribution ratio is 51.9%. The net dividend yield based on the year-end closing price for our shares is 2.9%. The dividend will be distributed on 27 April 2018 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 A.34

€m



[1] Proposal.

Increase in EBIT after asset charge (EAC)

EBIT after asset charge (EAC) climbed from €1,963 million to €2,175 million in 2017, mainly as a result of the company's increased profitability. The imputed asset charge also rose, due in particular to higher investments in property, plant and equipment in the Post - eCommerce - Parcel and Express divisions and to lower provisions.

EBIT after asset charge (EAC) A.35

€m

	2016	2017	+/– %
EBIT	3,491	3,741	7.2
– Asset charge	–1,528	–1,566	2.5
= **EAC**	**1,963**	**2,175**	**10.8**

The net asset base decreased by €30 million to €17,441 million as at the reporting date, largely as a result of negative currency effects. 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; by contrast, intangible assets declined, due in particular to the sale of Williams Lea Tag Group and negative currency effects. Net working capital remained more or less stable.

Operating provisions declined year-on-year, whereas other non-current assets and liabilities rose.

Net asset base (consolidated)[1]

A.36

€m	31 Dec. 2016 adjusted	31 Dec. 2017	+/–%
Intangible assets and property, plant and equipment	20,943	20,594	–1.7
± Net working capital	–1,108	–1,095	–1.2
– Operating provisions (excluding provisions for pensions and similar obligations)	–2,313	–2,089	–9.6
± Other non-current assets and liabilities	–51	31	>100
= Net asset base	**17,471**	**17,441**	**–0.2**

[1] Assets and liabilities as described in the segment reporting, note 10 to the consolidated financial statements. In contrast to previous years, the net asset base is presented on a consolidated basis in order to facilitate comparison with segment reporting. The prior-period amounts have been adjusted.

Financial position

Selected cash flow indicators

A.37

€m	2016	2017	Q4 2016	Q4 2017
Cash and cash equivalents as at 31 December	3,107	3,135	3,107	3,135
Change in cash and cash equivalents	–437	119	872	1,596
Net cash from operating activities	2,439	3,297	1,925	1,527
Net cash used in investing activities	–1,643	–2,091	–586	–1,042
Net cash used in/from financing activities	–1,233	–1,087	–467	1,111

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, Florida (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 pension plans, to distribute special dividends and to buy back shares.

Finance strategy A.38

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 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.
- Bonds issued 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 A.39

€m

	2016	2017
Operating cash flow before changes in working capital	2,514	3,418
+ Interest received	50	52
− Interest paid	138	160
+ Adjustment for operating leases	1,569	1,641
+ Adjustment for pensions	1,003	567
= Funds from operations (FFO)	**4,998**	**5,518**
Reported financial liabilities	6,035	6,050
− Financial liabilities at fair value through profit or loss	121	44
+ Adjustment for operating leases	7,166	9,406
+ Adjustment for pensions	5,467	4,323
− Surplus cash and near-cash investments[1]	2,239	2,503
= Debt	**16,308**	**17,232**
FFO to debt (%)	**30.6**	**32.0**

[1] 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 calculation above. 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.

Despite the higher debt, the FFO to debt performance metric increased in the year under review compared with the previous year due to the sharp rise in funds from operations.

Funds from operations increased by €520 million to €5,518 million, due mainly to the significant rise in operating cash flow before changes in working capital. The adjustment for pensions declined year-on-year as a result of lower funding of pension obligations in the year under review. The amount of interest paid went up in the reporting period due to the initial payment of interest on the bonds issued in April 2016.

Debt rose by €924 million compared with the previous year to €17,232 million, primarily as a result of the increase in the adjustment for operating leases driven by the increase in lease obligations. The adjustment for pensions declined year-on-year as a result of further funding of pension obligations in the year under review. More information on pensions can be found in note 38 to the consolidated financial statements. Financial liabilities include the December bond issue in the amount of €1.5 billion as well as a bond repayment in the amount of €0.75 billion. This item also includes the conversion of shares in the convertible bond in the amount of €0.3 billion, note 40 to the consolidated financial statements, as well as the disposal of the obligations from the share buy-back programme in the amount of €0.2 billion.

Cash and liquidity managed centrally

The cash and liquidity of our globally operating subsidiaries is managed centrally by Corporate Treasury. 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 (inter-company clearing) in order to avoid paying external bank charges and margins. 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 December 2017, we issued a bond in a volume of €0.5 billion as part of the Debt Issuance Programme established in 2012 with a volume of up to €8 billion. We also issued a convertible bond in the amount of €1.0 billion in December 2017. The cash funds received that same month were utilised to refinance existing financial liabilities and for the further funding of pension obligations in the United Kingdom in the amount of €0.5 billion.

One bond was redeemed in the year under review in the amount of €0.75 billion. A total of €0.3 billion of the convertible bond issued in 2012 in the amount of €1 billion was converted in 2017. Further information on current bond issues is contained in note 40 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 A.40

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 parcel volumes.
- Strong position in global time-definite express services with continued growth and margin improvement.
- Fairly stable credit metrics and adequate liquidity.

– Rating factors

- Structural mail volume decline in the Post - eCommerce - Parcel division due to secular changes in the industry.
- 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 progressive improvement in profitability through its network investments and restructuring programmes.
- Adequate financial metrics, conservative financial policy and excellent liquidity profile.

– Rating factors

- Challenging and competitive market conditions.
- Exposure to global macroeconomic trends in the logistics businesses.
- Structural decline of traditional postal services.
- Ongoing turnaround initiatives for Global Forwarding, Freight.

Liquidity and sources of funds

As at the reporting date, the Group had cash and cash equivalents of €3.1 billion (previous year: €3.1 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 reporting date (previous year: €1.7 billion).

In addition, €0.5 billion was invested in a money market fund (previous year: €0.2 billion). 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 40 to the consolidated financial statements.

Financial liabilities A.41

€m

	2016	2017
Bonds	4,990	5,350
Amounts due to banks	158	156
Finance lease liabilities	209	181
Financial liabilities at fair value through profit or loss	121	44
Other financial liabilities	557	319
	6,035	6,050

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 obligations by asset class[1] A.42

€m

	2016	2017
Land and buildings	6,657	9,403
Aircraft	909	1,138
Transport equipment	495	611
Technical equipment and machinery	79	129
Other equipment, operating and office equipment, miscellaneous	48	17
	8,188	11,298

[1] Undiscounted.

Operating lease obligations increased quite significantly year-on-year to €11.3 billion. The increase was due in part to new, long-term leases – most of which were entered into for real estate, although some related to aircraft. In addition, existing real estate contracts with renewal and termination options were reassessed.

Capital expenditure above prior-year level

Investments in property, plant and equipment and intangible assets (not including goodwill) amounted to €2,277 million in the year under review, or 9.8% above the prior year's figure of €2,074 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 A.43

	PeP		Express		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1]		Group	
	2016 adjusted[2]	2017	2016 adjusted[2]	2017	2016	2017	2016	2017	2016	2017	2016 adjusted[2]	2017	2016	2017
Capex (€m)	592	666	900	1,049	55	70	328	277	199	214	0	1	**2,074**	**2,277**
Depreciation, amortisation and impairment losses (€m)	337	356	465	525	79	70	294	319	201	200	1	1	**1,377**	**1,471**
Ratio of capex to depreciation, amortisation and impairment losses	1.76	1.87	1.94	2.00	0.70	1.00	1.12	0.87	0.99	1.07	–	–	**1.51**	**1.55**

[1] Including rounding.
[2] Reassignment of companies in Spain and Portugal from the Express division to the Post - eCommerce - Parcel division.

Capex and depreciation, amortisation and impairment losses, Q4 A.44

	PeP		Express		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1]		Group	
	2016 adjusted[2]	2017	2016 adjusted[2]	2017	2016	2017	2016	2017	2016	2017	2016 adjusted[2]	2017	2016	2017
Capex (€m)	265	320	279	605	18	18	73	83	75	122	–1	1	**709**	**1,149**
Depreciation, amortisation and impairment losses (€m)	96	89	147	132	19	19	75	99	50	51	1	0	**388**	**390**
Ratio of capex to depreciation, amortisation and impairment losses	2.76	3.60	1.90	4.58	0.95	0.95	0.97	0.84	1.50	2.39	–	–	**1.83**	**2.95**

[1] Including rounding.
[2] Reassignment of companies in Spain and Portugal from the Express division to the Post - eCommerce - Parcel division.

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 vehicles.

In the Express division, investments were made in expanding our hubs, especially in Brussels, East Midlands, Leipzig, Cincinnati and Mexico City. Continuous maintenance and renewal of our aircraft fleet as well as the purchase of freighter aircraft from Air Hong Kong represented an additional focus of investment spending.

In the Global Forwarding, Freight division, we continued to invest in refurbishing our warehouses and office buildings across all regions as well as in the IT application infrastructure.

In the Supply Chain division, the majority of funds was used to support new business, mostly in the EMEA and Americas regions.

Cross-divisional capex also increased due to investments made to expand our fleet of vehicles and replace further vehicles.

Higher operating cash flow

Net cash from operating activities in the year under review amounted to €3,297 million, an increase of €858 million. In the previous year, €1 billion was used to fund pension obligations in Germany, significantly impacting the change in provisions. In 2017, €495 million was used to fund pension obligations in the United Kingdom. EBIT and non-cash components such as depreciation, amortisation and impairment losses increased. Our income tax payments amounted to €626 million, up €98 million year-on-year.

Net cash used in investing activities increased from €1,643 million to €2,091 million. The sale of Williams Lea Tag Group led to a rise in proceeds from the disposal of subsidiaries and other business units to €316 million. In the previous year, the repayment from the state aid proceedings increased proceeds from the disposal of other non-current financial assets by €378 million, whereas cash payments to acquire subsidiaries and other business units of €278 million were made in connection with the purchase of UK Mail. Cash paid to acquire property, plant and equipment and intangible assets rose from €1,966 million to €2,203 million in the year under review.

At €1,087 million, net cash used in financing activities was below the figure for the previous year (€1,233 million). A bond placement had resulted in a cash inflow of €1.239 billion in the previous year. In the year under review, we raised issuing proceeds of €1.493 billion from the placement of a traditional bond and a convertible bond. At the same time, we repaid a bond in the amount of €750 million that fell due. Payments to acquire treasury shares fell from €836 million to €148 million with the expiration of our share buyback programme. Once again, the dividend distributed to our shareholders was the largest payment item; this rose by €243 million to €1,270 million.

Cash and cash equivalents rose from €3,107 million as at 31 December 2016 to €3,135 million as at 31 December 2017.

Calculation of free cash flow A.45

€m

	2016	2017	Q4 2016	Q4 2017
Net cash from operating activities	**2,439**	**3,297**	**1,925**	**1,527**
Sale of property, plant and equipment and intangible assets	265	236	141	135
Acquisition of property, plant and equipment and intangible assets	−1,966	−2,203	−545	−914
Cash outflow arising from change in property, plant and equipment and intangible assets	**−1,701**	**−1,967**	**−404**	**−779**
Disposals of subsidiaries and other business units	35	316	10	316
Disposals of investments accounted for using the equity method and other investments	82	3	0	0
Acquisition of subsidiaries and other business units	−304	−54	−270	0
Acquisition of investments accounted for using the equity method and other investments	−19	−55	0	−32
Cash outflow/inflow arising from acquisitions/divestitures	**−206**	**210**	**−260**	**284**
Interest received	50	52	7	12
Interest paid	−138	−160	−67	−69
Net interest paid	**−88**	**−108**	**−60**	**−57**
Free cash flow	**444**	**1,432**	**1,201**	**975**

Free cash flow improved significantly from €444 million to €1,432 million, due primarily to the increase in net cash from operating activities to €3,297 million (previous year: €2,439 million). In addition, the purchase of UK Mail Group led to a cash outflow in the previous year, whereas in the reporting period the cash inflow from the sale of Williams Lea Tag Group increased free cash flow.

Net assets

Selected indicators for net assets A.46

		31 Dec. 2016	31 Dec. 2017
Equity ratio	%	29.6	33.4
Net debt	€m	2,261	1,938
Net interest cover		39.7	34.6
Net gearing	%	16.6	13.1
FFO to debt[1]	%	30.6	31.9

[1] For the calculation Financial position, page 57.

Increase in consolidated total assets

The Group's total assets amounted to €38,672 million as at 31 December 2017, €377 million higher than at 31 December 2016 (€38,295 million).

Intangible assets fell by €762 million to €11,792 million, primarily as a result of exchange rate movements. The property, plant and equipment item increased by €393 million to €8,782 million since additions exceeded depreciation and impairment losses, disposals and negative currency effects. Current financial assets rose from €374 million to €652 million. We invested €500 million of excess liquidity for the short term on the capital market, up €300 million on the figure as at 31 December 2016. Trade receivables rose by €253 million to €8,218 million.

On the equity and liabilities side of the balance sheet, equity attributable to Deutsche Post AG shareholders rose by €1,550 million to €12,637 million: the consolidated net profit for the period, the capital increase in connection with the convertible bond and the remeasurement of net pension provisions served to increase this figure, whilst the dividend payment and negative currency effects decreased it. Provisions for pensions and similar obligations fell tangibly from €5,580 million to €4,450 million. Amongst other factors, the funding of pension obligations in the United Kingdom reduced this item by €495 million. At €6,050 million, financial liabilities were at the previous year's level (€6,035 million). We repaid a bond and terminated the share buyback programme, whilst also issuing a new bond and placing a convertible bond on the capital market. Current provisions fell by €192 million to €1,131 million due, amongst other things, to a decline in restructuring provisions. Trade payables increased by €165 million to €7,343 million.

Net debt declines to €1,938 million

Our net debt fell from €2,261 million as at 31 December 2016 to €1,938 million as at the reporting date, mainly because portions of the 2012 convertible bond were exercised. At 33.4%, the equity ratio was higher than at 31 December 2016 (29.6%). The net interest cover ratio – the extent to which net interest obligations are covered by EBIT – fell from 39.7 to 34.6 year-on-year. The net gearing ratio as at 31 December was 13.1%.

Net debt A.47

€m

	31 Dec. 2016	31 Dec. 2017
Non-current financial liabilities	4,516	5,101
+ Current financial liabilities	1,381	794
= **Financial liabilities**[1]	**5,897**	**5,895**
– Cash and cash equivalents	3,107	3,135
– Current financial assets	374	652
– Positive fair value of non-current financial derivatives[2]	155	170
= **Financial assets**	**3,636**	**3,957**
Net debt	**2,261**	**1,938**

[1] Less operating financial liabilities, note 32.4 to the consolidated financial statements.
[2] Recognised in non-current financial assets in the balance sheet.

Business performance in the divisions

POST - ECOMMERCE - PARCEL DIVISION

Key figures of the Post - eCommerce - Parcel division A.48

€m	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Revenue	17,078	18,168	6.4	4,710	5,052	7.3
of which Post	9,741	9,736	–0.1	2,581	2,634	2.1
eCommerce - Parcel	7,337	8,432	14.9	2,129	2,418	13.6
Profit from operating activities (EBIT)	1,446	1,502	3.9	490	510	4.1
of which Germany	1,447	1,492	3.1	496	503	1.4
International Parcel and eCommerce	–1	10	>100	–6	7	>100
Return on sales (%)[2]	8.5	8.3	–	10.4	10.1	–
Operating cash flow	360	1,505	>100	602	858	42.5

[1] Reassignment of companies in Spain and Portugal from the Express division, note 10 to the consolidated financial statements.
[2] EBIT/revenue.

Revenue increases by 6.4%

In the year under review, revenue in the division was €18,168 million, 6.4% above the prior-year figure of €17,078 million, although there were 2.9 fewer working days in Germany. Most of the growth originated in the eCommerce - Parcel business unit. Negative currency effects of €72 million were recorded in 2017; excluding these effects, the increase in revenue was 6.8%. In the fourth quarter of the year, despite 1.9 fewer working days, revenue in the division increased year-on-year by 7.3%.

Revenue in the Post business unit at prior-year level

In the Post business unit, revenue was €9,736 million in the year under review and thus at the prior-year level (€9,741 million). Volumes declined by 0.9%. In the fourth quarter of 2017, revenue was up by 2.1% to €2,634 million (previous year: €2,581 million).

Additional mail volumes due to special factors such as elections were unable to offset the overall decline in Mail Communication volumes. By contrast, revenue and volumes increased in the Dialogue Marketing business, due in part to communication ahead of elections.

In the cross-border mail business, although the trend towards merchandise shipments by mail continued, it could not offset volume declines in promotional mailing and document dispatch.

Post: revenue A.49

€m	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Mail Communication	6,527	6,439	–1.3	1,739	1,726	–0.7
Dialogue Marketing	2,225	2,320	4.3	605	653	7.9
Other	989	977	–1.2	237	255	7.6
Total	**9,741**	**9,736**	**–0.1**	**2,581**	**2,634**	**2.1**

[1] Changed product allocations.

Post: volumes A.50

Mail items (millions)	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Total	18,628	18,457	–0.9	4,987	4,883	–2.1
of which Mail Communication	8,242	7,860	–4.6	2,189	2,058	–6.0
of which Dialogue Marketing	8,520	8,820	3.5	2,319	2,379	2.6

[1] Changed product allocations.

eCommerce - Parcel business unit continues to grow

Revenue in the eCommerce - Parcel business unit was €8,432 million in the year under review, exceeding the prior-year figure of €7,337 million by 14.9%. The fourth quarter of 2017 also saw double-digit revenue growth.

The Parcel business in Germany continues to grow due to the strong e-commerce trend. Revenue in the Parcel Germany business increased by 4.3% to €5,022 million in 2017 (previous year: €4,814 million). Volumes rose by 7.8% to 1,323 million parcels.

Our domestic and cross-border parcel business in Europe is continuing to perform dynamically. In the Parcel Europe business, revenue grew by 65.4% to €1,882 million (previous year: €1,138 million), driven in part by the start of business activities in the United Kingdom through the acquisition of UK Mail, which generated revenue of €536 million in 2017.

Revenue in the DHL eCommerce business was up by 10.3% to €1,528 million in the year under review (previous year: €1,385 million), due to strong performance in the US domestic business as well as cross-border business in Asia. Excluding currency effects, growth was 13.1%.

eCommerce - Parcel: revenue A.51

€m	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Parcel Germany	4,814	5,022	4.3	1,421	1,484	4.4
Parcel Europe[2]	1,138	1,882	65.4	311	519	66.9
DHL eCommerce[3]	1,385	1,528	10.3	397	415	4.5
Total	**7,337**	**8,432**	**14.9**	**2,129**	**2,418**	**13.6**

[1] Reassignment of companies in Spain and Portugal from the Express division, note 10 to the consolidated financial statements.
[2] Excluding Germany.
[3] Outside Europe.

Parcel Germany: volumes A.52

Parcels (millions)	2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Total	1,227	1,323	7.8	368	394	7.1

EBIT improves

EBIT in the division improved by 3.9% to €1,502 million in the year under review (previous year: €1,446 million). The increase was driven mainly by higher revenues, whilst increased material and labour costs as well as continued investments in the parcel network prevented a more significant improvement in earnings. The majority of our EBIT is still generated in Germany. Return on sales declined slightly from 8.5% to 8.3% in 2017. The division's EBIT in the fourth quarter of the year was €510 million (previous year: €490 million). Operating cash flow improved from €360 million to €1,505 million. This mainly reflects a payment of €955 million made in April 2016 to further fund pension obligations.

EXPRESS DIVISION

Key figures of the EXPRESS division A.53

€m	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Revenue	13,748	15,049	9.5	3,759	4,059	8.0
of which Europe	6,035	6,696	11.0	1,645	1,841	11.9
Americas	2,741	3,010	9.8	757	813	7.4
Asia Pacific	5,194	5,556	7.0	1,407	1,454	3.3
MEA (Middle East and Africa)	1,054	1,110	5.3	274	283	3.3
Consolidation/Other	–1,276	–1,323	–3.7	–324	–332	–2.5
Profit from operating activities (EBIT)	1,544	1,736	12.4	434	499	15.0
Return on sales (%)[2]	11.2	11.5	–	11.5	12.3	–
Operating cash flow	1,928	2,212	14.7	728	723	–0.7

[1] Reassignment of companies in Spain and Portugal to the Post - eCommerce - Parcel division, note 10 to the consolidated financial statements.
[2] EBIT/revenue.

International business remains on growth path

Revenue in the division improved by 9.5% to €15,049 million in the year under review (previous year: €13,748 million). This includes negative currency effects of €486 million. Excluding these effects, the increase in revenue was 13.0%. The revenue figure also reflects the fact that fuel surcharges were higher in all regions as the price of crude oil increased compared with the previous year. Excluding foreign currency losses and higher fuel surcharges, revenue was up by 10.8%.

In the Time Definite International (TDI) product line, revenues per day increased by 12.9% and per-day shipment volumes by 9.9% in 2017. Revenues per day for the fourth quarter were up by 15.1% and per-day shipment volumes by 11.1%.

In the Time Definite Domestic (TDD) product line, revenues per day increased by 7.5% and per-day shipment volumes by 6.2% in the year under review. Growth in the fourth quarter amounted to 9.1% for revenues per day and 6.4% for per-day volumes.

EXPRESS: revenue by product A.54

€m per day[1]	2016 adjusted[2]	2017	+/– %	Q4 2016 adjusted[2]	Q4 2017	+/– %
Time Definite International (TDI)	41.9	47.3	12.9	45.7	52.6	15.1
Time Definite Domestic (TDD)	4.0	4.3	7.5	4.4	4.8	9.1

[1] To improve comparability, product revenues were translated at uniform exchange rates. These revenues are also the basis for the weighted calculation of working days.
[2] Reassignment of companies in Spain and Portugal to the Post - eCommerce - Parcel division, note 10 to the consolidated financial statements.

EXPRESS: volumes by product A.55

Thousands of items per day	2016 adjusted[1]	2017	+/– %	Q4 2016 adjusted[1]	Q4 2017	+/– %
Time Definite International (TDI)	808	888	9.9	880	978	11.1
Time Definite Domestic (TDD)	434	461	6.2	481	512	6.4

[1] Reassignment of companies in Spain and Portugal to the Post - eCommerce - Parcel division, note 10 to the consolidated financial statements.

Strong revenue and volume growth in Europe region

Revenue in the Europe region increased by 11.0% to €6,696 million in the year under review (previous year: €6,035 million). This included negative currency effects of €95 million, which related mainly to the United Kingdom and Turkey. Excluding these effects, revenue growth was 12.5%. In the TDI product line, revenues per day rose by 14.4%; per-day TDI shipment volumes improved by 12.8% in 2017. International per-day shipment revenues for the fourth quarter were up by 15.5% and per-day shipment volumes by 12.5%.

Strong momentum in the Americas region

Revenue in the Americas region increased by 9.8% to €3,010 million in the year under review (previous year: €2,741 million). This figure included negative currency effects of €164 million, which related primarily to Venezuela and the USA. Excluding these effects, revenue growth was 15.8% compared with the previous year. In the TDI product line, revenues per day were up 15.4% in 2017. Per-day shipment volumes improved by 14.3%. Revenues per day for the fourth quarter were up by 22.7% and per-day shipment volumes by 17.6%.

Business in the Asia Pacific region grows steadily

Revenue in the Asia Pacific region increased by 7.0% to €5,556 million in the year under review (previous year: €5,194 million). This figure included negative currency effects of €151 million, most of which related to China and Japan. Excluding these effects, the revenue increase was 9.9% in 2017. In the TDI product line, revenues per day improved by 10.4% and per-day volumes by 3.6%. Growth in the fourth quarter amounted to 11.8% for revenues per day and 5.3% for per-day volumes.

Higher volumes in MEA region

Revenue in the MEA region (Middle East and Africa) improved by 5.3% to €1,110 million in the year under review (previous year: €1,054 million). This figure included negative currency effects of €70 million, most of which related to Egypt, but also to other countries in the region. Excluding these effects, revenue increased by 12.0%. In the TDI product line, revenues per day were up by 11.6% and per-day volumes by 23.7%. Growth in the fourth quarter amounted to 11.8% for revenues per day and 27.4% for per-day volumes.

EBIT and operating cash flow considerably above prior-year level

EBIT in the division rose by 12.4% to €1,736 million in financial year 2017 (previous year: €1,544 million), driven by network improvement and strong international business growth. Return on sales increased from 11.2% to 11.5%. In the fourth quarter, EBIT improved by 15.0% to €499 million and return on sales increased from 11.5% to 12.3%. Operating cash flow rose by 14.7% to €2,212 million in 2017 (previous year: €1,928 million).

GLOBAL FORWARDING, FREIGHT DIVISION

Key figures of the GLOBAL FORWARDING, FREIGHT division

A.56

€m

	2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Revenue	13,737	14,482	5.4	3,623	3,791	4.6
of which Global Forwarding	9,626	10,279	6.8	2,566	2,698	5.1
Freight	4,274	4,354	1.9	1,098	1,130	2.9
Consolidation/Other	–163	–151	7.4	–41	–37	9.8
Profit from operating activities (EBIT)	287	297	3.5	104	123	18.3
Return on sales (%)[1]	2.1	2.1	–	2.9	3.2	–
Operating cash flow	248	131	–47.2	206	119	–42.2

[1] EBIT/revenue.

Freight forwarding revenue performing well

Revenue in the division increased by 5.4% to €14,482 million in the year under review (previous year: €13,737 million). Excluding negative currency effects of €284 million, revenue was up year-on-year by 7.5%. In the fourth quarter of 2017, revenue amounted to €3,791 million, exceeding the prior-year figure by 4.6%.

In the Global Forwarding business unit, revenue in the year under review increased by 6.8% to €10,279 million (previous year: €9,626 million). Excluding negative currency effects of €250 million, the increase was 9.4%. 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 1.2% to €2,390 million (previous year: €2,419 million).

Revenue increase in air and ocean freight continues

Air and ocean freight revenues and volumes continued to grow in financial year 2017.

In air freight, volumes rose by 8.6% compared with the previous year. Although increased demand raised freight rates, higher air freight prices can only be passed on to customers with a delay due to our contract structures. As a result, revenue in the year under review only rose by 4.9% and air freight gross profit fell by 1.4% despite increased volumes. In the fourth quarter of 2017, we were able to pass higher prices on to customers; air freight revenue rose by 4.0%, whilst gross profit improved by 11.0% amidst volume growth of 2.3%.

Ocean freight volumes in 2017 exceeded the prior-year level by 6.5%, driven mainly by growth on the trade lanes between Asia and Europe as well as in the trans-Pacific market. Our ocean freight revenue rose by 6.1% in the year under review, whilst gross profit fell by 5.8%. The reasons for this development were considerably higher freight rates caused by the consolidation of the shipping company market as well as increased demand. In the fourth quarter, volumes and revenue exceeded the prior-year figures by 4.7% and 4.5%, respectively.

The performance of our industrial project business (in the following table reported as part of Other in the Global Forwarding business unit) improved significantly compared with the previous year. The share of revenue related to industrial project business and reported under Other increased from 21.7% in the prior year to 25.6%. Gross profit improved by 19.4%.

Global Forwarding: revenue

A.57

€m

	2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Air freight	4,391	4,608	4.9	1,195	1,243	4.0
Ocean freight	3,309	3,512	6.1	851	889	4.5
Other	1,926	2,159	12.1	520	566	8.8
Total	**9,626**	**10,279**	**6.8**	**2,566**	**2,698**	**5.1**

Global Forwarding: volumes

A.58

Thousands

		2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Air freight	tonnes	3,648	3,961	8.6	1,014	1,037	2.3
of which exports	tonnes	2,081	2,248	8.0	578	600	3.8
Ocean freight	TEUs[1]	3,059	3,259	6.5	783	820	4.7

[1] Twenty-foot equivalent units.

Revenue increase in European overland transport business

In the Freight business unit, revenue rose by 1.9% to €4,354 million in the year under review (previous year: €4,274 million) despite negative currency effects of €36 million. Transport volumes increased by 3.7%, driven mainly by e-commerce based business in Sweden as well as by business in Denmark and Germany. Gross profit was down by 1.9% to €1,080 million (previous year: €1,101 million) due in part to negative currency effects.

Significant EBIT increase in fourth quarter

EBIT in the division improved by 3.5% from €287 million to €297 million in the year under review, despite persistent margin pressure in the core air and ocean freight products resulting from high freight rates. Return on sales was unchanged at 2.1%. In the fourth quarter of 2017, EBIT improved by 18.3% to €123 million (previous year: €104 million) due to the improved gross profit in air freight; return on sales rose to 3.2%.

Net working capital increased in the year under review due to the rise in receivables from higher transport volumes. The increase was offset partially by higher liabilities. Operating cash flow amounted to €131 million (previous year: €248 million).

SUPPLY CHAIN DIVISION

Key figures of the SUPPLY CHAIN division A.59

€m

	2016	2017	+/– %	Q4 2016	Q4 2017	+/– %
Revenue	13,957	14,152	1.4	3,607	3,619	0.3
of which EMEA (Europe, Middle East and Africa)	7,336	7,245	–1.2	1,853	1,921	3.7
Americas	4,454	4,551	2.2	1,170	1,125	–3.8
Asia Pacific	2,200	2,389	8.6	592	583	–1.5
Consolidation/Other	–33	–33	–	–8	–10	–25.0
Profit from operating activities (EBIT)	572	555	–3.0	206	184	–10.7
Return on sales (%)[1]	4.1	3.9	–	5.7	5.1	–
Operating cash flow	658	239	–63.7	520	28	–94.6

[1] EBIT/revenue.

Strong revenue growth offset by adverse currency effects
Revenue in the division increased by 1.4% to €14,152 million in the year under review (previous year: €13,957 million). The increase was driven by good business performance in the Americas and Asia Pacific regions; it was, however, offset partly by negative currency effects of €444 million. Excluding this effect, revenue growth was 4.6%. The Life Sciences & Healthcare, Automotive and Technology sectors achieved the highest growth compared with the previous year. In the fourth quarter, revenue increased by 0.3% to €3,619 million (previous year: €3,607 million); excluding currency effects, it rose by 5.1%.

In the EMEA region, revenue decreased due to negative currency effects.

By contrast, strong revenue growth in the Americas region in nearly all sectors more than offset adverse currency effects.

SUPPLY CHAIN: revenue by sector and region, 2017 A.60

Total revenue: €14,152 million

of which Retail	25%
Consumer	23%
Automotive	14%
Technology	12%
Life Sciences & Healthcare	11%
Others	8%
Engineering & Manufacturing	5%
Financial Services	2%
of which Europe/Middle East/Africa/Consolidation	51%
Americas	32%
Asia Pacific	17%

The Asia Pacific region saw strong revenue growth, driven predominantly by the Life Sciences & Healthcare sector in Australia and the Technology sector.

New business worth around €1,490 million secured
In 2017, the Supply Chain division concluded additional contracts worth around €1,490 million in annualised revenue (excluding Williams Lea Tag Group, note 2 to the consolidated financial statements), with both new and existing customers. The Automotive, Consumer and Retail sectors accounted for the majority of the gains. The annualised contract renewal rate remained at a consistently high level.

One-off effects inhibit EBIT growth
EBIT in the division was €555 million in the year under review (previous year: €572 million). In the previous year, EBIT was influenced by one-time factors such as income from the sale of shares in King's Cross in the UK, on the one hand, and restructuring efforts, on the other. Overall, these factors had a positive effect. In 2017, earnings were adversely affected by the one-time write-down of customer relationship assets. Excluding those effects and despite adverse currency effects, EBIT improved due to business growth and the impact of strategic initiatives. Due to the one-off effects described above, return on sales was slightly below the prior-year level at 3.9%. EBIT for the fourth quarter of 2017 decreased from €206 million to €184 million and return on sales to 5.1% (previous year: 5.7%). Operating cash flow declined in the year under review from €658 million to €239 million. Operational improvement was diminished by a one-time cash outflow of €459 million to further fund pension obligations.

DEUTSCHE POST SHARES

Deutsche Post shares: seven-year overview A.61

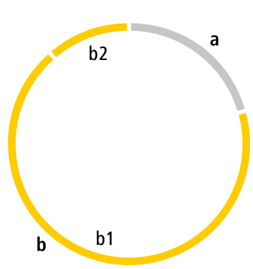
		2011	2012	2013	2014	2015	2016	2017
Year-end closing price	€	11.88	16.60	26.50	27.05	25.96	31.24	39.75
High	€	13.83	16.66	26.71	28.43	31.08	31.35	40.99
Low	€	9.13	11.88	16.51	22.30	23.15	19.73	30.60
Number of shares as at 31 December	millions	1,209.0	1,209.0	1,209.0	1,211.2	1,212.8	1,240.9	1,228.7
Market capitalisation as at 31 December	€m	14,363	20,069	32,039	32,758	31,483	38,760	48,841
Average trading volume per day[1]	shares	4,898,924	4,052,323	4,114,460	4,019,689	4,351,223	3,497,213	2,613,290
Annual performance including dividends	%	−1.3	45.6	63.9	5.1	−0.9	23.6	30.6
Annual performance excluding dividends	%	−6.5	39.7	59.6	2.1	−4.0	20.3	27.2
Beta factor[2]		1.19	0.88	0.86	0.94	0.95	0.97	0.99
Earnings per share[3]	€	0.96	1.36[7]	1.73	1.71	1.27	2.19	2.24
Cash flow per share[4]	€	1.96	−0.17	2.47	2.51	2.84	2.03	2.72
Price-to-earnings ratio[5]		12.4	12.2[7]	15.3	15.8	20.4	14.3	17.7
Price-to-cash flow ratio[4,6]		6.1	−97.6	10.7	10.8	9.1	15.4	14.6
Dividend	€m	846	846	968	1,030	1,027[8]	1,270	1,409[10]
Payout ratio	%	72.7	51.6	46.3	49.7	66.7[9]	48.1	51.9
Dividend per share	€	0.70	0.70	0.80	0.85	0.85	1.05	1.15[10]
Dividend yield	%	5.9	4.2	3.0	3.1	3.3	3.4	2.9

[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 to the consolidated financial statements. [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 stable

The investment share of our largest investor – KfW Bankengruppe – is 20.7% (previous year: 20.5%) and the free float is 79.3%. Based upon our share register's figures, the share of outstanding stock held by private investors is 11.1% (previous year: 10.8%). In terms of the regional distribution of identified institutional investors, the highest percentage of shares (15.8%) is held by US investors (previous year: 13.9%), followed by the United Kingdom with a share of 13.8% (previous year: 12.6%). The share of institutional investors in Germany decreased to 12.0% (previous year: 12.4%). Our 25 largest institutional investors held a total of 38.9% of all issued shares (previous year: 41.3%).

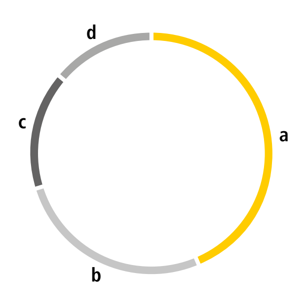
Shareholder structure[1] A.62



a	KfW Bankengruppe	20.7%
b	Free float	79.3%
b1	Institutional investors	68.2%
b2	Private investors	11.1%

[1] As at 31 December 2017.

Shareholder structure by region[1] A.63



a	Germany	43.8%
b	Other	26.6%
c	USA	15.8%
d	UK	13.8%

[1] As at 31 December 2017.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Employees

Facing change in the workplace with an open mind

We support our employees in developing their potential and offer them a respectful work environment with competitive pay. In today's digital world, this also entails responding to changes in our working methods and facing new challenges open-mindedly and without bias. The task of involving employees in the change process falls, in particular, to our executives, who are supported by systematic human resources work.

Employee Opinion Survey

Our annual Group-wide Employee Opinion Survey comprises 41 questions categorised in ten key performance indicators and one index. We achieved stable or improved results in nearly all areas in 2017, with nearly all figures at or above external benchmarks. The response rate of 76% – an improvement of two percentage points – underscores the survey's acceptance level.

Selected results from the Employee Opinion Survey A.64

%

	2016	2017
Response rate	74	76
Positive rating of Active Leadership KPI	74	75
Positive rating of Employee Engagement KPI	75	75

Number of employees again rises slightly

As at 31 December 2017, we employed 472,208 full-time equivalents, 2.8% more than in the previous year. The headcount at the end of the year was 519,544.

In the Post - eCommerce - Parcel division, we hired new employees particularly with a view to supporting the continued strong growth in the eCommerce - Parcel business unit in Germany, Europe, Asia and the USA. The number of employees in the Express division increased compared with the previous year. Higher shipment volumes made the increase necessary in the operations area in particular. In the Global Forwarding, Freight division, our workforce declined slightly, mainly in the Freight business unit. The number of employees in the Supply Chain division decreased due to the sale of Williams Lea Tag Group. The decline compensated for the increase in employees due to new and additional business by a narrow margin.

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

As in the previous year, 18 % of all employees took the opportunity for part-time employment. Over the course of the year, 8.5 % of employees left the Group unplanned (previous year: 7.6 %).

Our current planning foresees another slight increase in the number of employees in financial year 2018.

Number of employees A.65

	2016	2017	+/– %
Full-time equivalents			
At year-end[1]	**459,262**	**472,208**	**2.8**
of which Post - eCommerce - Parcel[2]	177,307	183,679	3.6
Express[2]	82,792	90,784	9.7
Global Forwarding, Freight	41,886	41,034	−2.0
Supply Chain	146,739	145,575	−0.8
Corporate Center/Other	10,539	11,136	5.7
Consolidation[3]	−1	0	−100
of which Germany	174,537	180,479	3.4
Europe (excluding Germany)	113,104	114,360	1.1
Americas	79,347	82,887	4.5
Asia Pacific	73,979	76,081	2.8
Other regions	18,295	18,401	0.6
Average for the year[4]	**453,990**	**468,724**	**3.2**
Headcount			
At year-end[4]	**508,036**	**519,544**	**2.3**
Average for the year	**498,459**	**513,338**	**3.0**
of which hourly workers and salaried employees	459,990	477,251	3.8
Civil servants	32,976	30,468	−7.6
Trainees	5,493	5,619	2.3

[1] Excluding trainees.
[2] Reassignment of companies in Spain and Portugal from the Express division to the Post - eCommerce - Parcel division, note 10 to the consolidated financial statements.
[3] Including rounding.
[4] Including trainees.

Staff costs above prior-year level

At €20,072 million, staff costs exceeded the prior-year figure of €19,592 million. Details can be found in note 14 to the consolidated financial statements.

Adequately compensating performance

Our performance-related compensation, which is in line with both the market and the company's long-term requirements, makes us an attractive employer. We use a systematic job grading system to ensure that our remuneration structures are reasonable and balanced.

In addition, we strengthen our employees' loyalty and motivation by offering additional benefits to supplement the company's defined benefit and defined contribution retirement plans.

Age-based and secure working conditions

In Germany, we responded as early as 2011 to demographic projections by concluding the Generations Pact between Deutsche Post AG and the trade unions. Today, 24,401 of our hourly workers and salaried employees maintain the required working time account and 3,886 are in partial retirement. Since 2016, we have also been offering comparable arrangements for civil servants, 3,629 of whom have established a lifetime working account and 1,076 have entered partial retirement.

Targeted employee development

A customer-focused culture requires a shared understanding. As part of our Group-wide "Certified" initiative, Objectives and strategies, page 34, we offer our employees a broad range of curricula, allowing them to gain specific knowledge relevant to their roles and learn more about the greater context of the Group.

An important component of our development initiatives for executives is the further development of their management style on the basis of newly defined leadership attributes. The majority of the target group has already taken part in our Certified Logistics Leader programme.

In Germany, Austria, Switzerland and Denmark, we offer young people the opportunity to enrol in dual-study apprenticeship programmes consisting of in-house training combined with studies at state vocational schools. In Germany alone, students are able to choose from more than 15 state-accredited apprenticeship schemes and twelve dual-study programmes. In 2017, we offered 2,472 positions in our apprenticeship and study programmes.

Diversity promotes in-house innovation

Our organisation unites people from a wide variety of cultures who possess different skills, experiences and perspectives. This diversity bolsters our innovative strength and makes us attractive to customers and employees alike. We promote inclusion and equal opportunity in the workplace, as set out in our Code of Conduct and a Group Statement.

A Group-wide monitoring system tracks diversity indicators to monitor the effectiveness of the actions we take in this regard. In the year under review, the Diversity Council discussed a number of topics, including measures designed to increase the number of women in executive positions. On 31 December 2017, the worldwide proportion of women in management in the Group was 21.5 % (previous year: 21.1 %).

Health and safety

Occupational safety: always the top priority

The health and safety of our employees are the foundation of the company's business success. We promote both through a supportive working environment with a special focus upon prevention.

More detailed information on workplace safety requirements is provided in our Occupational Health & Safety Policy Statement.

Workplace accidents A.66

	2016	2017
Accident rate (number of accidents per 200,000 hours worked)[1]	4.0	4.4
Working days lost per accident[1]	14.8	15.3
Number of fatalities due to workplace accidents	4	3
of which as a result of traffic accidents	2	1

[1] Coverage: around 99 %.

The change in the accident rate is essentially the result of an increase in the number of incidents during delivery. Our coverage rate improved from 96 % to more than 99 %. We report on occupational safety measures and targets and describe the changes in the accident data for the divisions in more detail in our Corporate Responsibility Report, dpdhl.com/cr-report2017.

Bolstering health

We inform employees about health risks by offering courses on health-related topics and carrying out initiatives at a local level. One area of focus in the year under review was how to manage stress and deal with mental illness.

Our Group-wide employee benefits programme now offers insurance coverage to supplement statutory health insurance plans in more than 100 countries, in some cases enabling access to high-quality and affordable health care in the first place.

The worldwide illness rate was 5.2% in the reporting period (previous year: 5.1%).

Corporate responsibility

Commitment to shared values

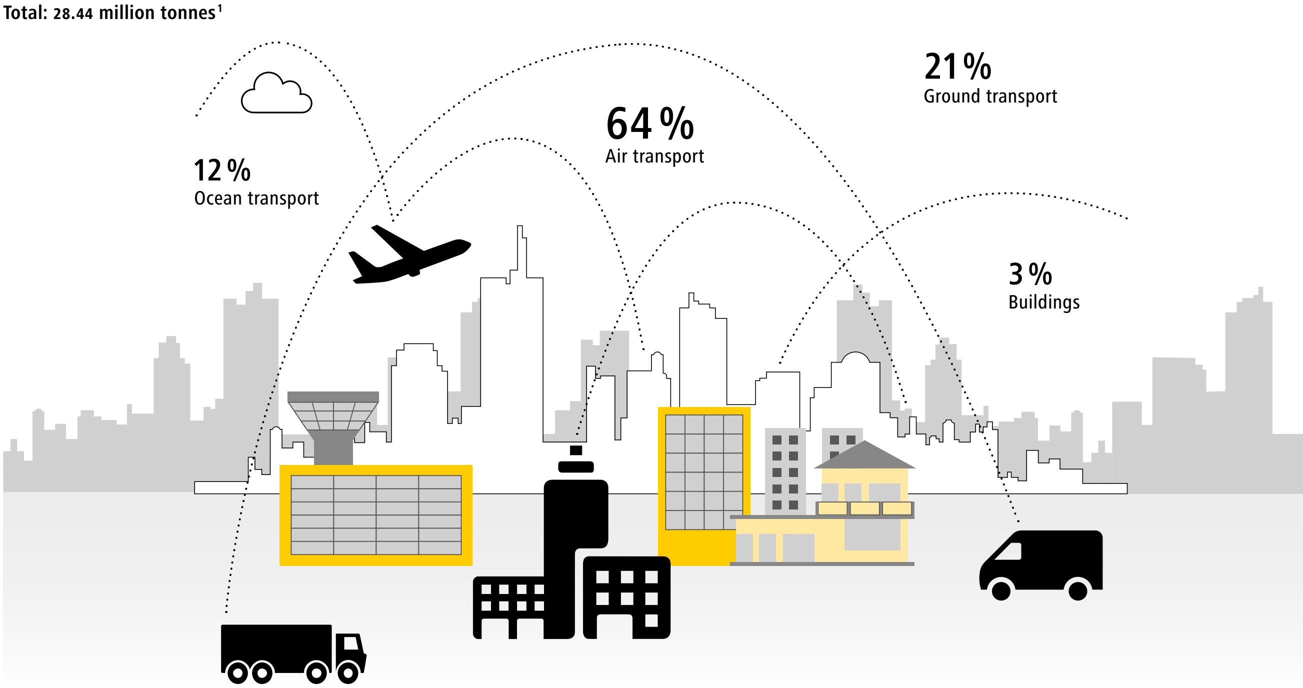
An important part of our Group strategy is to become a benchmark enterprise for responsible business. We have codified responsibility in our Code of Conduct, which is guided by both the principles of the Universal Declaration of Human Rights and the United Nations Global Compact and adheres to recognised legal standards. We also support the United Nation's sustainable development goals.

With responsible business practices we ensure our business operates in compliance with applicable laws, ethical standards and international guidelines. We co-ordinate the main aspects and issues deemed material via our Group-wide Responsible Business Practice network. Through ongoing 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 year under review, we reviewed the matters defined two years ago as material for continued relevance and completeness by conducting thorough interviews. In most instances, our original classification was confirmed. We also dealt with the new non-financial reporting requirements. The required information is included in our @ Corporate Responsibility Report, dpdhl.com/cr-report2017.

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 improving the educational and professional opportunities of socially disadvantaged young people, and support local environmental protection and aid projects. In 2017, we continued our initiative to integrate refugees in Germany by providing assistance with language and job skills and we have carried out initial measures in other countries.

CO_2e emissions, 2017 A.67

Total: 28.44 million tonnes[1]



[1] Scope 1 to Scope 3.

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. One area we focused upon in the year under review was increasing the proportion of electric vehicles in our fleet.

Efficiency target exceeded

In order to measure and manage our greenhouse-gas efficiency, we make use of a carbon efficiency index (CEX), Group management, page 38. In 2017, our direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions amounted to 6.34 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 22.10 million tonnes of CO_2e (previous year, adjusted: 20.81 million tonnes of CO_2e).

We set new environmental targets in the reporting period. By 2025, for example, we plan to improve our CEX by 50% compared with the 2007 base year. We already achieved an improvement of 32% versus 2007 in 2017, thus exceeding our goal of improving the CEX by one index point compared with the prior year.

Additional information on our environmental activities and targets is included in our Corporate Responsibility Report, dpdhl.com/cr-report2017.

Fuel and energy consumption in company fleet and buildings A.68

		2016	2017
Consumption by fleet			
Air transport (jet fuel)	million kilograms	1,332.5	1,406.3
Road transport (petrol, bio-diesel, diesel, bio-ethanol, LPG)	million litres	447.2	451.1
Road transport (biogas, CNG, LNG)	million kilograms	4.5	3.6
Energy for buildings and facilities (including electric vehicles)	million kilowatt hours	3,039[1]	3,194

[1] Adjusted.

Customers and quality

Facts and figures, customers and quality A.69

93 % D+1
Letters delivered within Germany the day after posting.

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

Open 54 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.

93.9 % 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 3,000 ELECTRIC VEHICLES
put into operation in 2017.

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

CUSTOMER IMPROVEMENT PROJECTS
More than 80 improvement initiatives successfully implemented in 2017.

Sending mail and parcels quickly and reliably

Customers rate the quality of our services based upon whether the items they post reach their destinations quickly, reliably and undamaged. According to surveys conducted by Quotas, a quality research institute, 93% 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 legally required 80% (D+1) and 95% (D+2). The Quotas measurement 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 our parcel business, 84% of items posted reach their recipients the next working day. This figure is based upon parcels we collected from business customers 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 achieved a high level of sorting automation that exceeds 90%. In our parcel network, we have increased our sorting capacity by more than 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 in operation, we have a sorting capacity of over one million parcels per hour. More than 75 mechanised delivery bases support our operations.

Our approximately 27,000 sales points were open for an average of 54 hours per week (previous year: 53 hours). The annual survey conducted by *Kundenmonitor Deutschland*, the largest consumer survey in Germany, showed a high acceptance of our exclusively partner-operated retail outlets: 93.9% of customers were satisfied with our quality and service (previous year: 93.8%). In addition, impartial mystery shoppers from TNS Infratest tested the postal outlets in retail stores around 30,000 times over the year. The result showed that 94.3% of customers were served within three minutes (previous year: 93.7%).

Another key quality indicator for us is environmental protection, which we describe in our @ Corporate Responsibility Report, dpdhl.com/cr-report2017. In the area of electric mobility, which is strategically important to us, we put over 3,000 vehicles into operation in the year under review and began converting our delivery operations in Berlin, Munich, Hanover, Frankfurt, Dresden, Herne and Essen to the exclusive use of electric vehicles. In addition to deploying StreetScooters for our own operations, we have been offering the vehicles to businesses and municipalities for purchase since 2017.

Service quality and insanely customer centric culture in the express business

As a global network operator working with standardised processes, we are constantly optimising our services to enable us to keep our commitments to customers, to respond specifically to their wishes and to deliver the best-possible quality at all times. We therefore keep a constant eye on our customers' ever-changing requirements, for example through our Insanely Customer Centric Culture (ICCC) programme and as part of our Net Promoter Approach. Our managers speak personally to dissatisfied customers in order to discover the root cause of their dissatisfaction. Customer criticism thereby translates into continuous improvements.

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

In Europe, our European Key Account Support service provides our global customers with a central point of contact. If customers wish, shipment information can even be updated directly in their systems.

At quality control centres, we track shipments across the globe and adjust our processes dynamically as required. All premium products – for example, Medical Express shipments – are tracked by default until they are delivered.

As of the year under review, our On Demand Delivery service is now already available in more than 100 countries and 40 languages. We also expanded our Paketbox network to around 7,000 Service Point Lockers worldwide.

We conduct regular reviews of operational safety, compliance with standards and the quality of service at our facilities in co-operation with government authorities. Approximately 290 locations, more than 100 of which are in Asia, have been certified by the security organisation Transported Asset Protection Association (TAPA). This makes us the leader in this area. Since 2013, our sites have been certified globally to the ISO 9001:2008 standard. In addition, we remain certified in certain regions and countries in the areas of environmental protection and energy management. We describe this in detail in our @ Corporate Responsibility Report, dpdhl.com/cr-report2017.

Systematic customer feedback in the forwarding business

In the Global Forwarding business unit, we are currently revamping our offering based upon the customer feedback that we systematically and continuously collect using the Net Promoter Approach. Our punctuality, reporting and invoicing improved notably in the year under review thanks to more than 80 Customer Improvement Projects. Operating performance is monitored and improved on an on-going basis. Regular performance dialogues ensure that our employees focus upon the right priorities. In addition, we trained nearly 3,000 of our employees in structured problem-solving techniques in the reporting period.

Our customer satisfaction survey, which we plan to update and expand in the future, also forms the basis for upgrading the range of services in the Freight business unit. Our continuous improvement programme will support the FREIGHT 2020 strategy, Objectives and strategies, page 35.

Quality leader in contract logistics

We aim to build upon quality leader in contract logistics. By applying standardised operations and solutions supported by supply chain champions at all of our sites, we ensure that we meet or exceed our customers' quality expectations.

In the year under review, we revised our survey methodology for continuously measuring customer loyalty and satisfaction. Instead of biannual telephone interviews, we now conduct online surveys each quarter. The programme has been rolled out to all Supply Chain countries.

As part of our operations excellence programme, a uniform Service Quality KPI routinely measures whether our locations are meeting defined operating standards.

Brands

Brand architecture A.70

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

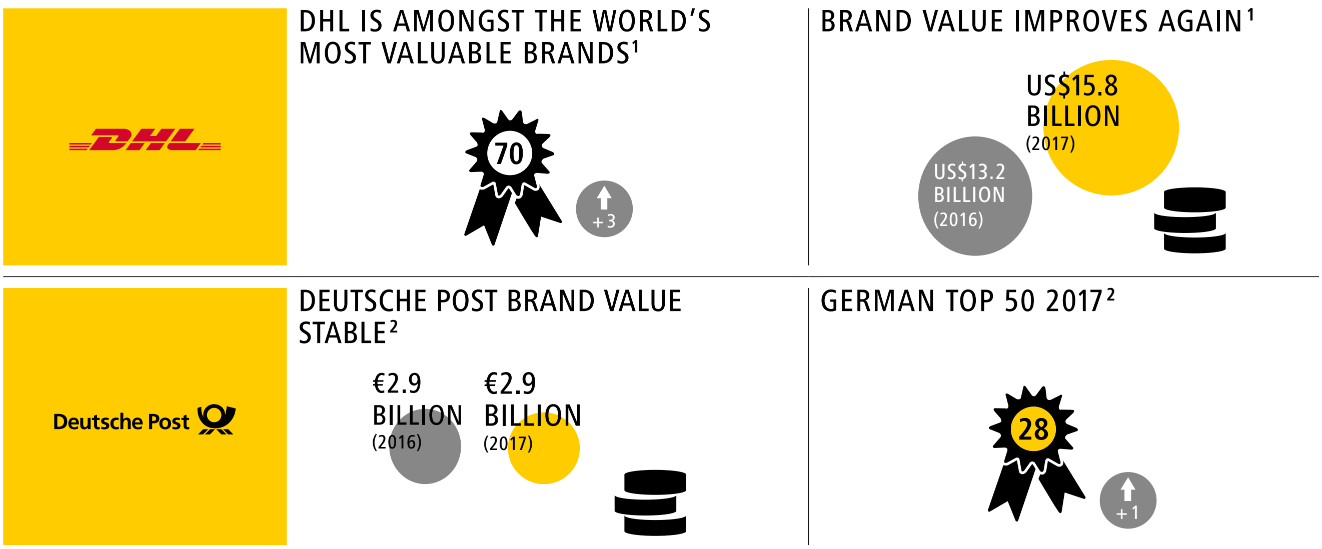
Brand value continues to improve

We manage the Deutsche Post and DHL brands based upon our Group strategy, Objectives and strategies, page 34, and we work constantly to further increase the recognition, image and value of our brands.

According to independent studies, our efforts were successful again in the year under review. The BrandZ study published by market research institute Millward Brown valued the DHL brand at US$15.8 billion in 2017, a 19.7% increase (previous year: US$13.2 billion) that moves the company up three places to 70th in the Top 100 Most Valuable Global Brands ranking. Millward Brown determines brand value based upon a company's current financial position as well as the contribution the brand makes to the company's business success. Interbrand, a brand consulting company, uses a similar system to rank the world's most valuable brands each year. In the 2017 ranking, DHL moved up one place to 76th. Interbrand valued the DHL brand at US$5.7 billion (previous year: US$5.7 billion).

Consulting company Brand Finance valued the Deutsche Post brand at €2.9 billion in the year under review (previous year: €2.9 billion), moving the company up one place to 28th in the German Top 50 and affirming it in 13th place amongst the most valuable logistics brands in the world.

Value of Group brands in 2017 A.71



[1] Source: Millward Brown, 2017.
[2] Source: Brand Finance, 2017.

DHL boosts brand with advertising and partnerships

In the year under review, DHL continued its brand campaign "The Power of Global Trade" for the third year. Its main theme was again how trade and logistics can improve people's lives. Print and online advertisements, TV commercials and social media activities delivered emotional brand experiences to target groups.

We also bolster our brand's reputation around the world as a partner for high-profile events. For instance, in 2017 we continued our partnerships with 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 organisations, the World Touring Car Championship (WTCC) and *Gewandhausorchester Leipzig*. In August 2017, DHL entered into a new logistics partnership with the global drone racing series DR1 Drone Racing League.

Marketing expenditures, 2017 A.72

Volume: around €437 million

Product development and communication	59.9%
Other	21.7%
Public & customer relations	14.5%
Corporate wear	3.9%

Sports sponsorships strengthen Deutsche Post brand

Deutsche Post systematically draws attention to its brand by sponsoring popular national sporting events. In the year under review, the company again focused upon its strategic partnership with the *Deutscher Fußball-Bund* (DFB – German football federation). Deutsche Post was involved with the German national football teams and the DFB tournament as well as amateur football leagues and the FUSSBALL.DE platform. The partnerships with the *Deutsche Tourenwagen Masters* (DTM – German Touring Car Masters) racing series and the *Bob- und Schlittenverband für Deutschland* (BSD – German bobsleigh, luge and skeleton federation) were likewise continued.

EXPECTED DEVELOPMENTS

Overall Board of Management assessment of the future economic position

The Board of Management expects consolidated EBIT to reach around €4.15 billion in financial year 2018. The Post - eCommerce - Parcel division is likely to contribute around €1.50 billion to this figure. We also expect an additional improvement in overall earnings to around €3.00 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 remain stable at around €–0.35 billion. Due to the changes resulting from the initial application of IFRS 16, we expect the asset charge to increase to a greater extent than EBIT and EBIT after asset charge (EAC) to decline in 2018 as a result. Free cash flow is expected to exceed €1.5 billion.

Forecast period

The information contained in the report on expected developments generally refers to financial year 2018.

Future economic parameters

Good outlook for the global economy

The global economy is expected to pick up slightly once more in 2018. A pronounced upturn is currently being seen in the industrial countries, supported by expansionary monetary policy along with expectations of expansionary fiscal stimulus packages. Despite the existing political risks and a gradual decline in available production capacities, the pace of growth seen in the previous year is expected to continue. Higher growth rates are expected in the emerging markets, due in the main to contributions from countries that were just recently in the midst of fighting off recessionary tendencies. By contrast, a slightly weaker upwards trend is expected for those regions that have been seeing strong growth. Risks jeopardising this outlook continue to stem from the many geopolitical hotspots. Nonetheless, it is still possible that mutually reinforcing upwards cyclical trends could give global economic growth a significant boost.

Global economy: growth forecast A.73

%

	2017	2018
World trade volume	**4.7**	**4.6**
Real gross domestic product		
World	3.7	3.9
Industrial countries	2.3	2.3
Emerging markets	4.7	4.9
Central and Eastern Europe	5.2	4.0
CIS countries	2.2	2.2
Emerging markets in Asia	6.5	6.5
Middle East and North Africa	2.5	3.6
Latin America and the Caribbean	1.3	1.9
Sub-Saharan Africa	2.7	3.3

Source: International Monetary Fund (IMF), World Economic Outlook, update January 2018. Growth rates calculated on the basis of purchasing power parity.

The economy in China is likely to weaken further, with GDP growth expected to soften slightly (IMF: 6.6%; OECD: 6.6%). The Japanese economy is projected to record only minimal growth, and economic output is expected to expand at a much slower pace than in 2017 (IMF: 1.2%; OECD: 1.2%).

GDP in the United States is anticipated to increase more strongly in 2018 than in the previous year (IMF: 2.7%; OECD: 2.5%).

In the euro zone, the economic recovery is forecast to continue. However, GDP growth is likely to weaken slightly (IMF: 2.2%; ECB: 2.3%).

Leading indicators suggest that the upswing in Germany will remain intact. Growth for the year as a whole is expected to mirror the previous year's level in 2018 (IMF: 2.3%; *Sachverständigenrat:* 2.2%).

The most likely trend for crude oil listings is a slight decrease from the present level.

The ECB will very likely maintain its key interest rate at the current level in 2018. The bank is also expected to continue to reduce its bond purchases, or even discontinue the programme entirely, should the euro zone economy remain solid. The US Federal Reserve is expected to raise its key interest rate further over the course of the year, which could moderately increase capital market interest rates.

World trade grows solidly

After a strong increase in 2017, we expect growth in the global trade flows relevant to us (air and ocean freight shipped in containers, excluding liquids and bulk goods) to slow somewhat in 2018. All in all, we anticipate an increase of 3.7%.

Parcel market expected to see sustained growth

The market for paper-based mail communication will continue to decline, including in Germany. Physical mail volumes are falling, primarily because people are communicating digitally to an increasing extent. After raising the stamp price for a standard letter at the beginning of 2016, we shall not make any further price adjustments to regulated ex-ante mail products, Glossary, page 181, until after 2018, due to the price-cap mechanism.

The German advertising market is likely to maintain its approximate volumes in 2018. 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 further growth in international express market

Experience shows that growth in the international express market is highly dependent upon the economic situation. We believe that the steadily growing cross-border e-commerce sector will continue to drive growth in the international express market in 2018.

Market trends in freight forwarding business likely to continue

In 2018, we anticipate developments in the air freight market to follow a similar trend to that of the year under review. Although freight carriers will further expand capacities by adding new wide-body passenger planes and additional cargo aircraft, this will mostly impact smaller destinations and not the main trade lanes. We expect demand to rise on the whole, driven in part by rapid growth in e-commerce volumes. Freight rates are likely to increase on the main trade lanes.

With regard to ocean freight, we anticipate solid market growth to continue. Alliances and mergers will allow shipping companies to better manage capacities and to raise freight rates over the medium term.

For the European road transport market, we expect market prices and volume growth to accelerate in 2018. This will be driven by the continued expansion in the largest European economies and the sustainable upwards trend in manufacturing activity, accompanied by limited haulier capacities. In a fragmented market environment, we expect selective consolidation efforts to re-emerge in the future.

Contract logistics market continues to grow

The trend towards outsourcing warehousing and distribution as well as demand for value-added logistics services are set to continue, although short to mid-term growth prospects in some emerging markets have slowed. 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

In addition to the overall state of the global economy – which is expected to be robust, insofar as can be foreseen – one of the main factors impacting our Group continues to be structural growth arising from e-commerce transactions. E-commerce growth is making a positive contribution in all regions and divisions, albeit to varying extents. We therefore expect the Group to record another positive revenue trend.

The IFRS 16 accounting standard will be applied for the first time in our 2018 reports. The change in the recognition of lease obligations will, for example, impact reported earnings. EBITDA (earnings before interest, tax, depreciation and amortisation) will be significantly higher than under the previous method as the operating lease expense is no longer included. By contrast, EBIT (earnings before interest and tax) will rise only slightly due to the increase in depreciation charges recognised for leased assets. Based upon the leases as at 1 January, consolidated EBIT is expected to increase by around €150 million.

Against this backdrop, we expect consolidated EBIT to reach around €4.15 billion in financial year 2018. The Post - eCommerce - Parcel division is likely to contribute around €1.50 billion to this figure. We also expect an improvement in overall earnings to around €3.00 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 remain stable at 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 2018, 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 24 April 2018, we intend to propose to the shareholders that a dividend per share of €1.15 be paid for financial year 2017 (previous year: €1.05).

Expected financial position

No change in the Group's credit rating

In light of the earnings forecast for 2018, 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 2018 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 2017 in April 2018. 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.

A bond issued by Deutsche Post AG in the amount of €0.5 billion will fall due in October 2018.

Capital expenditure of around €2.5 billion expected

In 2018, we plan to increase capital expenditure (excluding leasing) to around €2.5 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 impacted by IFRS 16

Due to the changes resulting from the initial application of IFRS 16, note 5 to the consolidated financial statements, EAC will decline to a fundamentally lower level, as the respective cost of capital (asset charge) of the divisions increases disproportionately to EBIT. Without this effect, EAC tends to follow the respective development of EBIT. Free cash flow is expected to exceed €1.5 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 2018, we expect to see an increase to 76% in the approval rating for the Active Leadership key performance indicator.

Further improve greenhouse gas efficiency

We expect the Group to further improve its carbon efficiency. Our CEX score is projected to increase by one index point during financial year 2018.

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. According to current assessments, no new risks with a potentially critical impact upon the Group's result have been identified. 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 59.

Opportunity and risk management

Uniform reporting standards for opportunity and risk management

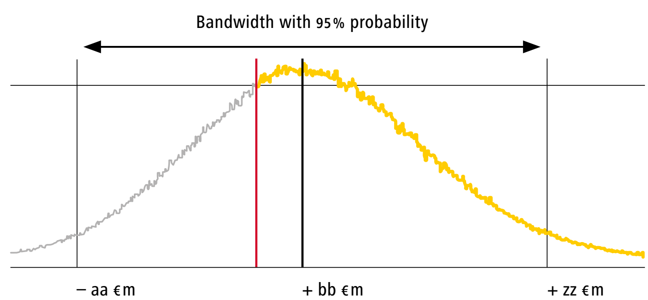
As an internationally operating logistics company, we are facing numerous changes. Our aim is to identify the resulting opportunities and risks at an early stage and take the necessary measures in the specific areas affected in due time to ensure that we achieve a sustained increase in enterprise value. 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:

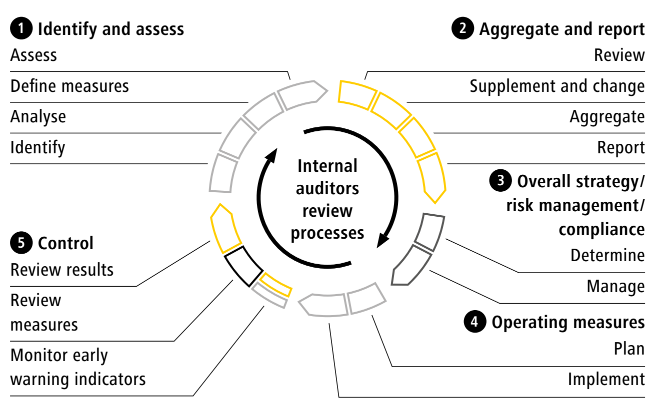
Monte Carlo simulation A.74

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



Planned EBIT — Most common value in one million simulation steps ("mode")
"Worse than expected" — "Better than expected"

Opportunity and risk management process A.75



Divisions — Opportunity and risk-controlling processes — Board of Management — Internal auditors

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 (4) 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.

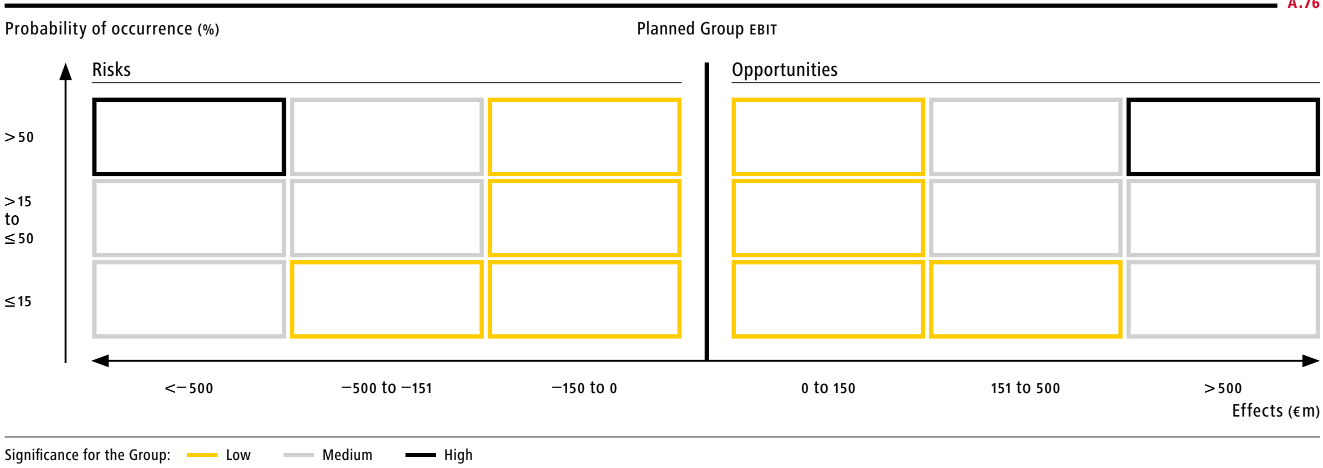
The ICS design comprises organisational and technical measures that extend to all companies in the Group. Centrally standardised accounting guidelines govern the reconciliation of the single-entity financial statements and ensure that international financial reporting standards (EU IFRSs) are applied 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, high or medium relevance. We characterise opportunities and risks of high or medium relevance as significant, shown as black or grey in table A.76. The following assessment scale is used:

Classification of risks and opportunities A.76



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 figures provided in the underlying individual reports exhibit a significant correlation with the performance of the world economy and global economic output. Unless otherwise specified, a low relevance is attached to the individual opportunities and risks within the respective categories and in the forecast period under observation (2018). 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 2015, the *Bundesnetzagentur* stipulated the conditions applicable to the approval of postage rates for letters of up to 1,000 grams under the price cap procedure. These conditions are referred to as parameters and are set to expire on 31 December 2018. The regulator will be setting new parameters in 2018.

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 this 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 2016 Annual Report in note 48 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. In the aforementioned judgement of 14 July 2016, the EGC allowed that argument as presented in the action brought by the federal government. The proceedings brought by Deutsche Post AG against the state aid ruling of 25 January 2012 have also been brought to a close. In an order dated 17 March 2017, the EGC declared that there was no longer any need to adjudicate on the action brought by Deutsche Post AG and additionally ruled that the costs were to be borne by the European Commission. Since the European Commission did not file an appeal against the EGC's judgement of 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 that had been deposited in a trustee account for the purpose of implementing the state aid decision was released. The action brought by Deutsche Post AG against the 2011 "extension decision" *(Ausweitungsbeschluss)* is still pending. That action is based on procedural matters involving the validity of the European Commission's 2011 decision to extend the state aid proceedings. In the action pending, the European Commission has advanced the legal argument that the state aid proceedings initiated in 1999 remain partly open and that it could therefore issue a new final decision bringing the proceedings to a close. With regard to the possible content of this decision, the Commission did not give any particulars. In the legal opinion of Deutsche Post AG, however, the proceedings initiated in 1999 were resolved in full by way of the European Commission's state aid ruling of 19 June 2002. The European Court of Justice expressly confirmed that opinion in its ruling of 24 October 2013. The European Commission's state aid decision of 25 January 2012 remains null and void with final effect.

We describe other significant legal proceedings in note 46 to the consolidated financial statements. However, we do not see these proceedings posing a risk of significant deviation from plan for the 2018 forecast period.

The flow of goods and services is becoming more and more international, and this entails a certain level of risk. As a globally operating logistics company, Deutsche Post DHL Group is subject to the import, export and transit regulations of more than 220 countries and territories whose foreign trade and customs laws must also be complied with. The number and complexity of such laws and regulations (including their extraterritorial application) have increased in recent years and they are also being applied more aggressively by the competent authorities, with stricter penalties imposed. In response to this risk, we have implemented a Group-wide compliance programme. In addition to undertaking the legally prescribed check of senders, receivers, suppliers and employees against current embargo lists, the programme ensures, for example, that the legally required review of shipments is carried out for the purpose of enforcing applicable export restrictions as well as country sanctions and embargos. Deutsche Post DHL Group co-operates with the authorities responsible, both in working to prevent violations as well as in assisting in the investigation of violations to avoid and limit potential sanctions.

Macroeconomic and industry-specific opportunities and risks

Macroeconomic and sector-specific conditions are a key factor in determining the success of our business. We therefore pay close attention to economic trends within the regions in which we operate. We are currently watching for both the potential impact of US economic policies as well as the possible consequences of the United Kingdom's exit from the EU. Alongside other aspects, Brexit would pose a risk to the Group's net assets, financial position and results of operations owing to potential changes in exchange rates, the economy, aviation traffic rights and customs duties as well as the impact on our customers both within and outside of the UK. To this end, we have established topic-specific working groups to prepare ourselves as thoroughly as possible for the effects of Brexit. Despite the volatile economic climate, demand for logistics services rose overall in 2017, 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 strong growth, particularly due to the continued upward trend 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, because consumers might buy online more frequently for reasons of cost. 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. Overall, 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. 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. As of the reporting date, there were no significant currency hedges for planned foreign currency transactions.

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.

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).

The key control parameters for liquidity management are the centrally available liquidity reserves. Deutsche Post DHL Group had central liquidity reserves of €4.2 billion as at the reporting date, consisting of central financial investments amounting to €2.2 billion plus a syndicated credit line of €2 billion. The Group's liquidity is therefore sound in the short and medium terms. 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 €1.9 billion at the end of 2017. The share of financial liabilities with short-term interest rate lock-ins in the total financial liabilities in the amount of €6.1 billion was approximately 15 %.

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 43 to the consolidated financial statements. Detailed information on risks and risk mitigation in relation to the Group's defined benefit retirement plans can be found in note 38 to the consolidated financial statements.

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 expanding 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. We plan to keep growing our international business, and 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. We should usually 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, 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 security management system and the Resilience 360 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 ongoing 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 very low.

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 72, 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 health management programmes, measures tailored to local requirements and cross-divisional co-operation.

B

CORPORATE GOVERNANCE
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REPORT OF THE SUPERVISORY BOARD

WULF VON SCHIMMELMANN
Chairman

DEAR SHAREHOLDERS,

The year 2017 was both a good and an important financial year for Deutsche Post DHL Group, and one in which we laid a solid foundation for our future success.

The Supervisory Board oversaw the Board of Management's business activities to ensure they complied with the law and were fit for purpose, and regularly discussed material aspects of business strategy with the Board of Management. The Board of Management informed us on an ongoing basis about the course of business and material transactions, and also kept the Chairman of the Supervisory Board and the Chairman of the Finance and Audit Committee up to date between meetings. We were involved promptly in all decisions of material importance for the company and the Group.

We thoroughly examined and discussed all key business transactions, developments within the enterprise and results, decisions and planning, including enhancing and preserving our competitive position in the medium and long term. We discussed in detail any transactions and measures requiring the approval of the Supervisory Board with the Board of Management.

All members of the Supervisory Board attended more than half of the meetings, with the exception of Ulrich Schröder, whose absences were due to health reasons. The overall attendance rate was around 92%; individual attendance figures can be found on page 97.

Six plenary Supervisory Board meetings and 22 committee meetings were held in the reporting period. The members of the Board of Management took part in the plenary meetings unless the Chairman of the Supervisory Board decided otherwise. The CEO and the members of the Board of Management responsible for their relevant divisions attended the committee meetings. Executives from the tier immediately below the Board of Management and/or representatives of the auditors were also invited to attend for individual agenda items.

Key topics addressed in Supervisory Board meetings

In the plenary meeting on 7 March 2017, we reviewed in depth and then approved, on the recommendation of the Finance and Audit Committee, the annual and consolidated financial statements and the management reports for financial year 2016; we concurred with the Board of Management's proposed resolution on the appropriation of the net retained profit. The auditors reported on the findings of their audit and were available to answer questions. We determined the performance-related remuneration to be paid to the members of the Board of Management for the financial year, based upon the target achievement figures that had been established, and also adopted the Report of the Supervisory Board, the Corporate Governance Report and the proposed resolutions for the Annual General Meeting. Additionally, we addressed the results of the efficiency review of our activities.

In the meeting on 23 June 2017, we appointed Thomas Ogilvie as the member of the Board of Management for Human Resources and Labour Director, as well as discussed the status of the IT Renewal Roadmap in the Global Forwarding business unit.

At the meeting on 26 September 2017, we resolved to adjust the remuneration system for the Board of Management. In the closed meeting that followed, we discussed the progress made in implementing our Strategy 2020 as well as future strategic challenges, particularly digitalisation, together with the Board of Management, with the support of invited outside presenters.

At the last meeting of the Supervisory Board in 2017, which was held on 12 December, we discussed the Express division's e-commerce and B2C strategy and the course of business in Europe. We also approved the 2018 business plan for the Group, set the Board of Management's performance targets for financial year 2018 and resolved to issue a further unqualified Declaration of Conformity.

The extraordinary meetings held on 23 August and 28 November 2017 addressed the sale of our shares in Williams Lea Tag.

Key topics addressed in committee meetings

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 in the plenary meetings 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 our corporate culture, and the annual employee opinion survey.

The Finance and Audit Committee met seven times. It examined the annual financial statements and the management reports for Deutsche Post AG and the Group in the presence of the auditors. It discussed the quarterly financial 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 GmbH 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 the reporting period and specified the key audit priorities. The statement of independence required from the auditors was available to the committee. The committee also addressed the non-audit services provided by the auditors, and the enterprise's accounting process and risk management system, as well as discussing 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 six times, primarily addressing the business units' strategic positioning in their respective market segments and the implementation of our Strategy 2020. The primary focus was on cybersecurity and on strategies and measures for digitally transforming the enterprise.

The Nomination Committee and the Mediation Committee did not meet in the reporting period.

Changes to the Supervisory Board and Board of Management

There were no changes to the shareholder representatives during the reporting period. With respect to the employee representatives, Ulrike Lennartz-Pipenbacher was appointed as a member of the Supervisory Board by the court following the departure of Helga Thiel, effective as of 1 July.

Tim Scharwath assumed responsibility for the Global Forwarding, Freight division with effect from 1 June. Thomas Ogilvie was appointed as the member of the Board of Management for Human Resources and Labour Director of Deutsche Post AG with effect from 1 September 2017.

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 was not informed of any conflicts of interest affecting individual members during the reporting period.

Compliance with all recommendations of the German Corporate Governance Code

In December 2017, the Board of Management and the Supervisory Board issued an unqualified Declaration of Conformity pursuant to section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act), which was also published on the company's website. The declarations from previous years are also available there. Deutsche Post AG also continued to comply with all recommendations of the Government Commission on the German Corporate Governance Code in the version dated 5 May 2015, which was published in the Federal Gazette on 12 June 2015, following submission of the Declaration of Conformity in December 2016. It also complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated 7 February 2017, which was published in the Federal Gazette on 24 April/19 May 2017, and aims to continue to do so in future. We have also implemented all the suggestions made by the Government Commission, with the exception 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 96ff.).

2017 annual and consolidated financial statements examined

The auditors elected by the AGM, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, audited the annual and consolidated financial statements for financial year 2017, 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, including the Board of Management's proposal on the appropriation of the net retained profit, and the management reports and (consolidated) non-financial report for financial year 2017 at its meeting on 6 March 2018. The financial statement documents, the auditors' audit reports and the Board of Management's proposal on the appropriation of the net retained profit were discussed in detail with the Board of Management and representatives of the auditors, who reported on the results of their audit and were 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 2017, 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. Similarly, no objections were raised with regard to the examination of the (consolidated) non-financial report. 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 €1.15 per share.

We would like to thank the members of the Board of Management and the employees of Deutsche Post AG and all Group companies for their hard work, which was instrumental to our success in financial year 2017.

Bonn, 6 March 2018
The Supervisory Board

Wulf von Schimmelmann
Chairman

SUPERVISORY BOARD

Members of the Supervisory Board

B.01

Shareholder representatives

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

Dr Nikolaus von Bomhard
Former Chair of the Board of Management, Münchener Rückversicherungs-Gesellschaft AG (Munich Re)
(since 27 April 2017)

Ingrid Deltenre
Former Director General of the European Broadcasting Union (since 4 September 2017)

Werner Gatzer
State Secretary, Federal Ministry of Finance (until 31 December 2017)

CEO of Deutsche Bahn Station & Service AG (since 1 January 2018)

Prof. Dr Henning Kagermann
Former CEO of SAP AG

Simone Menne
Member of the Board of Managing Directors, Boehringer Ingelheim GmbH (until 31 December 2017)

Roland Oetker
Managing Partner, ROI Verwaltungsgesellschaft mbH

Dr Ulrich Schröder (until 6 February 2018)
CEO of KfW Bankengruppe
(until 31 December 2017)

Dr Stefan Schulte
Chair of the Executive Board of Fraport AG

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

President/member of the Executive Board of Jacobs University Bremen gGmbH (until 14 January 2018)

SMS group GmbH, Electric & Automation and Digital Solutions (since 15 January 2018)

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

Ulrike Lennartz-Pipenbacher
(since 1 July 2017)
Deputy Chair of the Central Works Council, Deutsche Post AG

Andreas Schädler
Business Division Sales Post, Deutsche Post AG

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 (until 30 June 2017)
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

B.02

Executive Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Dr Nikolaus von Bomhard (since 1 December 2017)
Werner Gatzer
Roland Oetker (until 30 November 2017)
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 (until 30 June 2017)
Stefanie Weckesser (since 1 July 2017)

Strategy Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Prof. Dr Henning Kagermann
Thomas Koczelnik
Dr Ulrich Schröder (until 30 November 2017)
Roland Oetker (since 1 December 2017)

Nomination Committee

Prof. Dr Wulf von Schimmelmann (Chair)
Dr Nikolaus von Bomhard (since 1 December 2017)
Werner Gatzer
Roland Oetker (until 30 November 2017)

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

Mandates held by the Supervisory Board

B.03

Shareholder representatives

Membership of supervisory boards required by law

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

Maxingvest AG

Dr Nikolaus von Bomhard
ERGO Group AG[1] (Chair) (until 26 April 2017)

Munich Health Holding AG[1] (Chair) (until 26 April 2017)

Werner Gatzer
Flughafen Berlin Brandenburg GmbH

PD-Berater der öffentlichen Hand GmbH (Chair)

Prof. Dr Henning Kagermann
BMW AG (until 11 May 2017)

Deutsche Bank AG

Münchener Rückversicherungs-Gesellschaft AG (Munich Re)

KUKA AG (since 31 May 2017)

Simone Menne
BMW AG

Dr Ulrich Schröder (until 6 February 2018)
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) (until 9 February 2017)

Thomson Reuters Corp., Canada (Board of Directors)

Ingrid Deltenre
Givaudan SA, Switzerland (Board of Directors)

Banque Cantonale Vaudoise SA, Switzerland (Board of Directors)

Agence France Presse, France (Board of Directors) (since 28 September 2017)

Roland Oetker
Rheinisch-Bergische Verlagsgesellschaft mbH (Supervisory Board)

Dr Ulrich Schröder (until 6 February 2018)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (Supervisory Board) (until 31 December 2017)

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

Dr Stefan Schulte
Fraport Ausbau Süd GmbH (Supervisory Board, Chair)[2]

Fraport Regional Airports of Greece A S.A. (Board of Directors, Chair)[2]

Fraport Regional Airports of Greece B S.A. (Board of Directors, Chair)[2]

Fraport Regional Airports of Greece Management Company S.A. (Board of Directors, Chair)[2]

Fraport Brasil S.A. Aeroporto de Porto Alegre (Supervisory Board, Chair)[2] (since 4 December 2017)

Fraport Brasil S.A. Aeroporto de Fortaleza (Supervisory Board, Chair)[2] (since 4 December 2017)

Employee representatives

Membership of supervisory boards required by law

Jörg von Dosky
PSD Bank München eG

Andreas Schädler
PSD Bank Köln eG (Chair)

Stephan Teuscher
DHL Hub Leipzig GmbH (Deputy Chair)

Helga Thiel (until 30 June 2017)
PSD Bank Köln eG (Deputy Chair)

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

BOARD OF MANAGEMENT

Members of the Board of Management

B.04

Dr Frank Appel
Chief Executive Officer

Global Business Services (since 1 January 2017)

(Dr Frank Appel was also responsible for Global Forwarding, Freight until 30 June 2017.)

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

Ken Allen
Express

Born in 1955
Member since February 2009
Appointed until July 2020

Dr h.c. Jürgen Gerdes
Post - eCommerce - Parcel

Born in 1964
Member since July 2007
Appointed until June 2020

John Gilbert
Supply Chain

Born in 1963
Member since March 2014
Appointed until March 2022

Melanie Kreis
Finance

(Melanie Kreis was also responsible for Human Resources until 31 August 2017.)

Born in 1971
Member since October 2014
Appointed until June 2022

Dr Thomas Ogilvie
Human Resources

Born in 1976
Member since September 2017
Appointed until August 2020

Tim Scharwath
Global Forwarding, Freight

Born in 1965
Member since June 2017
Appointed until May 2020

Mandates held by the Board of Management

B.05

Membership of supervisory boards required by law	Membership of comparable bodies
–	**Ken Allen** DHL-Sinotrans International Air Courier Ltd, China (Board of Directors)[1]

[1] Group mandate.

CORPORATE GOVERNANCE REPORT

and Annual Corporate Governance Statement for Deutsche Post AG and Deutsche Post DHL Group

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

In December 2017, 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):

"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 and published in the Federal Gazette on 12 June 2015 have been complied with also after issuance of the Declaration of Conformity in December 2016 and that all recommendations of the Code in the version dated 7 February 2017 and published in the Federal Gazette on 24 April/19 May 2017 shall 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. This helps ensure frank and open discussion during the shareholders' debate.

The current Declaration of Conformity and those for the last five years can be viewed at @ dpdhl.com/en/investors.

Corporate governance principles

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 also based on the requirement that we comply with good corporate governance criteria.

Our @ Code of Conduct dpdhl.com/en is firmly established within the company and is applicable in all divisions and regions. 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 also defines what we mean by diversity within the Group. Diversity and mutual respect are core values that are preconditions for the economic strength of the entire Group. The key criteria for the recruitment and professional development of our employees are their skills and qualifications. Our Diversity Council discusses the strategic aspects of diversity management and divisional requirements. Its members comprise executives from the central functions and divisions and it is chaired by the Board member for Human Resources. Members also act as ambassadors for, and promote, diversity in the divisions. The members of the Board of Management and the Supervisory Board support the Group's diversity strategy, with a particular focus on the goal of increasing the number of women on the Board of Management. Further information on the contents of the Code of Conduct and on diversity management can be found in the @ Corporate Responsibility Report, dpdhl.com/cr-report2017.

The goal of the compliance management system (CMS) is to ensure observance of the statutory provisions and internal policies applicable to the Group. The compliance programme aims to prevent breaches of the rules from occurring in the first place, or to identify them at an early stage and to take appropriate action. The effectiveness of the CMS is reviewed on an on-going basis in order to adapt it if necessary to relevant developments and new legal requirements. An overview of the compliance organisation and the elements making up the compliance programme can be found in the @ Corporate Responsibility Report, dpdhl.com/cr-report2017.

Co-operation between the Board of Management and the Supervisory Board

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 Chief Financial Officer (CFO) and the Board member for Human Resources, plus the members responsible for the four operating divisions: Post - eCommerce - Parcel; Express; Global Forwarding, Freight; and Supply Chain. Group management functions are centralised in the Corporate Center. The Corporate Strategy, page 34, provides a framework for the whole Group. The Board of Management's rules of procedure set out the principles governing its internal organisation, management and representation, as well as co-operation between its individual members. 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 to individual members of the Board. 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. No member of the Board of Management is a member of more than three supervisory boards of non-Group listed companies or of other supervisory bodies with comparable requirements. The D&O insurance for the members of the Board of Management provides for a deductible as set out in the AktG.

The Supervisory Board appoints, advises and oversees the Board of Management. It has established rules of procedure for itself containing the principles for its internal organisation, a catalogue of Board of Management transactions requiring its approval and the rules governing the work of the Supervisory Board committees.

The Supervisory Board meets at least four times a year. Extraordinary Supervisory Board meetings are held whenever particular developments or measures need to be discussed or approved at short notice. In financial year 2017, the Supervisory Board held six plenary meetings, 22 committee meetings and one closed meeting, as described in the Report of the Supervisory Board, page 90 ff. At 92%, the attendance rate remained very high in the reporting period, as the following breakdown shows. Ulrich Schröder's absences were due to health reasons.

Attendance at plenary and committee meetings B.06

%

Supervisory Board member	Attendance
Prof. Dr Wulf von Schimmelmann (Chair)	100
Andrea Kocsis (Deputy Chair)	100
Rolf Bauermeister	100
Dr Nikolaus von Bomhard	100
Ingrid Deltenre	100
Jörg von Dosky	100
Werner Gatzer	89
Prof. Dr Henning Kagermann	83
Thomas Koczelnik	91
Anke Kufalt	100
Ulrike Lennartz-Pipenbacher (since 1 July 2017)	100
Simone Menne	85
Roland Oetker	100
Andreas Schädler	100
Sabine Schielmann	100
Dr Ulrich Schröder	0
Dr Stefan Schulte	100
Stephan Teuscher	100
Helga Thiel (until 30 June 2017)	100
Stefanie Weckesser	100
Prof. Dr-Ing. Katja Windt	100

The Report of the Supervisory Board, page 90 ff., can also be viewed at dpdhl.com/en/investors.

The Board of Management and the Supervisory Board regularly discuss the Group's strategy, the divisions' objectives and strategies, 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 business 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.

The Supervisory Board carries out an annual efficiency review of its work. In the current reporting period it again concluded that it had performed its monitoring and advisory duties efficiently and effectively. Suggestions made by individual members are also taken up and implemented during the year. Supervisory Board decisions are prepared and discussed in advance in separate meetings of the shareholder representatives and the employee representatives, and by the relevant committees. Each plenary Supervisory Board meeting includes a detailed report on the committees' work and the decisions taken. Supervisory Board members are personally responsible for ensuring they receive the training and professional development measures they need to perform their tasks (e.g. on changes to the legal framework and on issues relating to the future); the company supports them in this by arranging presentations by internal and external speakers, among other things.

No Supervisory Board members hold positions on the governing bodies of, or provide consultancy services to, the Group's main competitors.

All Supervisory Board members are independent within the meaning of the German Corporate Governance Code. The number of independent Supervisory Board members therefore exceeds the target we had set ourselves of at least 75% of the Supervisory Board as a whole. 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* (BetrVG – German Works Constitution Act) and the *Mitbestimmungsgesetz* (MitbestG – 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 the Supervisory Board's independence into question.

With the exception of Wulf von Schimmelmann, who was a member of the Board of Management until June 2007, there are no former members of the Board of Management on the Supervisory Board.

The terms of office of those members of the Supervisory Board who are elected individually by the Annual General Meeting comply, in all cases, with the age limit of 72 that has been set and with the requirement that, as a general rule, members should not serve more than three terms of office.

Executive committees and Supervisory Board committees

Three executive committees prepare the resolutions to be passed by the full Board of Management and take decisions on matters delegated to them. The duties of the executive committees include preparing and/or approving investments and transactions. The Deutsche Post Executive Committee is responsible for the Post - eCommerce - Parcel division; the DHL Executive Committee is in charge of the DHL divisions; the CC & GBS Executive Committee covers the Corporate Center and Global Business Services. 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 tiers immediately below the Board of Management attend executive committee meetings that cover topics relevant to their fields. The Deutsche Post Executive Committee and the DHL Executive Committee each meet once or twice a month, whilst the CC & GBS Executive Committee usually meets 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 listed on page 95.

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 procedures applicable in the committees are governed by the rules set out in the rules of procedure for the Supervisory Board, with the necessary modifications.

The Executive Committee does the preparatory work for appointing members of the Board of Management and drawing up their contracts of service, and prepares the resolution by the full Supervisory Board that determines their remuneration.

The Finance and Audit Committee oversees the company's accounts, its accounting process, the effectiveness of the internal control system, the risk management and internal auditing systems, and the audit of the financial statements, and in particular the selection of the auditors and their independence. It approves the engagement of the auditor to perform non-audit 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 an independent financial expert as defined in sections 100(5) and 107(4) of the AktG.

An agreement has been reached with the auditors that the Chairman of the Supervisory Board and the Chairman of the Finance and Audit Committee shall be informed without delay of any potential grounds for exclusion or for impairment of the auditors' independence that arise during the audit, to the extent that these are not immediately remedied. In addition, it has been agreed that the auditors shall inform the Supervisory Board without delay of all material findings and incidents occurring in the course of the audit. Furthermore, the auditors must inform the Supervisory Board if, while conducting the audit, they find any facts leading to the Declaration of Conformity issued by the Board of Management and Supervisory Board being incorrect.

The Personnel Committee discusses human resources principles for the Group.

The Mediation Committee carries out the duties assigned to it pursuant to the MitbestG: 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 the Supervisory Board's strategy discussions and regularly discusses the competitive position of the enterprise as a whole and of the individual divisions. It addition, it does preparatory work on corporate acquisitions and divestitures that require the Supervisory Board's approval.

Further information about the work of the Supervisory Board and its committees in financial year 2017 is contained in the Report of the Supervisory Board, page 90 ff. Details on the members of the Supervisory Board and the composition of the Supervisory Board committees can be found in the section on the Supervisory Board, page 93 f.

Targets for the Supervisory Board's composition and skills profile

The Supervisory Board has set itself the following targets for its composition; they also represent the skills profile it has set itself:

1. When proposing candidates to the Annual General Meeting for election as Supervisory Board members, the Supervisory Board shall act 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. The Supervisory Board should be in a position to collectively provide competent advice to the Board of Management on fundamental future issues; in its opinion this includes, in particular, the digital transformation.
4. The Supervisory Board should collectively have sufficient expertise in the areas of accounting or financial statement audits. This includes knowledge of international developments in the field of accounting. Additionally, the Supervisory Board believes that the independence of its members helps guarantee the integrity of the accounting process and ensure the independence of the auditors.
5. 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.

6 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 and this skills profile.

Diversity

Diversity is an important criterion for the Supervisory Board when it comes to appointing members of the Board of Management. With their varied qualifications, personalities, skills and experience, the members of the Board of Management play a significant role in the company's success. The CEO, the CFO and all other members of the Board of Management with operational responsibility have extensive international expertise and experience. Their different ages help ensure a range of opinions within this body. Long-term succession planning in all divisions aims to guarantee that there will be an adequate pipeline of qualified successors for appointments to the Board of Management in the future. Particular attention is given to ensuring that women can advance within the company; specially designed measures support them from the start of their careers, and candidates with potential are given opportunities for development.

The current target for the proportion of women on the Board of Management is 1:7. This target is met at present. The goal is to achieve a target of 2:8 by the end of the Annual General Meeting in 2021. The Board of Management has set target quotas for the proportion of women in the two executive tiers below the Board of Management of 20% for tier 1 and 30% for tier 2; these targets apply to the period between 1 January 2017 and 31 December 2019. The two executive tiers are defined on the basis of their reporting lines: tier 1 comprises executives assigned to the N-1 reporting line, whilst tier 2 consists of executives from the N-2 reporting line.

The list of goals mentioned above, which the Supervisory Board expanded most recently in December 2017, provides an overview of the key diversity issues for the Supervisory Board that it takes into account when considering its own composition. With eight women (40%), the Supervisory Board exceeds the statutory gender quota of 30%.

Shareholders and General Meeting

Shareholders exercise their rights, and in particular their right to receive information and to vote, at the General Meeting. Each share in the company entitles the holder to one vote. The agenda for the General Meeting, the resolutions proposed by the Board of Management and Supervisory Board to the General Meeting, and additional documents and information about the General Meeting will be made available at dpdhl.com/en/investors at the latest when the General Meeting is convened. We assist our shareholders in exercising their voting rights not only by making it possible to submit postal votes but also by appointing company proxies, who cast their votes solely as instructed to do so by the shareholders and who can also be reached during the General Meeting. Additionally, shareholders can authorise company proxies, submit postal votes and grant proxies to banks and shareholder associations attending the General Meeting via the company's online service.

The Board of Management and the Supervisory Board intend to make use of the option permitted under the AktG at the 2018 Annual General Meeting to allow the General Meeting to resolve on the approval of the remuneration system for members of the Board of Management.

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 40 ff.

C

CONSOLIDATED FINANCIAL STATEMENTS 101 — 176

INCOME STATEMENT

1 January to 31 December

C.01

€m

	Note	2016	2017
Revenue	11	57,334	60,444
Other operating income	12	2,156	2,139
Total operating income		59,490	62,583
Materials expense	13	−30,620	−32,775
Staff costs	14	−19,592	−20,072
Depreciation, amortisation and impairment losses	15	−1,377	−1,471
Other operating expenses	16	−4,414	−4,526
Total operating expenses		−56,003	−58,844
Net income from investments accounted for using the equity method		4	2
Profit from operating activities (EBIT)		**3,491**	**3,741**
Financial income		90	89
Finance costs		−384	−482
Foreign currency losses		−65	−18
Net finance costs	17	**−359**	**−411**
Profit before income taxes		**3,132**	**3,330**
Income taxes	18	−351	−477
Consolidated net profit for the period		**2,781**	**2,853**
attributable to Deutsche Post AG shareholders		2,639	2,713
attributable to non-controlling interests		142	140
Basic earnings per share (€)	19	**2.19**	**2.24**
Diluted earnings per share (€)	19	**2.10**	**2.15**

STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

C.02

€m

	Note	2016	2017
Consolidated net profit for the period		**2,781**	**2,853**
Items that will not be reclassified to profit or loss			
Change due to remeasurements of net pension provisions	38	−876	378
Other changes in retained earnings		0	0
Income taxes relating to components of other comprehensive income	18	8	−28
Share of other comprehensive income of investments accounted for using the equity method, net of tax		0	0
Total, net of tax		**−868**	**350**
Items that may be reclassified subsequently to profit or loss			
IAS 39 revaluation reserve			
Changes from unrealised gains and losses		−6	1
Changes from realised gains and losses		−63	−1
IAS 39 hedging reserve			
Changes from unrealised gains and losses		46	37
Changes from realised gains and losses		17	−14
Currency translation reserve			
Changes from unrealised gains and losses		−291	−736
Changes from realised gains and losses		0	−7
Income taxes relating to components of other comprehensive income	18	−6	−8
Share of other comprehensive income of investments accounted for using the equity method, net of tax		3	−8
Total, net of tax		**−300**	**−736**
Other comprehensive income, net of tax		**−1,168**	**−386**
Total comprehensive income		**1,613**	**2,467**
attributable to Deutsche Post AG shareholders		1,478	2,344
attributable to non-controlling interests		135	123

BALANCE SHEET

C.03

€m	Note	31 Dec. 2016	31 Dec. 2017
ASSETS			
Intangible assets	21	12,554	11,792
Property, plant and equipment	22	8,389	8,782
Investment property	23	23	21
Investments accounted for using the equity method	24	97	85
Non-current financial assets	25	689	733
Other non-current assets	26	222	231
Deferred tax assets	27	2,192	2,272
Non-current assets		**24,166**	**23,916**
Inventories	28	275	327
Current financial assets	25	374	652
Trade receivables	29	7,965	8,218
Other current assets	26	2,176	2,184
Income tax assets		232	236
Cash and cash equivalents	30	3,107	3,135
Assets held for sale	31	0	4
Current assets		**14,129**	**14,756**
Total ASSETS		**38,295**	**38,672**
EQUITY AND LIABILITIES			
Issued capital	32	1,211	1,224
Capital reserves	33	2,932	3,327
Other reserves	34	−284	−998
Retained earnings	35	7,228	9,084
Equity attributable to Deutsche Post AG shareholders	36	11,087	12,637
Non-controlling interests	37	263	266
Equity		**11,350**	**12,903**
Provisions for pensions and similar obligations	38	5,580	4,450
Deferred tax liabilities	27	106	76
Other non-current provisions	39	1,498	1,421
Non-current provisions		7,184	5,947
Non-current financial liabilities	40	4,571	5,151
Other non-current liabilities	41	372	272
Non-current liabilities		4,943	5,423
Non-current provisions and liabilities		**12,127**	**11,370**
Current provisions	39	1,323	1,131
Current financial liabilities	40	1,464	899
Trade payables		7,178	7,343
Other current liabilities	41	4,292	4,402
Income tax liabilities		561	624
Liabilities associated with assets held for sale	31	0	0
Current liabilities		13,495	13,268
Current provisions and liabilities		**14,818**	**14,399**
Total EQUITY AND LIABILITIES		**38,295**	**38,672**

CASH FLOW STATEMENT

1 January to 31 December C.04

€m

	Note	2016	2017
Consolidated net profit for the period attributable to Deutsche Post AG shareholders		2,639	2,713
Consolidated net profit for the period attributable to non-controlling interests		142	140
Income taxes		351	477
Net finance costs		359	411
Profit from operating activities (EBIT)		**3,491**	**3,741**
Depreciation, amortisation and impairment losses		1,377	1,471
Net income from disposal of non-current assets		−113	−82
Non-cash income and expense		−40	−40
Change in provisions		−1,799	−940
Change in other non-current assets and liabilities		120	−109
Dividend received		6	3
Income taxes paid		−528	−626
Net cash from operating activities before changes in working capital		**2,514**	**3,418**
Changes in working capital			
Inventories		3	−75
Receivables and other current assets		−377	−1,032
Liabilities and other items		299	986
Net cash from operating activities	42	**2,439**	**3,297**
Subsidiaries and other business units		35	316
Property, plant and equipment and intangible assets		265	236
Investments accounted for using the equity method and other investments		82	3
Other non-current financial assets		456	21
Proceeds from disposal of non-current assets		838	576
Subsidiaries and other business units		−304	−54
Property, plant and equipment and intangible assets		−1,966	−2,203
Investments accounted for using the equity method and other investments		−19	−55
Other non-current financial assets		−33	−122
Cash paid to acquire non-current assets		−2,322	−2,434
Interest received		50	52
Current financial assets		−209	−285
Net cash used in investing activities	42	**−1,643**	**−2,091**
Proceeds from issuance of non-current financial liabilities		1,263	1,464
Repayments of non-current financial liabilities		−95	−821
Change in current financial liabilities		−58	11
Other financing activities		−205	−51
Proceeds from transactions with non-controlling interests		0	0
Cash paid for transactions with non-controlling interests		−9	−45
Dividend paid to Deutsche Post AG shareholders		−1,027	−1,270
Dividend paid to non-controlling interest holders		−128	−120
Purchase of treasury shares		−836	−148
Proceeds from issuing shares or other equity instruments		0	53
Interest paid		−138	−160
Net cash used in financing activities	42	**−1,233**	**−1,087**
Net change in cash and cash equivalents		**−437**	**119**
Effect of changes in exchange rates on cash and cash equivalents		−66	−91
Changes in cash and cash equivalents associated with assets held for sale		1	0
Changes in cash and cash equivalents due to changes in consolidated group		1	0
Cash and cash equivalents at beginning of reporting period		3,608	3,107
Cash and cash equivalents at end of reporting period	30	**3,107**	**3,135**

STATEMENT OF CHANGES IN EQUITY

1 January to 31 December

C.05

€m			Other reserves						
	Issued capital	Capital reserves	IAS 39 revaluation reserve	IAS 39 hedging reserve	Currency translation reserve	Retained earnings	Equity attributable to Deutsche Post AG shareholders	Non-controlling interests	Total equity
Note	32	33	34	34	34	35	36	37	
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/retirement of treasury shares	0	0				0	0	0	0
Purchase of treasury shares	–31	0				–1,000	–1,031	0	–1,031
Convertible bonds	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**
Balance at 1 January 2017	1,211	2,932	11	3	–298	7,228	11,087	263	11,350
Capital transactions with owner									
Dividend						–1,270	–1,270	–120	–1,390
Transactions with non-controlling interests			0	0	0	–8	–8	–3	–11
Changes in non-controlling interests due to changes in consolidated group							0	3	3
Issue/retirement of treasury shares	0	80				–27	53	0	53
Purchase of treasury shares	–4	0				51	47	0	47
Differences between purchase and issue prices of treasury shares (share-based payment schemes)	0	5				–5	0	0	0
Convertible bonds	15	277				0	292	0	292
Share-based payment schemes (issuance)	0	92				0	92	0	92
Share-based payment schemes (exercise)	2	–59				57	0	0	0
							–794	**–120**	**–914**
Total comprehensive income									
Consolidated net profit for the period						2,713	2,713	140	2,853
Currency translation differences					–729	0	–729	–22	–751
Change due to remeasurements of net pension provisions						345	345	5	350
Other changes	0	0	–1	16		0	15	0	15
							2,344	**123**	**2,467**
Balance at 31 December 2017	**1,224**	**3,327**	**10**	**19**	**–1,027**	**9,084**	**12,637**	**266**	**12,903**

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 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 and the explanations and disclosures in the notes to the IFRS consolidated financial statements for financial year 2017 are fundamentally based on the same accounting policies used in the 2016 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 2017. 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 19 February 2018.

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

	2016	2017
Number of fully consolidated companies (subsidiaries)		
German	132	129
Foreign	655	600
Number of joint operations		
German	1	1
Foreign	1	0
Number of investments accounted for using the equity method		
German	0	0
Foreign	12	14

The reduction in the number of fully consolidated companies is mainly attributable to the sale of Williams Lea Tag Group in the fourth quarter of 2017. In the first quarter of 2017, 22.56% of the shares of Israel-based Global-E Online Ltd. were acquired. The company is accounted for in the consolidated financial statements using the equity method.

2.1 Acquisitions in 2017

The following company was acquired in financial year 2017:

Acquisitions in 2017

Name	Country	Segment	Share of capital %	Acquisition date
Olimpo Holding S.A. (including subsidiaries)	Brazil	Supply Chain	80	10 July 2017

In early 2017, Deutsche Post DHL Group acquired an 80% interest in Brazil-based Olimpo Holding S.A. (Olimpo), including its subsidiaries Polar Transportes Ltda. and Rio Lopes Transportes Ltda. These companies provide transport services in the Life Sciences & Healthcare sector, specialising in temperature-controlled transport. The acquisition enables DHL Supply Chain to extend its range of end-to-end services and transparent supply chains. The remaining 20% interest will be acquired in increments of 10% over the next two years. The purchase price for the 80% interest totals €46 million, €45 million of which was paid in July. The purchase price was paid by transferring cash funds. The future results of the company will determine the purchase price for the remaining shares and payment will be made in several tranches.

Olimpo (including subsidiaries)

€m 10 July 2017	Carrying amount	Adjustment	Fair value
ASSETS			
Non-current assets	7	13	**20**
Customer relationship	–	8	**8**
Brand name	–	1	**1**
Property, plant and equipment	7	3	**10**
Deferred taxes	–	1	**1**
Current assets	5	–	**5**
Cash and cash equivalents	0	–	**0**
Total ASSETS	**12**	**13**	**25**
EQUITY AND LIABILITIES			
Non-current provisions and liabilities	2	5	**7**
Deferred taxes	1	4	**5**
Provisions	1	1	**2**
Current provisions and liabilities	4	–	**4**
Total EQUITY AND LIABILITIES	**6**	**5**	**11**
Net assets			**14**
Purchase price			**46**
Difference			**32**
Non-controlling interests			**3**
Goodwill			**35**

The final purchase price allocation resulted in tax-deductible goodwill of €35 million attributable to the controlling interest. It is mainly attributable to the synergy and network effects expected to be generated in the company's Brazilian transport business. The customer relationships of Rio Lopes and Polar are amortised over a period of 9.5 and 10.5 years, respectively, using the straight-line method. The brand names of Rio Lopes and Polar have a useful life of five (Rio Lopes) and ten years (Polar). Current assets include trade receivables of €4 million. There were no differences between the gross amounts and the carrying amounts.

Since their consolidation, the companies have contributed €10 million to consolidated revenue and €2 million to consolidated EBIT. If the companies had already been consolidated as at 1 January 2017, they would have provided an additional €11 million in consolidated revenue and an additional €2 million in consolidated EBIT.

Transaction costs were below €1 million and are reported in other operating expenses.

Preliminary purchase price allocation for UK Mail Group plc and UK Mail Limited, United Kingdom, which were acquired in December 2016, was disclosed in the consolidated financial statements for the year ended 31 December 2016. At that time, all of the information necessary for final purchase price allocation was not yet available. This resulted in preliminary goodwill of €201 million. The final purchase price allocation was completed in the first quarter of 2017 and did not result in any adjustment of the preliminary purchase price allocation disclosed initially.

A variable purchase price was additionally agreed for an acquisition in prior years:

Contingent consideration

Company	Basis	Period for financial years from/to	Results range from/to	Fair value of total obligation at the acquisition date	Remaining payment obligation at 31 Dec. 2016	Remaining payment obligation at 31 Dec. 2017
Mitsafetrans s.r.l.	EBITDA	2016 to 2018	€0 to 19 million	€15 million	€15 million	€10 million

In financial year 2017, €45 million was paid for companies acquired in the financial year and €9 million for companies acquired in previous years. The purchase price for the companies acquired was paid by transferring cash funds.

2.2 Disposal and deconsolidation effects in 2017

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

Williams Lea Tag Group – SUPPLY CHAIN segment

In November 2017, Deutsche Post DHL Group completed the sale of Williams Lea Tag Group to Advent International after approval was issued by the relevant competition authorities. Williams Lea Tag specialises in marketing and communication solutions. The assets and liabilities of the companies in question had previously been reclassified as assets held for sale and liabilities associated with assets held for sale. The most recent measurement of the assets and the disposal group did not indicate any impairment.

Disposal and deconsolidation effects

€m 1 January to 31 December 2017	Williams Lea Tag Group
ASSETS	
Non-current assets	311
of which goodwill	72
Current assets	252
Cash and cash equivalents	62
Total ASSETS	**625**
EQUITY AND LIABILITIES	
Non-current provisions and liabilities	36
Current provisions and liabilities	310
Total EQUITY AND LIABILITIES	**346**
Net assets	**279**
Total consideration received	275
Initial recognition of minority interest	–6
Gains from the currency translation reserve	21
Losses from the currency translation reserve Goodwill	–15
Deconsolidation effect	**–4**
Gains from currency hedge of purchase price	8
Total effect	**4**

Deutsche Post DHL Group additionally acquired 16.9% of the ownership structure newly established by the buyer (WERTHEIMER PARENTCO UK LIMITED) and extended it a loan.

2.3 Joint operations

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

Aerologic GmbH (Aerologic), Germany, a cargo airline domiciled in Leipzig, is the only joint operation in this regard. 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 serves the DHL Express network from Monday to Friday, whilst it mostly 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 sale of Williams Lea Tag Group, the significant transactions in financial year 2017 were as follows:

By way of a resolution of the Board of Management dated 21 March 2017, a capital reduction was implemented in the first quarter of 2017 through retirement of 27.3 million treasury shares, note 32.

Various holders of the convertible bond issued on 6 December 2012 exercised their conversion right in financial year 2017, notes 32 and 40.

In December 2017, Deutsche Post DHL Group placed two bonds in the aggregate principal amount of €1.5 billion with German and international investors. One was a convertible bond in the aggregate principal amount of €1 billion that will mature in 7.5 years; the other was a traditional bond with a volume of €500 million that will mature in 10 years, note 40. The proceeds were used to refinance existing financial liabilities and increase the funding of the Group's pension obligations in the United Kingdom. For the effects on pension provisions, reference is made to note 38.

4 Adjustment of prior-period amounts

No prior-period amounts were adjusted in financial year 2017, except for the reallocations in segment reporting, note 10.

5 New developments in international accounting under IFRSS

New Standards required to be applied in financial year 2017

The following Standards, changes to Standards and Interpretations must be applied from 1 January 2017:

Standard	Subject matter and significance
Amendments to IAS 12, Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses	This amendment clarifies that (1) unrealised losses on debt instruments measured at fair value result in deductible temporary differences and (2) an assessment must be made in the aggregate for 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. Requirements and examples explain how future taxable income is to be determined for the accounting for deferred tax assets. The amendment will have no material effect on the consolidated financial statements.
Amendments to IAS 7, Statement of Cash Flows – Disclosure Initiative	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 were incorporated into the consolidated financial statements, note 42.
Annual Improvements to IFRSS (2014–2016 Cycle)	The improvements relate to IFRS 12. The amendment will not have a material influence on the consolidated financial statements.

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) and the Clarifications to IFRS 15 (12 April 2016)	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. Revenue will be recognised when the customer obtains control of the goods or services provided. The Group will introduce IFRS 15 based on the modified retrospective method. As a result, the effects of the transition as at 1 January 2018 will be recognised cumulatively in retained earnings. The prior-year figures will not be adjusted. The analysis conducted during the Group-wide project to introduce IFRS 15 did not result in any material effects on the consolidated financial statements. 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, or because variable remuneration components will be recognised sooner. The one-off adjustment effects are in the low double-digit millions. In addition, the change in classification of a company as a principal (gross revenue) or agent (net revenue) will reduce revenue, and conversely mainly materials expense, by an amount of around €0.2 billion from 1 January 2018 onward. 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.
IFRS 9, Financial Instruments (24 July 2014)	1 January 2018	IFRS 9 introduces new requirements governing the recognition and measurement of financial instruments and impairment losses on financial assets. The standard also includes new guidelines on hedge accounting. It thus replaces the previously applicable IAS 39. The effects of initial application as at 1 January 2018 are recognised cumulatively in retained earnings; the prior-period figures will not be adjusted as provided for in the transitional provisions of IFRS 9. According to the review conducted during the Group-wide project to introduce the new rules, it currently appears that there will be no material effect on the financial statements. In future, financial assets must be classified on the basis of the business model in which they are held and their cash flow characteristics. Equity instruments currently reported as available-for-sale financial assets may be recognised at fair value through other comprehensive income. The reclassification of financial assets will only have a minimal effect on the consolidated financial statements and will be presented in a reconciliation. The change in recognition of the impairment of 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 result in the earlier recognition of expected losses in the statement of profit or loss. 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. The one-off effect of the change in accounting for the impairment of financial assets, which is to be recognised in other comprehensive income, will be in the low double-digit millions. The requirements concerning financial liabilities remain mostly unchanged. The Group will exercise the option under IFRS 9 of continuing to apply the requirements of IAS 39 governing hedge accounting.

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
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 amendments will have no effect on the Group.
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. The Group will apply the Standard early as at 1 January 2018. The Group will transition to IFRS 16 in accordance with the modified retrospective approach; the prior-year figures will not be adjusted. The analysis conducted as part of the Group-wide project on initial application indicated that IFRS 16 will have a material effect on components of the consolidated financial statements and the presentation of the net assets, financial position and results of operations of Deutsche Post DHL Group: Balance sheet: 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. The Group will make use of the relief options provided for leases of low-value 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. For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognised at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the time the standard is first applied. The right-of-use asset will generally be measured at the amount of the lease liability plus initial direct costs. Advance payments and liabilities from the previous financial year will also be accounted for. The analysis conducted as part of the Group-wide project on initial application indicated the probable recognition of lease liabilities in the balance sheet totalling around €9.2 billion (1 January 2018) as a result of the transition. Retained earnings will decline only slightly on initial application. As a result of this increase in total assets and liabilities, the Group's equity ratio will decline by around six percentage points. Net debt will rise accordingly due to the material increase in lease liabilities. 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. IFRS 16 also provides new guidance on the treatment of sale-and-leaseback transactions. The seller/lessee recognises a right-of-use asset in the amount of the proportional original carrying amount that relates to the right of use retained. Accordingly, only the proportional amount of gain or loss from the sale must be recognised. These changes will improve the profit from operating activities (EBIT). Based on the Group's leases as at 1 January 2018 (including the change in the recognition of sale-and-leaseback transactions), consolidated EBIT is expected to increase by around €150 million in 2018. Cash flow statement: The change in presentation of operating lease expenses will result in a corresponding improvement in cash flows from operating activities and a decline in cash flows from financing activities.
Annual Improvements to IFRSs (2014–2016 Cycle) (8 December 2016)	1 January 2018	The improvements relate to IFRS 1 and IAS 28. The amendments will have no effect on the consolidated financial statements.

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 2017 and in previous years whose application is not yet mandatory for financial year 2017. 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
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.
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. Early application is permitted. The interpretation will have no effect on the consolidated financial statements.
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.
IFRS 17, Insurance Contracts (18 May 2017)	1 January 2021	IFRS 17 outlines the principles governing the recognition, measurement, presentation and disclosure of insurance contracts. The objective of the Standard is to ensure that the reporting entity provides relevant information that faithfully represents those insurance contracts. This information gives users of financial statements better insights into the effects that insurance contracts have on an entity's net assets, financial position, results of operations and cash flows. The effects on the Group are currently being assessed.
IFRIC 23, Uncertainty over Income Tax Treatments (7 June 2017)	1 January 2019	IFRIC 23 clarifies the requirements for measuring and recognising uncertain income tax items. The Interpretation must be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. Voluntary early application is permitted. The Group is currently evaluating the possible effects on its financial statements.
Amendments to IFRS 9, Financial Instruments: Prepayment Features with Negative Compensation (12 October 2017)	1 January 2019	The amendment clarifies how certain financial instruments with prepayment features are classified according to IFRS 9.
Amendments to IAS 28, Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (12 October 2017)	1 January 2019	The amendments to IAS 28 clarify that IFRS 9 must be applied to long-term interests that, in substance, form part of the net investment in an associate or joint venture to which the equity method is applied.
Annual Improvements to IFRSs (2015–2017 Cycle) (12 December 2017)	1 January 2019	The improvements relate to IFRS 3, Business Combinations, and IFRS 11, Joint Arrangements, as well as IAS 12, Income Taxes, and IAS 23, Borrowing Costs.

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 2017, currency translation differences amounting to €–751 million (previous year: €–288 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	2016 EUR 1 =	2017 EUR 1 =	2016 EUR 1 =	2017 EUR 1 =
AUD	Australia	1.4602	1.5352	1.4849	1.4791
CNY	China	7.3534	7.8161	7.3493	7.6501
GBP	United Kingdom	0.8560	0.8880	0.8229	0.8763
HKD	Hong Kong	8.1809	9.3752	8.5646	8.8649
INR	India	71.6633	76.6308	74.2234	73.7957
JPY	Japan	123.4555	135.0382	120.4342	127.3132
SEK	Sweden	9.5601	9.8332	9.4723	9.6447
USD	USA	1.0550	1.1997	1.1035	1.1372

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 reporting 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 reporting date. Currency translation differences are recognised in other operating income and expenses in the income statement. In financial year 2017, income of €174 million (previous year: €222 million) and expenses of €181 million (previous year: €222 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 special factors such as time and location.

The useful life of customer relationships from past acquisitions in the Supply Chain segment was reduced to zero, resulting in a one-time increase of €32 million in amortisation for financial year 2017. This adjustment to the useful life was made prospectively to change an accounting-related estimate. Prior-period figures were not adjusted retroactively.

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. Intangible assets 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 special 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting 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 43.3.

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. Changes in the value of the stock appreciation rights (SARS) due to share price movements occurring after the date the SARS were granted are no longer included in staff costs starting on 1 January 2017. They are instead recognised as other finance costs in net finance costs. No adjustment was made to the prior-period amounts, because the effects were not material for the consolidated financial statements.

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 in these disclosures as retirement benefits, pensions and similar benefits, or pensions. 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 for civil servant employees in Germany to retirement plans 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 retirement benefits and assistance benefits through the *Postbeamtenversorgungskasse* (PVK – Postal civil servant pension fund) at the *Bundesanstalt für Post und Telekommunikation* (BAnst PT – 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, with the involvement of the pension fund. 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 2018 are €42 million (actual employer contributions in the reporting period: €41 million, in the previous year: €36 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 respective 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 2018 are €21 million (actual employer contributions in the reporting period: €21 million, in the previous year: €21 million). As at 31 December 2017, the coverage degree of plan funding was higher than a required minimum of approximately 105%, 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 reporting 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 9.50% (previous year: 0.0% and 11.00%). 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 reporting 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 BONDS ON DEUTSCHE POST AG SHARES

The convertible bonds on Deutsche Post AG shares are 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 bonds 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. Most of the trade payables have a maturity of less than one year. 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 reporting 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 40% (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. All income tax assets and liabilities are current and have maturities of less than one year.

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 44.

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 38.

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 46. 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 reporting 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 2018 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 2017.

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[1]		Express[1]		Global Forwarding, Freight		Supply Chain		Corporate Center/ Other		Consolidation[1,2]		Group	
1 Jan. to 31 Dec.	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
External revenue	16,926	18,016	13,430	14,693	13,027	13,689	13,828	13,958	123	88	0	0	**57,334**	**60,444**
Internal revenue	152	152	318	356	710	793	129	194	1,156	1,159	−2,465	−2,654	**0**	**0**
Total revenue	17,078	18,168	13,748	15,049	13,737	14,482	13,957	14,152	1,279	1,247	−2,465	−2,654	**57,334**	**60,444**
Profit/loss from operating activities (EBIT)	1,446	1,502	1,544	1,736	287	297	572	555	−359	−349	1	0	**3,491**	**3,741**
of which net income/loss from investments accounted for using the equity method	1	1	1	−1	0	0	2	2	0	0	0	0	**4**	**2**
Segment assets	6,418	6,748	9,786	10,203	7,798	7,664	6,253	5,564	1,557	1,554	−79	−72	**31,733**	**31,661**
of which investments accounted for using the equity method	20	27	48	33	25	22	3	3	0	0	1	0	**97**	**85**
Segment liabilities	3,087	3,066	3,528	3,604	2,930	3,046	3,290	3,037	1,486	1,524	−59	−57	**14,262**	**14,220**
Net segment assets/liabilities	3,331	3,682	6,258	6,599	4,868	4,618	2,963	2,527	71	30	−20	−15	**17,471**	**17,441**
Capex	592	666	900	1,049	55	70	328	277	199	214	0	1	**2,074**	**2,277**
Depreciation and amortisation	336	356	438	507	79	68	291	311	201	200	1	1	**1,346**	**1,443**
Impairment losses	1	0	27	18	0	2	3	8	0	0	0	0	**31**	**28**
Total depreciation, amortisation and impairment losses	337	356	465	525	79	70	294	319	201	200	1	1	**1,377**	**1,471**
Other non-cash income and expenses	428	319	307	304	93	54	240	178	102	70	0	0	**1,170**	**925**
Employees	172,717	179,600	81,615	86,313	43,060	42,646	145,788	149,042	10,811	11,123	−1	0	**453,990**	**468,724**

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

Adjustment of prior-period amounts

Adjustments to prior-period amounts resulted from assigning companies to different segments. DHL Parcel Iberia S.L. (Spain), Danzas S.L. (Spain) and DHL Parcel Portugal (Portugal), which were formerly part of the Express segment, were reassigned to the Post - eCommerce - Parcel segment effective 1 January 2017.

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.	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
External revenue	17,910	18,405	17,006	18,139	10,171	10,768	10,003	10,766	2,244	2,366	**57,334**	**60,444**
Non-current assets	5,498	5,610	7,328	7,328	4,279	4,076	3,562	3,303	377	356	**21,044**	**20,673**
Capex	940	964	512	614	422	487	165	165	35	47	**2,074**	**2,277**

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 and income relate primarily to expenses from the recognition of provisions.

The profitability of the Group's operating divisions is measured as profit 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 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[1]		Corporate Center/Other		Reconciliation to Group/ Consolidation[1,2]		Consolidated amount	
	2016	2017	2016	2017	2016	2017	2016	2017
External revenue	57,211	60,356	123	88	0	0	**57,334**	**60,444**
Internal revenue	1,309	1,495	1,156	1,159	−2,465	−2,654	**0**	**0**
Total revenue	**58,520**	**61,851**	**1,279**	**1,247**	**−2,465**	**−2,654**	**57,334**	**60,444**
Other operating income	2,098	1,899	1,454	1,554	−1,396	−1,314	**2,156**	**2,139**
Materials expense	−32,047	−34,290	−1,330	−1,390	2,757	2,905	**−30,620**	**−32,775**
Staff costs	−18,690	−19,171	−917	−915	15	14	**−19,592**	**−20,072**
Depreciation, amortisation and impairment losses	−1,175	−1,270	−201	−200	−1	−1	**−1,377**	**−1,471**
Other operating expenses	−4,861	−4,931	−644	−645	1,091	1,050	**−4,414**	**−4,526**
Net income from investments accounted for using the equity method	4	2	0	0	0	0	**4**	**2**
Profit/loss from operating activities (EBIT)	**3,849**	**4,090**	**−359**	**−349**	**1**	**0**	**3,491**	**3,741**
Net finance costs							**−359**	**−411**
Profit before income taxes							**3,132**	**3,330**
Income taxes							**−351**	**−477**
Consolidated net profit for the period							**2,781**	**2,853**
of which attributable to								
Deutsche Post AG shareholders							**2,639**	**2,713**
non-controlling interests							**142**	**140**

[1] Prior-period amounts adjusted.
[2] 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	2016	2017
Total assets	38,295	38,672
Investment property	−23	−21
Non-current financial assets	−488	−543
Other non-current assets	−143	−153
Deferred tax assets	−2,192	−2,272
Income tax assets	−232	−236
Receivables and other current assets	−16	−14
Current financial assets	−361	−637
Cash and cash equivalents	−3,107	−3,135
Segment assets	**31,733**	**31,661**
of which Corporate Center/Other	1,557	1,554
total for reportable segments	30,255	30,179
consolidation[1]	−79	−72

[1] Including rounding.

Reconciliation to segment liabilities

€m	2016	2017
Total equity and liabilities	38,295	38,672
Equity	−11,350	−12,903
Consolidated liabilities	**26,945**	**25,769**
Non-current provisions	−5,990	−4,836
Non-current liabilities	−4,622	−5,177
Current provisions	−98	−75
Current liabilities	−1,973	−1,461
Segment liabilities	**14,262**	**14,220**
of which Corporate Center/Other	1,486	1,524
total for reportable segments[1]	12,835	12,753
consolidation[1,2]	−59	−57

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

INCOME STATEMENT DISCLOSURES

11 Revenue

Revenue increased by €3,110 million (5.4 %) from €57,334 million to €60,444 million. The change in revenue was due to the following factors:

Factors affecting revenue increase, 2017

€m	
Organic growth	3,901
Portfolio changes[1]	479
Currency translation effects	−1,270
Total	**3,110**

[1] Note 2.

As in the prior period, there was no revenue in financial year 2017 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	2016	2017
Income from work performed and capitalised	132	233
Income from the reversal of provisions	231	214
Insurance income	202	208
Income from the disposal of assets	205	193
Income from currency translation differences	222	174
Income from fees and reimbursements	136	134
Commission income	122	126
Income from the remeasurement of liabilities	122	120
Rental and lease income	99	98
Reversals of impairment losses on receivables and other assets	120	94
Income from derivatives	68	80
Income from prior-period billings	31	60
Income from loss compensation	44	23
Income from the derecognition of liabilities	26	19
Subsidies	11	15
Recoveries on receivables previously written off	13	11
Miscellaneous	372	337
Other operating income	**2,156**	**2,139**

The increase in income from work performed and capitalised is largely attributable to the expanded production of electric vehicles by StreetScooter GmbH for Group companies.

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	2016	2017
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Aircraft fuel	885	1,102
Fuel	708	740
Good purchased and held for resale	350	435
Packaging material	419	427
Spare parts and repair materials	110	117
Office supplies	65	66
Other expenses	186	252
	2,723	**3,139**
Cost of purchased services		
Transport costs	18,752	20,381
Cost of temporary staff and services	2,490	2,556
Expenses from non-cancellable leases	2,143	2,226
Maintenance costs	1,158	1,207
IT services	538	579
Commissions paid	570	574
Expenses from cancellable leases	492	487
Other lease expenses (incidental expenses)	384	347
Other purchased services	1,370	1,279
	27,897	**29,636**
Materials expense	**30,620**	**32,775**

The increase in transport costs is due to factors such as higher crude oil prices and the recognition in full of UK Mail Group, which was acquired in the previous year.

Other expenses include a large number of individual items.

14 Staff costs/employees

€m	2016	2017
Wages, salaries and compensation	16,092	16,192
Social security contributions	2,324	2,419
Retirement benefit expenses	607	891
Expenses for other employee benefits	569	570
Staff costs	**19,592**	**20,072**

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 financial year.

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. These expenses also include contributions to defined contribution retirement plans for civil servant employees in Germany in the amount of €461 million (previous year: €493 million), as well as for the Group's hourly workers and salaried employees, totalling €300 million (previous year: €305 million), note 7. For the changes in retirement benefit expenses, see note 38 in particular.

The average number of Group employees in the reporting period, broken down by employee group, was as follows:

Employees

Headcount	2016	2017
Headcount (annual average)		
Hourly workers and salaried employees	459,990	477,251
Civil servants	32,976	30,468
Trainees	5,493	5,619
Total	**498,459**	**513,338**
Full-time equivalents		
As at 31 December[1]	459,262	472,208
Average for the year[2]	453,990	468,724

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

The employees of companies acquired or disposed of during the financial year were included rateably. The number of full-time equivalents at joint operations included in the consolidated financial statements as at 31 December 2017 amounted to 254 on a proportionate basis (previous year: 217).

15 Depreciation, amortisation and impairment losses

€m	2016	2017
Amortisation of and impairment losses on intangible assets, excluding impairment of goodwill	247	287
Depreciation of and impairment losses on property, plant and equipment		
Land and buildings (including leasehold improvements)	176	182
Technical equipment and machinery	290	314
Other equipment, operating and office equipment	236	231
Vehicle fleet, transport equipment	200	208
Aircraft	228	247
Total depreciation of and impairment losses on property, plant and equipment	1,130	1,182
Depreciation of and impairment losses on investment property	0	2
Impairment of goodwill	0	0
Depreciation, amortisation and impairment losses	**1,377**	**1,471**

Depreciation, amortisation and impairment losses increased by €94 million to €1,471 million due, amongst other things, to the fact that customer relationship assets from past acquisitions were written down in the Supply Chain division, see also note 7.

The impairment losses are attributable to the segments as follows:

Impairment

€m	2016	2017
Post - eCommerce - Parcel		
Property, plant and equipment	1	0
Express		
Property, plant and equipment	27	18
Global Forwarding, Freight		
Investment property	0	2
Supply Chain		
Software	0	1
Property, plant and equipment	3	7
Impairment losses	**31**	**28**

As in the previous year, €18 million of the impairment losses related to aircraft for sale in the Express segment, for which a final impairment loss was recognised, writing the aircraft down in full, prior to their reclassification to assets held for sale.

16 Other operating expenses

€m	2016	2017
Expenses for advertising and public relations	385	437
Cost of purchased cleaning and security services	360	378
Travel and training costs	315	341
Insurance costs	331	328
Warranty expenses, refunds and compensation payments	301	305
Other business taxes	267	279
Telecommunication costs	230	228
Write-downs of current assets	223	211
Entertainment and corporate hospitality expenses	166	182
Currency translation expenses	222	181
Office supplies	167	180
Customs clearance-related charges	115	163
Services provided by the *Bundesanstalt für Post und Telekommunikation* (German federal post and telecommunications agency)	126	145
Consulting costs (including tax advice)	134	144
Contributions and fees	98	106
Voluntary social benefits	81	91
Commissions paid	63	65
Losses on disposal of assets	76	64
Expenses from derivatives	65	62
Legal costs	75	58
Monetary transaction costs	48	57
Audit costs	32	37
Donations	24	22
Expenses from prior-period billings	27	19
Miscellaneous	483	443
Other operating expenses	**4,414**	**4,526**

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	2016	2017
Financial income		
Interest income	54	55
Income from other equity investments and financial assets	1	1
Other financial income	35	33
	90	**89**
Finance costs		
Interest expenses	–302	–282
of which unwinding of discounts for net pension provisions and other provisions	–156	–130
Other finance costs	–82	–200
	–384	**–482**
Foreign currency losses	**–65**	**–18**
Net finance costs	**–359**	**–411**

Amongst other factors, the deterioration in net finance costs resulted from changes in the value of stock appreciation rights due to share price movements, see also note 7, as well as write-downs of financial assets.

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 38.

18 Income taxes

€m	2016	2017
Current income tax expense	–607	–727
Current recoverable income tax	40	36
	–567	**–691**
Deferred tax expense (previous year: income) from temporary differences	84	–231
Deferred tax income from tax loss carryforwards	132	445
	216	**214**
Income taxes	**–351**	**–477**

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

	2016	2017
Profit before income taxes	**3,132**	**3,330**
Expected income taxes	−946	−1,006
Deferred tax assets not recognised for initial differences	12	3
Deferred tax assets of German Group companies not recognised for tax loss carryforwards and temporary differences	569	700
Deferred tax assets of foreign Group companies not recognised for tax loss carryforwards and temporary differences	168	5
Effect from previous years on current taxes	−26	−33
Tax-exempt income and non-deductible expenses	−205	−224
Differences in tax rates at foreign companies	77	78
Income taxes	**−351**	**−477**

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 €285 million as at 31 December 2017 (previous year: €295 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.

€10 million (previous year: €679 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. In addition, the recognition of deferred tax assets previously not recognised for tax loss carryforwards and of deductible temporary differences from a prior period (and resulting mainly from Germany) reduced the deferred tax expense by €857 million (previous year: €154 million). Effects from unrecognised deferred tax assets amounting to €3 million (previous year: €1 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 €5 million 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 2017, the change in the US tax rate gave rise to a deferred tax expense of €151 million. In other tax jurisdictions abroad, tax rate changes had no material effect; there was no effect whatsoever at domestic Group companies.

The effective income tax expense includes prior-period tax expenses from German and foreign companies in the amount of €33 million (tax expense) (previous year: expense of €26 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
2017			
Change due to remeasurements of net pension provisions	378	−28	**350**
IAS 39 revaluation reserve	0	−1	**−1**
IAS 39 hedging reserve	23	−7	**16**
Currency translation reserve	−743	0	**−743**
Other changes in retained earnings	0	0	**0**
Share of other comprehensive income of investments accounted for using the equity method	−8	0	**−8**
Other comprehensive income	**−350**	**−36**	**−386**
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**

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 weighted average number of shares outstanding. Outstanding shares relate to issued capital less any treasury shares held. Basic earnings per share for financial year 2017 were €2.24 (previous year: €2.19).

Basic earnings per share

		2016	2017
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,639	2,713
Weighted average number of shares outstanding	number	1,203,092,606	1,210,097,823
Basic earnings per share	€	**2.19**	**2.24**

To compute diluted earnings per share, the weighted 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 2017: 13,532,321 shares; previous year: 8,045,621 shares) and the maximum number of ordinary shares that can be issued on exercise of the conversion rights under the convertible bonds issued in December 2012 and 2017. The prior-year figure also included the shares not yet bought back through the share buyback programme. 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 €2.15 (previous year: €2.10).

Diluted earnings per share

		2016	2017
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,639	2,713
Plus interest expense on the convertible bond	€m	6	2
Less income taxes	€m	1	0
Adjusted consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,644	2,715
Weighted average number of shares outstanding	number	1,203,092,606	1,210,097,823
Potentially dilutive shares	number	54,232,677	50,736,444
Weighted average number of shares for diluted earnings	number	1,257,325,283	1,260,834,267
Diluted earnings per share	€	**2.10**	**2.15**

20 Dividend per share

A dividend per share of €1.15 is being proposed for financial year 2017 (previous year: €1.05). Further details on the dividend distribution can be found in note 36.

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 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 January 2017	**1,311**	**506**	**1,006**	**1,686**	**12,791**	**91**	**17,391**
Additions from business combinations	0	1	8	0	35	0	**44**
Additions	40	0	0	68	0	76	**184**
Reclassifications	38	0	0	76	0	−76	**38**
Disposals	−82	−32	−914	−151	−97	−24	**−1,300**
Currency translation differences	−4	−20	−57	−26	−490	−1	**−598**
Balance at 31 December 2017	**1,303**	**455**	**43**	**1,653**	**12,239**	**66**	**15,759**
Amortisation and impairment losses							
Balance at 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 January 2017	**1,125**	**436**	**794**	**1,349**	**1,133**	**0**	**4,837**
Additions from business combinations	0	0	0	0	0	0	**0**
Amortisation	76	3	72	136	0	0	**287**
Impairment losses	0	0	0	0	0	0	**0**
Reclassifications	−2	0	0	2	0	0	**0**
Reversals of impairment losses	0	0	0	0	0	0	**0**
Disposals	−66	0	−806	−139	−25	0	**−1,036**
Currency translation differences	−2	−14	−46	−21	−38	0	**−121**
Balance at 31 December 2017	**1,131**	**425**	**14**	**1,327**	**1,070**	**0**	**3,967**
Carrying amount at 31 December 2017	**172**	**30**	**29**	**326**	**11,169**	**66**	**11,792**
Carrying amount at 31 December 2016	**186**	**70**	**212**	**337**	**11,658**	**91**	**12,554**

The additions to goodwill in the amount of €35 million relate to the acquisition of the Brazilian companies. The disposals relate to the sale of Williams Lea Tag Group in the amount of €72 million, note 2.

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.

21.2 Allocation of goodwill to CGUs

€m	2016	2017
Total goodwill	**11,658**	**11,169**
Post - eCommerce - Parcel	**1,135**	**1,101**
Express	**3,945**	**3,911**
Global Forwarding, Freight		
DHL Global Forwarding	4,156	3,891
DHL Freight	277	275
Supply Chain	**2,145**	**1,991**

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 2018 to 2020. It is supplemented by a perpetual annuity representing the value added from 2021 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	
	2016	2017	2016	2017
Supply Chain	**8.2**	**8.4**	**2.5**	**2.5**
Global Forwarding, Freight				
DHL Freight	8.4	8.6	2.0	2.0
DHL Global Forwarding	8.1	8.4	2.5	2.5
Post - eCommerce - Parcel	**7.5**	**8.0**	**0.5**	**0.5**
Express	**7.6**	**8.3**	**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 2017.

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 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 2016/1 January 2017	**4,836**	**5,390**	**2,670**	**2,082**	**2,407**	**654**	**18,039**
Additions from business combinations	8	1	1	0	11	0	**21**
Additions	157	141	187	78	225	1,305	**2,093**
Reclassifications	157	372	72	397	125	−1,145	**−22**
Disposals	−495	−272	−344	−281	−203	−8	**−1,603**
Currency translation differences	−135	−148	−79	−58	−34	−31	**−485**
Balance at 31 December 2017	**4,528**	**5,484**	**2,507**	**2,218**	**2,531**	**775**	**18,043**
Depreciation and impairment losses							
Balance at 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 2016/1 January 2017	**2,319**	**3,249**	**2,012**	**879**	**1,191**	**0**	**9,650**
Additions from business combinations	3	0	1	0	2	0	**6**
Depreciation	182	307	230	229	208	0	**1,156**
Impairment losses	0	7	1	18	0	0	**26**
Reclassifications	9	−12	2	0	1	0	**0**
Reversals of impairment losses	0	0	0	0	0	0	**0**
Disposals	−307	−245	−322	−273	−172	0	**−1,319**
Currency translation differences	−77	−86	−58	−16	−21	0	**−258**
Balance at 31 December 2017	**2,129**	**3,220**	**1,866**	**837**	**1,209**	**0**	**9,261**
Carrying amount at 31 December 2017	**2,399**	**2,264**	**641**	**1,381**	**1,322**	**775**	**8,782**
Carrying amount at 31 December 2016	**2,517**	**2,141**	**658**	**1,203**	**1,216**	**654**	**8,389**

The changes in disposals are mainly the result of property sales and the sale of Williams Lea Tag Group.

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 reporting 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	2016	2017
Land and buildings	180	153
Other equipment, operating and office equipment	16	12
Vehicle fleet, transport equipment	4	3
Technical equipment and machinery	1	1
Aircraft	2	0
Finance leases	**203**	**169**

Information on the corresponding liabilities can be found under financial liabilities, note 40.2.

23 Investment property

The investment property largely comprises leased property encumbered by heritable building rights, and developed and undeveloped land.

€m	2016	2017
Cost		
At 1 January	39	34
Additions	2	2
Reclassifications	0	0
Disposals	–7	–1
Currency translation differences	0	–1
At 31 December	**34**	**34**
Depreciation and impairment losses		
At 1 January	14	11
Additions	0	0
Impairment losses	0	2
Disposals	–2	0
Reclassifications	–1	0
Currency translation differences	0	0
At 31 December	**11**	**13**
Carrying amount at 31 December	**23**	**21**

Rental income for investment property amounted to €2 million (previous year: €1 million), whilst the related expenses were €1 million (previous year: €0 million). The fair value amounted to €54 million (previous year: €58 million).

24 Investments accounted for using the equity method

Investments accounted for using the equity method changed as follows:

€m	Associates		Joint ventures		Total	
	2016	2017	2016	2017	2016	2017
Balance at 1 January	75	95	1	2	**76**	**97**
Additions	19	22	0	0	**19**	**22**
Disposals	–3	–26	0	0	**–3**	**–26**
Impairment losses	0	0	0	0	**0**	**0**
Changes in the Group's share of equity						
Changes recognised in profit or loss	3	1	1	1	**4**	**2**
Profit distributions	–2	–2	0	0	**–2**	**–2**
Changes recognised in other comprehensive income	3	–8	0	0	**3**	**–8**
Balance at 31 December	**95**	**82**	**2**	**3**	**97**	**85**

The additions relate to the acquisition in the first quarter of 2017 of 22.56% of the shares of Israel-based Global-e Online Ltd. The disposals relate exclusively to the reclassification of AHK Air Hong Kong Limited, China, to assets held for sale and liabilities associated with assets held for sale, note 31.

24.1 Aggregate financial data

The following table gives an aggregated overview of the carrying amount in the consolidated financial statements and selected financial data for those companies which, both individually and in the aggregate, are not of material significance for the Group.

Aggregate financial data for associates and joint ventures

€m	Associates		Joint ventures		Total	
	2016	2017	2016	2017	2016	2017
Carrying amount in the consolidated financial statements[1]	95	82	2	3	**97**	**85**
Profit before income taxes	4	1	1	2	**5**	**3**
Profit after income taxes	3	1	1	1	**4**	**2**
Other comprehensive income	3	–8	0	0	**3**	**–8**
Total comprehensive income	6	–7	1	1	**7**	**–6**

[1] Based on the interest held.

25 Financial assets

€m	Non-current		Current		Total	
	2016	2017	2016	2017	2016	2017
Available-for-sale financial assets	32	59	200	500	**232**	**559**
of which measured at fair value	21	45	200	500	**221**	**545**
Loans and receivables	458	466	73	69	**531**	**535**
Assets at fair value through profit or loss	155	170	94	76	**249**	**246**
Lease receivables	44	38	7	7	**51**	**45**
Financial assets	**689**	**733**	**374**	**652**	**1,063**	**1,385**

The increase in financial assets resulted primarily from investments in money market funds, which are recognised in available-for-sale financial assets.

Write-downs of non-current financial assets at fair value through profit or loss amounting to €1 million (previous year: €12 million) were recognised in the income statement, whilst a write-up in the same amount was recognised for liabilities.

Compared with the market rates of interest prevailing at 31 December 2017 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 €3 million (previous year: €6 million). The principal amount of these loans totals €3 million (previous year: €6 million).

Details on restraints on disposal are contained in note 43.2.

26 Other assets

€m	2016	2017
Prepaid expenses	705	604
Current tax receivables	463	466
Pension assets, non-current only	143	153
Receivables from private postal agencies	127	116
Income from cost absorption	86	113
Creditors with debit balances	39	44
Receivables from insurance business	35	37
Receivables from loss compensation (recourse claims)	32	32
Receivables from employees	32	30
Receivables from asset disposals	0	16
Receivables from cash-on-delivery	4	7
Other assets, of which non-current: 78 (previous year: 79)	732	797
Other assets	**2,398**	**2,415**
of which current	2,176	2,184
non-current	222	231

Information on pension assets can be found in note 38.

Of the tax receivables, €356 million (previous year: €346 million) relates to VAT, €67 million (previous year: €62 million) to customs and duties, and €43 million (previous year: €55 million) to other tax receivables. Miscellaneous other assets include a large number of individual items.

27 Deferred taxes

Breakdown by balance sheet item and maturity

€m	2016		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	25	131	12	88
Property, plant and equipment	140	98	52	52
Non-current financial assets	5	11	7	12
Other non-current assets	77	7	16	5
Other current assets	24	56	19	70
Provisions	580	20	449	43
Financial liabilities	93	13	74	19
Other liabilities	143	2	104	3
Tax loss carryforwards	1,337	–	1,755	–
Gross amount	**2,424**	**338**	**2,488**	**292**
of which current	860	119	569	102
non-current	1,564	219	1,919	190
Netting	−232	−232	−216	−216
Carrying amount	**2,192**	**106**	**2,272**	**76**

Deferred taxes on tax loss carryforwards in the amount of €1,486 million (previous year: €1,110 million) relate to tax loss carryforwards in Germany and €269 million (previous year: €227 million) to foreign tax loss carryforwards.

No deferred tax assets were recognised for tax loss carryforwards of around €6.4 billion (previous year: €10.1 billion) and for temporary differences of around €2.6 billion (previous year: €3.0 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 2025.

Deferred taxes have not been recognised for temporary differences of €505 million (previous year: €813 million) relating to earnings of German and foreign subsidiaries because these temporary differences will probably not reverse in the foreseeable future.

28 Inventories

€m	2016	2017
Raw materials, consumables and supplies	150	179
Finished goods and goods purchased and held for resale	61	100
Work in progress	59	45
Advance payments	5	3
Inventories	**275**	**327**

There was no requirement to charge significant valuation allowances on these inventories.

29 Trade receivables

€m	2016	2017
Trade receivables	7,306	7,558
Deferred revenue	659	660
Trade receivables	**7,965**	**8,218**

30 Cash and cash equivalents

€m	2016	2017
Cash equivalents	1,198	1,342
Bank balances/cash in transit	1,837	1,717
Cash	19	18
Other cash and cash equivalents	53	58
Cash and cash equivalents	**3,107**	**3,135**

Of the €3,135 million in cash and cash equivalents, €973 million was not available for general use by the Group as at the reporting date (previous year: €955 million). Of this amount, €895 million (previous year: €886 million) was attributable to countries where exchange controls or other legal restrictions apply (mostly China, India and Thailand) and €78 million (previous year: €69 million) primarily to companies with non-controlling interest holders.

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

The amounts reported in this item relate mainly to the following items:

€m	Assets		Liabilities	
	2016	2017	2016	2017
AHK Air Hong Kong Limited, China – equity interest (Express segment)	0	4	0	0
Other	0	0	0	0
Assets held for sale and liabilities associated with assets held for sale	**0**	**4**	**0**	**0**

The Group intends to sell its 40% interest in AHK Air Hong Kong Limited, China, to date an investment accounted for using the equity method, to Cathay Pacific, holder of the remaining 60% interest and party to a joint agreement with the Group on express freight delivery in Asia ending on 31 December 2018, as stipulated in the contract. The most recent remeasurement prior to reclassification to assets held for sale and liabilities associated with assets held for sale did not result in an impairment loss.

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 €18 million.

32 Issued capital and purchase of treasury shares

As at 31 December 2017, KfW Bankengruppe (KfW) held a 20.7% (previous year: 20.5%) interest in the share capital of Deutsche Post AG. The remaining 79.3% (previous year: 79.5%) of the shares were in free float. KfW holds the shares in trust for the Federal Republic of Germany.

32.1 Changes in issued capital

The issued capital amounts to €1,229 million. It is composed of 1,228,707,545 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

€	2016	2017
Issued capital		
Balance at 1 January	1,212,753,687	1,240,915,883
Addition due to contingent capital increase (convertible bond)	28,162,196	15,091,662
Capital reduction through retirement of treasury shares	0	–27,300,000
Balance at 31 December (according to commercial register)	**1,240,915,883**	**1,228,707,545**
Treasury shares		
Balance at 1 January	–1,568,593	–29,587,229
Purchase of treasury shares	–30,896,650	–4,660,410
Issue/sale of treasury shares	2,878,014	2,434,057
Capital reduction through retirement of treasury shares	0	27,300,000
Balance at 31 December	**–29,587,229**	**–4,513,582**
Total at 31 December	**1,211,328,654**	**1,224,193,963**

32.2 Authorised and contingent capital

Authorised/contingent capital at 31 December 2017

	Amount €m	Purpose
Authorised Capital 2013	–	Increase in share capital against cash/non-cash contributions (until 28 May 2018)
Authorised Capital 2017	160	Increase in share capital against cash/non-cash contributions (until 27 April 2022)
Contingent Capital 2011	32	Issue of options/conversion rights (until 24 May 2016)
Contingent Capital 2013	–	Issue of options/conversion rights (until 28 May 2018)
Contingent Capital 2014	40	Issue of subscription rights to executives (until 26 May 2019)
Contingent Capital 2017	75	Issue of options/conversion rights (until 27 April 2022)

Authorised Capital 2013
As resolved by the Annual General Meeting on 29 May 2013, the Board of Management was 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 was exercised in part in 2014 and 2015. The authorised capital amounted to €236 million. As resolved by the Annual General Meeting on 28 April 2017, it was replaced by a new authorisation (Authorised Capital 2017).

Authorised Capital 2017
As resolved by the Annual General Meeting on 28 April 2017, the Board of Management is authorised, subject to the consent of the Supervisory Board, to issue up to 160 million new, no-par value registered shares until 27 April 2022 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. No use was made of the authorisation in the reporting period.

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 in 2015, by €28,162,196 in 2016 and by €15,091,662 in 2017.

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. As resolved by the Annual General Meeting on 28 April 2017, it was replaced by a new authorisation (Contingent Capital 2017).

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 period.

Contingent Capital 2017

In its resolution dated 28 April 2017, 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 27 April 2022, 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 new shares participate in profit from the beginning of the financial year in which they are issued. The authorisation was exercised in part in December 2017 by issuing a convertible bond in an aggregate principal amount of €1 billion. The share capital was increased on a contingent basis by up to €75 million.

32.3 Authorisation to acquire treasury shares

By way of a resolution adopted by the Annual General Meeting on 28 April 2017, the company is authorised to acquire treasury shares in the period to 27 April 2022 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.

Share buyback programme

The share buyback programme begun on 1 April 2016 ended on 6 March 2017. The repurchased shares were intended to 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.

Share buyback programme tranches

Tranche	Period	Volume €m
I	1 April 2016 to 3 May 2016	100
II	30 May 2016 to 26 August 2016	250
III	29 August 2016 to 6 March 2017	650

In the first quarter of 2017, another 3.3 million shares were acquired for tranche III at an average price of €31.65 for a total of €106 million. A total of 32.9 million shares were acquired for €911 million through the share buyback programme. By way of a resolution of the Board of Management dated 21 March 2017, 27.3 million treasury shares held were retired in the course of a capital reduction.

Share Matching Scheme

To settle the 2016 tranche of the Share Matching Scheme, 1,297,200 shares were purchased at an average price of €31.60 per share for a total of €41 million in March 2017. Another 23,037 shares were purchased for an average price of €31.67 per share and issued to the executives concerned in April. In April 2017, the rights to matching shares under the 2012 tranche were settled and 1,113,820 shares were issued to executives.

As at 31 December 2017, Deutsche Post AG held 4,513,582 treasury shares (previous year: 29,587,229 treasury shares).

32.4 Disclosures on corporate capital

In financial year 2017, the equity ratio was 33.4% (previous year: 29.6%). 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

	2016	2017
Financial liabilities	6,035	6,050
Less operating financial liabilities[1]	−138	−155
Less cash and cash equivalents	−3,107	−3,135
Less current financial assets	−374	−652
Less non-current derivative financial instruments	−155	−170
Net debt	**2,261**	**1,938**
Plus total equity	11,350	12,903
Total capital	**13,611**	**14,841**
Net gearing ratio (%)	16.6	13.1

[1] Relates to, e.g., liabilities from leases, overpayments.

33 Capital reserves

€m	2016	2017
Balance at 1 January	2,385	2,932
Share Matching Scheme		
Addition	53	67
Exercise	–54	–59
Total for Share Matching Scheme	**–1**	**8**
Performance Share Plan		
Addition	17	25
Total for Performance Share Plan	**17**	**25**
Capital reduction through retirement of treasury shares	0	27
Differences between purchase and issue prices of treasury shares	0	5
Capital increase through exercise of conversion rights under convertible bond	531	286
Conversion right under convertible bond 2017/2025	0	53
Deferred taxes on conversion right under convertible bond 2017/2025	0	–9
Balance at 31 December	**2,932**	**3,327**

The rights to matching shares under the 2012 tranche were settled, and the rights to deferred incentive and investment shares under the 2016 tranche were granted in April 2017.

34 Other reserves

IAS 39 hedging reserve

In the financial year, realised losses of €77 million and realised gains of €91 million were recognised in other comprehensive income (previous year: realised losses of €86 million and realised gains of €69 million).

35 Retained earnings

In addition to the items reported in the statement of changes in equity, retained earnings also include changes due to the purchase of treasury shares:

€m	2016	2017
Purchase of treasury shares	–1,000	51
of which share buyback under tranches I to III	–775	–103
obligation to repurchase shares under tranche III	–195	195
purchase/sale of treasury shares Share Matching Scheme	–30	–41

As at 31 December 2016, the obligation to repurchase shares as part of tranche III of the share buyback programme was recognised in the amount of €195 million for the buyback transactions yet to be carried out. By March 2017, the buyback transactions undertaken had decreased the obligation. The remaining obligation of €89 million was derecognised directly in equity when the share buyback programme ended.

The changes in transactions with non-controlling interests are chiefly attributable to the purchase price liability relating to the acquisition of the remaining shares of Olimpo Holding S.A.

36 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in financial year 2017 amounted to €12,637 million (previous year: €11,087 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the net retained profit of €6,103 million reported in Deutsche Post AG's annual financial statements in accordance with the HGB. The Board of Management is proposing a dividend of €1.15 per no-par value share carrying dividend rights. This corresponds to a total dividend of €1,409 million. The amount of €4,694 million remaining after deduction of the planned total dividend will be carried forward to new account. The final total dividend will be based on the number of shares carrying dividend rights at the time the Annual General Meeting resolves upon the appropriation of the net retained profit on the day the AGM convenes.

	Total dividend €m	Dividend per share €
Dividend distributed in financial year 2017 for the year 2016	1,270	1.05
Dividend distributed in financial year 2016 for the year 2015	1,027	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.

37 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	2016	2017
DHL Sinotrans International Air Courier Ltd., China	162	164
Blue Dart Express Limited, India	14	17
PT. Birotika Semesta, Indonesia	13	15
DHL Global Forwarding Abu Dhabi LLC, United Arab Emirates	11	10
Exel Saudia LLC, Saudi Arabia	11	9
Other companies	52	51
Non-controlling interests	**263**	**266**

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, has been assigned to the PeP segment. Deutsche Post AG holds a share of 75% in Blue Dart, which is a courier service provider.

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	
	2016	2017	2016	2017
Balance sheet				
ASSETS				
Non-current assets	115	97	80	72
Current assets	433	447	103	91
Total ASSETS	**548**	**544**	**183**	**163**
EQUITY AND LIABILITIES				
Non-current provisions and liabilities	8	8	28	14
Current provisions and liabilities	216	207	78	63
Total EQUITY AND LIABILITIES	**224**	**215**	**106**	**77**
Net assets	**324**	**329**	**77**	**86**
Non-controlling interests	162	164	14	17
Income statement				
Revenue	1,335	1,461	354	371
Profit before income taxes	293	316	32	30
Income taxes	74	80	12	12
Profit after income taxes	**219**	**236**	**20**	**18**
Other comprehensive income	–15	–24	0	–4
Total comprehensive income	**204**	**212**	**20**	**14**
attributable to non-controlling interests	102	106	5	3
Dividend distributed to non-controlling interests	116	104	2	1
Consolidated net profit attributable to non-controlling interests	109	118	5	4
Cash flow statement				
Net cash from operating activities	262	250	22	23
Net cash used in/from investing activities	–12	–6	16	6
Net cash used in financing activities	–231	–207	–23	–32
Net change in cash and cash equivalents	19	37	15	–3
Cash and cash equivalents at 1 January	204	214	7	22
Effect of changes in exchange rates on cash and cash equivalents	–9	–16	0	–1
Cash and cash equivalents at 31 December	**214**	**235**	**22**	**18**

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	2016	2017
Balance at 1 January	15	10
Transaction with non-controlling interests	0	0
Total comprehensive income		
Changes from unrealised gains and losses	–5	–22
Changes from realised gains and losses	0	0
Currency translation reserve at 31 December	**10**	**–12**

38 Provisions for pensions and similar obligations

The Group's most significant defined benefit retirement plans are in Germany and the UK. 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. There are specific risks associated with these plans along with measures to mitigate them.

38.1 Plan features

Germany

In Germany, Deutsche Post AG has an occupational retirement arrangement based on a collective agreement, which is open to new hourly workers and salaried employees. This system was redesigned in the previous year 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. A 2.5% increase on the previous year is included in every newly allocated component. 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 already on the payroll as at 31 December 2015 received an initial benefit component for the entitlements accrued by that date, which was 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 Board of Management level and to specific employee groups through deferred compensation in particular. Details on the retirement benefit arrangements for the Board of Management can be found in the Group Management Report, page 43.

The prime source of external funding for Deutsche Post AG's respective retirement benefit obligations 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, the *Versorgungsanstalt der Deutschen Bundespost* (VAP – Deutsche Bundespost institution for supplementary retirement pensions), a shared pension fund for successor companies to Deutsche Bundespost, is used for some of the legacy pension commitments.

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. Since the previous year, contractual trust arrangements have been available for three subsidiaries with a view to external financing.

United Kingdom

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 joined this arrangement. 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 Group's defined benefit pension arrangements in the UK have mainly been consolidated into a group plan with different sections for the participating divisions. These are funded mainly 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 single open defined benefit arrangement.

Other

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. The dedicated plan provides for annual accruals which are subject to a pensionable salary cap. Furthermore, the plan provides for monthly pension payments that are indexed to the agreed wage and salary increases, on the one hand, and the funds available for such indexation, on the other. In Switzerland, employees receive an occupational pension in line with statutory requirements, where pension payments depend 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 life-long pension payments exists for specific higher wage components. In the USA, the companies' defined benefit retirement 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.

38.2 Financial performance of the plans and determination 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	
	2016	2017	2016	2017	2016	2017
At 1 January	17,272	17,723	11,202	12,286	**6,070**	**5,437**
Current service cost, excluding employee contributions	162	187	–	–	**162**	**187**
Past service cost	−356	−8	–	–	**−356**	**−8**
Settlement gains (–)/losses (+)	−7	−60	–	–	**−7**	**−60**
Other administration costs in accordance with IAS 19.130	–	–	−10	−11	**10**	**11**
Service cost[1]	**−201**	**119**	**−10**	**−11**	**−191**	**130**
Interest cost on defined benefit obligations	483	414	–	–	**483**	**414**
Interest income on plan assets	–	–	346	291	**−346**	**−291**
Net interest cost	**483**	**414**	**346**	**291**	**137**	**123**
Income and expenses recognised in the income statement	**282**	**533**	**336**	**280**	**−54**	**253**
Actuarial gains (–)/losses (+) – changes in demographic assumptions	−16	−95	–	–	**−16**	**−95**
Actuarial gains (–)/losses (+) – changes in financial assumptions	1,754	338	–	–	**1,754**	**338**
Actuarial gains (–)/losses (+) – experience adjustments	−65	35	–	–	**−65**	**35**
Return on plan assets excluding interest income	–	–	797	656	**−797**	**−656**
Remeasurements recognised in the statement of comprehensive income	**1,673**	**278**	**797**	**656**	**876**	**−378**
Employer contributions	–	–	1,162	701	**−1,162**	**−701**
Employee contributions	32	32	18	18	**14**	**14**
Benefit payments	−747	−736	−481	−465	**−266**	**−271**
Settlement payments	−71	−139	−71	−139	**0**	**0**
Transfers	0	0	−12	0	**12**	**0**
Acquisitions/divestitures	−2	−7	−1	1	**−1**	**−8**
Currency translation effects	−716	−303	−664	−254	**−52**	**−49**
At 31 December	**17,723**	**17,381**	**12,286**	**13,084**	**5,437**	**4,297**

[1] Including other administration costs in accordance with IAS 19.130 which are expensed out of plan assets.

As at 31 December 2017, the effects of asset ceilings amounted to €3 million; an expedient was applied to their recognition by deducting this amount from the fair value of plan assets (1 January 2017/31 December 2016: €2 million; 1 January 2016: €0 million).

In the reporting period a lump-sum settlement programme was executed for retirees in Germany, leading to settlement payments and the discontinuation of pension obligations. In addition, employer contributions were impacted by two special measures. Firstly, a special contribution was made to increase the funding of the Group's pension obligations in the United Kingdom. This also reduced the expected future employer contributions significantly. The temporary investment was made in short-term fixed income securities as at 31 December 2017. Secondly, real estate was contributed to the trust in Germany.

Total payments amounting to €384 million are expected with regard to net pension provisions in 2018. Of this amount, €335 million is attributable to the Group's expected direct benefit payments and €49 million to expected employer contributions to pension funds.

The disaggregation of the present value of defined benefit obligations, fair value of plan assets and net pension provisions as well as the determination of the balance sheet items are as follows:

€m	Germany	UK	Other	Total
2017				
Present value of defined benefit obligations at 31 December	9,554	5,240	2,587	**17,381**
Fair value of plan assets at 31 December	−5,748	−5,112	−2,224	**−13,084**
Net pension provisions at 31 December	**3,806**	**128**	**363**	**4,297**
Reported separately				
Pension assets at 31 December	0	46	107	**153**
Provisions for pensions and similar obligations at 31 December	3,806	174	470	**4,450**
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**

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 44%, 20% and 13%, respectively (previous year: 40%, 24% and 13%).

Additionally, rights to reimbursement from former Group companies existed in the Group in Germany in the amount of around €19 million (previous year: €20 million) which are reported separately. Corresponding benefit payments are being made directly by the former Group companies.

38.3 Additional information on the present value of defined benefit obligations

The significant financial assumptions are as follows:

%	Germany	UK	Other	Total
31 December 2017				
Discount rate (defined benefit obligations)	2.25	2.50	2.23	**2.32**
Expected annual rate of future salary increase	2.50	3.25	2.05	**2.43**
Expected annual rate of future pension increase	2.00	2.85	1.26	**2.18**
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**

The discount rates for defined benefit obligations in the euro zone and the UK were each derived from a yield curve comprising the yields of AA-rated corporate bonds and taking membership composition as well as duration into account in each case. 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, in some cases, 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, fixed 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/or mortality. For the German Group companies, they were based on 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. In the reporting period, current projections of future mortality improvements that were published after year-end 2016 were taken into account by applying a long-term rate of 1.5%. Country-specific current standard mortality tables were used for other countries.

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 2017					
Discount rate (defined benefit obligations)	1.00	−12.52	−14.92	−14.51	**−13.53**
	−1.00	15.81	19.39	19.02	**17.36**
Expected annual rate of future salary increase	0.50	0.18	0.08	0.95	**0.26**
	−0.50	−0.17	−0.08	−0.90	**−0.25**
Expected annual rate of future pension increase	0.50	0.42	5.63	6.39	**2.87**
	−0.50	−0.38	−5.53	−4.71	**−2.57**
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**

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 4.55% in Germany (previous year: 4.56%) and by 4.25% in the UK (previous year: 4.06%). The corresponding increase for other countries would be 2.93% (previous year: 2.56%) and the total increase 4.22% (previous year: 4.12%).

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 2017 was 14.3 years in Germany (previous year: 14.4 years) and 18.0 years in the UK (previous year: 18.0 years). In the other countries it was 17.6 years (previous year: 17.5 years), and in total it was 15.9 years (previous year: 15.9 years).

A total of 30.0% (previous year: 29.2%) of the present value of the defined benefit obligations was attributable to active beneficiaries, 17.2% (previous year: 16.8%) to terminated beneficiaries and 52.8% (previous year: 54.0%) to retirees.

38.4 Additional information on the fair value of plan assets

The fair value of the plan assets can be disaggregated as follows:

€m	Germany	UK	Other	Total
31 December 2017				
Equities	1,044	765	819	**2,628**
Fixed income securities	1,956	3,685	826	**6,467**
Real estate	1,609	187	273	**2,069**
Alternatives[1]	415	432	31	**878**
Insurances	554	0	127	**681**
Cash	163	33	50	**246**
Other	7	10	98	**115**
Fair value of plan assets	**5,748**	**5,112**	**2,224**	**13,084**
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[1]	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**

[1] Primarily includes absolute return products.

Quoted market prices in an active market exist for around 79% (previous year: 80%) of the total fair values of plan assets. The remaining assets for which no such quoted market prices exist are mainly attributable as follows: 14% (previous year: 13%) to real estate, 5% (previous year: 6%) to insurances, 1% (previous year: 1%) to alternatives and 1% (previous year: 0%) to fixed income securities. 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 €1,590 million (which can be offset as plan assets) (previous year: €1,358 million) is occupied by Deutsche Post AG.

Asset-liability studies are performed at regular intervals in Germany, the UK and, for example, also in 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.

38.5 Risk

Specific risks are associated with the defined benefit retirement plans. This can result in a (negative or positive) change in Deutsche Post DHL Group's equity through other comprehensive income, whose overall relevance is classed as medium to high. In contrast, a low relevance is attached to the short-term effects on staff costs and net finance costs. Potential risk mitigation is applied depending on the specifics of the plans.

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. Further hedging measures are applied, in some cases using derivatives.

INFLATION RISK

Pension obligations – especially relating to 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 system of retirement benefit components and, in the case of the UK, by largely closing the defined benefit arrangements. In addition, fixed rates of increase have been set and increases partially capped and/or lump-sum payments provided for in each case. 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, already include an allowance for an expected future increase in life expectancy.

39 Other provisions

Other provisions break down into the following main types of provision:

€m	Non-current		Current		Total	
	2016	2017	2016	2017	2016	2017
Other employee benefits	541	521	230	141	771	662
Restructuring provisions	72	54	181	49	253	103
Technical reserves (insurance)	435	411	235	231	670	642
Postage stamps	0	0	242	173	242	173
Tax provisions	0	0	113	163	113	163
Miscellaneous provisions	450	435	322	374	772	809
Other provisions	**1,498**	**1,421**	**1,323**	**1,131**	**2,821**	**2,552**

39.1 Changes in other provisions

€m	Other employee benefits	Restructuring provisions	Technical reserves (insurance)	Postage stamps	Tax provisions	Miscellaneous provisions	Total
Balance at 1 January 2017	771	253	670	242	113	772	2,821
Changes in consolidated group	–6	0	0	0	0	–4	–10
Utilisation	–424	–87	–48	–242	–34	–189	–1,024
Currency translation differences	–49	–16	–14	0	–5	–31	–115
Reversal	–12	–81	–33	0	–25	–63	–214
Unwinding of discount/changes in discount rate	0	0	0	0	0	5	5
Reclassification	–1	–1	1	0	10	–9	0
Addition	383	35	66	173	104	328	1,089
Balance at 31 December 2017	**662**	**103**	**642**	**173**	**163**	**809**	**2,552**

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. The decline was attributable primarily to courts handing down decisions in legal disputes involving the US Express business.

Technical reserves (insurance) consist mainly 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, €57 million (previous year: €47 million) relates to VAT, €62 million (previous year: €22 million) to customs and duties and €44 million (previous year: €44 million) to other tax provisions.

39.2 Miscellaneous provisions

Miscellaneous provisions, which include a large number of individual items, break down as follows:

€m	2016	2017
Aircraft maintenance, of which non-current: 155 (previous year: 144)	149	190
Litigation costs, of which non-current: 71 (previous year: 78)	127	117
Risks from business activities, of which non-current: 10 (previous year: 12)	42	42
Miscellaneous other provisions, of which non-current: 199 (previous year: 216)	454	460
Miscellaneous provisions	**772**	**809**

39.3 Maturity structure

The maturity structure of the provisions recognised in financial year 2017 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
2017							
Other employee benefits	141	127	43	34	43	274	**662**
Restructuring provisions	49	9	18	3	6	18	**103**
Technical reserves (insurance)	231	186	84	51	35	55	**642**
Postage stamps	173	0	0	0	0	0	**173**
Tax provisions	163	0	0	0	0	0	**163**
Miscellaneous provisions	374	170	92	39	40	94	**809**
Total	**1,131**	**492**	**237**	**127**	**124**	**441**	**2,552**

40 Financial liabilities

€m	Non-current		Current		Total	
	2016	2017	2016	2017	2016	2017
Bonds	4,217	4,835	773	515	**4,990**	**5,350**
Amounts due to banks	20	39	138	117	**158**	**156**
Finance lease liabilities	181	159	28	22	**209**	**181**
Financial liabilities at fair value through profit or loss	23	9	98	35	**121**	**44**
Other financial liabilities	130	109	427	210	**557**	**319**
Financial liabilities	**4,571**	**5,151**	**1,464**	**899**	**6,035**	**6,050**

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.

40.1 Bonds

The following table contains further details on the company's most significant bonds. The bond issued by Deutsche Post Finance B.V. is fully guaranteed by Deutsche Post AG.

Significant bonds

				2016		2017	
	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.	749	758	–	–
Bond 2012/2022	2.950	500	Deutsche Post Finance B.V.	497	572	498	561
Bond 2012/2020	1.875	300	Deutsche Post AG	298	322	299	317
Bond 2012/2024	2.875	700	Deutsche Post AG	697	819	698	806
Bond 2013/2018	1.500	500	Deutsche Post AG	498	514	503	507
Bond 2013/2023	2.750	500	Deutsche Post AG	496	575	497	566
Bond 2016/2021	0.375	750	Deutsche Post AG	744	760	746	757
Bond 2016/2026	1.250	500	Deutsche Post AG	496	515	497	517
Bond 2017/2027	1.000	500	Deutsche Post AG	–	–	494	494
Convertible bond 2012/2019[1]	0.600	1,000	Deutsche Post AG	405	428	108	112
Convertible bond 2017/2025[2]	0.050	1,000	Deutsche Post AG	–	–	946	940

1 Debt component of the convertible bond; the fair value of the convertible bond is €215 million (previous year: €629 million).
2 Debt component of the convertible bond; the fair value of the convertible bond is €1,057 million.

The bond 2012/2017 was repaid in the financial year. A traditional bond (2017/2027) and a convertible bond (2017/2025) were placed in December 2017.

Convertible bonds

The convertible bonds issued have a conversion right which allows holders to convert the bond into a predetermined number of Deutsche Post AG shares.

In addition, Deutsche Post AG was granted call options allowing it to repay the bonds 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 convertible bonds have a debt component and an equity component. In subsequent years, interest will be added to the carrying amount of the bonds, up to the issue amount, using the effective interest method and recognised in profit or loss.

Convertible bonds

	2012/2019	2017/2025
Issue date	6 Dec. 2012	13 Dec. 2017
Issue volume	€1 billion	€1 billion
Outstanding volume	€110.8 million	€1 billion
Exercise period, conversion right	16 Jan. 2013 to 22 Nov. 2019	13 Dec. 2020 to 13 June 2025[1]
Exercise period, call option	6 Dec. 2017 to 16 Nov. 2019	2 Jan. 2023 to 10 June 2025
Value of debt component at issue date[2]	€920 million	€946 million
Value of equity component at issue date[3]	€74 million	€53 million
Transaction costs (debt/equity component)	€5.8/0.5 million	€4.7/0.3 million
Conversion price at issue	€20.74	€55.69
Conversion price after adjustment[4]		
in 2014	€20.69	–
in 2015	€20.63	–
in 2016	€20.60	–
in 2017	€20.47	–
Conversions to date (number of new shares)[5]		
in 2015	5 thousand	–
in 2016	28 million	–
in 2017	15 million	–

1 Excluding possible contingent conversion periods according to the bond terms.
2 Including transaction costs and call option granted.
3 Recognised in capital reserves.
4 After dividend payment.
5 Carrying dividend rights for the respective financial year.

40.2 Finance lease liabilities

Finance lease liabilities relate mainly to the following items:

	Leasing partner	Interest rate %	End of term	Asset	2016 €m	2017 €m
Deutsche Post Immobilien GmbH, Germany	Various leasing partners	5.09/5.23	2023/2028	Real estate	97	90
DHL Aviation NV/SA, Brussels	Cercis Parc	4.25	2031	Real estate	38	38
DHL International (UK) Limited, UK	Howard Lewisham Limited; SEGRO Airport Property Partnership	5.00	2030/2031	Real estate	23	22
Deutsche Post AG, Germany	T-Systems International GmbH	4.25	2019	IT systems	13	9

Leased assets are recognised in property, plant and equipment at a carrying amount of €169 million (previous year: €203 million). The notional amount of the minimum lease payments totals €237 million (previous year: €259 million).

Maturity structure

€m	Present value (finance lease liabilities)		Minimum lease payments (notional amount)	
	2016	2017	2016	2017
Up to 1 year	28	22	30	25
More than 1 year to 5 years	74	60	102	88
More than 5 years	107	99	127	124
Total	**209**	**181**	**259**	**237**

40.3 Other financial liabilities

€m	2016	2017
Purchase price liability related to the acquisition of the remaining interest in Olimpo	0	11
Loan notes related to the early termination of a finance lease	14	7
Obligation from tranche III of the share buyback programme	195	0
Put option related to the acquisition of the remaining interest in Giorgio Gori Group	41	0
Miscellaneous financial liabilities	307	301
Other financial liabilities	**557**	**319**

41 Other liabilities

€m	2016	2017
Tax liabilities	1,109	1,123
Incentive bonuses	679	688
Wages, salaries, severance payments	374	389
Deferred income, of which non-current: 100 (previous year: 116)	398	356
Compensated absences	335	352
Payables to employees and members of executive bodies	203	199
Social security liabilities	174	172
Debtors with credit balances	159	124
Overtime claims	90	115
Liabilities from the sale of residential building loans, of which non-current: 86 (previous year: 123)	125	105
COD liabilities	61	68
Accrued rentals	45	40
Liabilities from cheques issued	28	35
Insurance liabilities	17	33
Other compensated absences	28	28
Liabilities from loss compensation	17	12
Accrued insurance premiums for damages and similar liabilities	12	12
Miscellaneous other liabilities, of which non-current: 86 (previous year: 133)	810	823
Other liabilities	**4,664**	**4,674**
of which current	4,292	4,402
non-current	372	272

Of the tax liabilities, €590 million (previous year: €603 million) relates to VAT, €371 million (previous year: €330 million) to customs and duties, and €162 million (previous year: €176 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.

41.1 Maturity structure

€m	2016	2017
Up to 1 year	4,292	4,402
More than 1 year to 2 years	131	122
More than 2 years to 3 years	44	45
More than 3 years to 4 years	30	32
More than 4 years to 5 years	20	22
More than 5 years	147	51
Other liabilities	**4,664**	**4,674**

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.

CASH FLOW DISCLOSURES

42 Cash flow disclosures

The following table shows the reconciliation of changes in liabilities arising from financing activities in accordance with the new IFRS requirements:

€m			Non-cash changes[1]					
	31 Dec. 2016	Cash changes	Addition, finance leases	Currency translation	Fair value adjustment	Other changes	Total	31 Dec. 2017
Bonds	4,990	668	0	−5	0	−303	−308	**5,350**
Amounts due to banks	158	49	0	−23	−27	−1	−51	**156**
Finance lease liabilities	209	−26	7	−2	0	−7	−2	**181**
Other financial liabilities[2]	418	−37	0	−8	−8	−200	−216	**165**
Liabilities arising from financing activities	**5,775**	**654**	**7**	**−38**	**−35**	**−511**	**−577**	**5,852**

[1] Includes reclassifications of cash to other cash flow items.

[2] Differences from financial liabilities, note 40, are due to cash-related factors presented in other cash flow items, e.g., changes in cash and cash equivalents resulting from earn-outs or derivatives.

The other non-cash changes relate primarily to the share buyback programme in the amount of €–195 million and the non-cash exercise of the convertible bond 2012/2019 totalling €–301 million.

As at the reporting date, there were no hedges attributable solely to the liabilities arising from financing activities. The effects on the cash flows from portfolio hedges and from net investment hedges are presented in the other financing activities cash flow item in the amount of €–51 million in the reporting period.

In financial year 2017, non-cash transactions were entered into which were not included in the cash flow statement in accordance with IAS 7.43 and 7.44. They related to 18 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.

42.1 Net cash from operating activities

In addition to improved EBIT, the increase in net cash from operating activities is chiefly the result of the change in provisions. In the previous year, funding of pension obligations in Germany amounted to €1 billion, whilst in the 2017 financial year, €495 million was used to fund pension obligations in the United Kingdom.

Non-cash income and expenses are as follows:

Non-cash income and expenses

€m	2016	2017
Expense from the remeasurement of assets	94	102
Income from the remeasurement of liabilities	–141	–131
Income from the disposal of assets	–26	–54
Staff costs relating to equity-settled share-based payments	45	49
Other	–12	–6
Non-cash income (–) and expenses (+)	**–40**	**–40**

42.2 Net cash used in investing activities

Net cash used in investing activities rose from €1,643 million to €2,091 million. In the previous year, the state aid repayment added €378 million to other non-current financial assets. During the same period, €278 million was paid to acquire UK Mail Group. In the reporting period, proceeds from the disposal of subsidiaries grew to €316 million, due to the sale of Williams Lea Tag Group. This cash flow comprised the cash-related component of the selling price (€256 million), the cash inflow from the redemption of internal debt (€114 million) and the inflow from the currency hedge (€8 million) less the cash outflow of €62 million resulting from deconsolidation. The payment of €30 million made to acquire an interest in WERTHEIMER PARENTCO is recognised in cash paid to acquire investments accounted for using the equity method and other investments, whilst a loan extended in the amount of €110 million is shown in cash paid to acquire other non-current financial assets, note 2. Cash paid to acquire property, plant and equipment and intangible assets increased from €1,966 million to €2,203 million in the reporting period.

The assets acquired and liabilities assumed in the course of company acquisitions undertaken in financial years 2017 and 2016 are presented below, in accordance with IAS 7.40 (d), note 2.

€m	2016	2017
Non-current assets	123	20
Current assets (excluding cash and cash equivalents)	97	5
Non-current provisions and liabilities	–15	–7
Current provisions and liabilities	–118	–4

42.3 Net cash used in financing activities

At €1,087 million, net cash used in financing activities was €146 million lower than in the previous year.

The placement of a bond resulted in issuing proceeds of €1.2 billion in the previous year, whilst in the reporting period the placement of a bond and a convertible bond produced issuing proceeds in the amount of €1.5 billion. In the reporting period, non-current financial liabilities were also repaid through redemption of a bond in the amount of €750 million. Expiration of the share buyback programme reduced cash paid to acquire treasury shares from €836 million to €148 million.

Further details on the cash flow statement and free cash flow can be found in the Group Management Report, page 61 f.

OTHER DISCLOSURES

43 Risks and financial instruments of the Group

43.1 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.

Disclosures regarding risks associated with the Group's defined benefit retirement plans and their mitigation can be found in note 38.5.

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 €4.2 billion (previous year: €3.9 billion) as at 31 December 2017, consisting of central financial investments amounting to €2.2 billion plus a syndicated credit line of €2 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 2017						
Non-current financial liabilities[1]	86	287	403	839	591	3,430
Other non-current liabilities	0	1	2	1	1	81
Non-current liabilities	**86**	**288**	**405**	**840**	**592**	**3,511**
Current financial liabilities	877					
Trade payables	7,343					
Other current liabilities	337					
Current liabilities	**8,557**					
At 31 December 2016						
Non-current financial liabilities[1]	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**					

[1] In 2016, all of the convertible bond 2012/2019 was shown in the "More than 2 years to 3 years" range. As at 31 December 2017, the liabilities from the convertible bond amounted to €111 million and were shown in the "More than 1 year to 2 years" range. All of the convertible bond 2017/2025 was shown in the "More than 5 years" range.

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 2017						
Derivative receivables – gross settlement						
Cash outflows	−2,421	−312	0	0	0	0
Cash inflows	2,489	325	0	0	0	0
Net settlement						
Cash inflows	13	2	0	0	0	0
Derivative liabilities – gross settlement						
Cash outflows	−922	−87	0	0	0	0
Cash inflows	898	84	0	0	0	0
Net settlement						
Cash outflows	−17	−5	0	0	0	0
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

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 €1,630 million at the reporting date (previous year: €2,425 million); the fair value was €10 million (previous year: €–20 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 captured and quantified centrally in Corporate Treasury. The rule-based, rolling hedging programme in place to date for these risks was discontinued in the course of 2017. Most of the existing hedges for 2018/2019 were closed out with reversing trades. Currency risks from planned transactions and transactions with existing contracts will only be hedged in selected cases in the future. The relevant hedging transactions are recognised using cash flow hedge accounting, note 43.3, Cash flow hedges.

Currency risks also result from translating assets and liabilities of foreign operations into the Group's currency (translation risk). However, at the end of 2017, there were no longer any hedges in place for currency translation risks.

In total, currency forwards and currency swaps with a notional amount of €4,321 million (previous year: €5,737 million) were outstanding at the reporting date. The corresponding fair value was €56 million (previous year: €1 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 2017 in accordance with IAS 39, €36 million (previous year: €–90 million) is expected to be recognised in income in the course of 2018.

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 €7 million as at 31 December 2017 (previous year: €76 million). The total foreign currency value at risk was €9 million at the reporting date (previous year: €80 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 reporting date. The proportion of financial liabilities with short-term interest lock-ins, note 40, amounts to 14% (previous year: 24%) 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 2017 had been 100 basis points higher or lower, net finance costs would not have been affected as in the previous year. 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 €8 million (previous year: €52 million) with a fair value of €1 million (previous year: €–4 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, on the reporting date, the commodity prices underlying the derivatives had been 10% higher than the commodity prices determined on the market, this would not have increased fair values and equity (previous year: increase of €3 million). A corresponding decline in commodity prices would also have had no 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 reporting 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 2017.

In 2017, factoring agreements were in place on the basis of which the banks are obliged to purchase existing and future trade receivables. The banks' purchase obligations are limited to a maximum portfolio of receivables of €313 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 2017, the Group recognised programme fees (interest, allowances for doubtful accounts) of €2 million (previous year: €1 million) as an expense in relation to its continuing exposure. The notional volume of receivables factored as at 31 December 2017 amounted to €267 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 €8,218 million (previous year: €7,965 million) are due within one year. The following table gives an overview of receivables that are past due:

Receivables that are past due

€m

	2016	2017
Carrying amount before impairment losses	8,133	8,365
Neither impaired nor due at the reporting date	5,517	5,527
Past due and not impaired at the reporting date		
Up to 30 days	1,027	1,190
31 to 60 days	426	441
61 to 90 days	187	190
91 to 120 days	70	74
121 to 150 days	29	37
151 to 180 days	11	16
More than 180 days	0	8

Trade receivables changed as follows:

Receivables

€m

	2016	2017
Gross receivables		
At 1 January	7,910	8,133
Changes	223	232
At 31 December	**8,133**	**8,365**
Valuation allowances		
At 1 January	–216	–168
Changes	48	21
At 31 December	**–168**	**–147**
Carrying amount at 31 December	**7,965**	**8,218**

All other financial instruments are neither past due nor impaired.

Impairment losses of €25 million (previous year: €23 million) were recognised for other assets.

43.2 Collateral

Collateral provided

€m

	2016	2017
Non-current financial assets	188	169
of which for assets for the settlement of residential building loans	101	87
sureties paid	87	76
Current financial assets	35	39
of which for US cross-border lease (QTE lease) transactions	8	7
sureties paid	14	14

43.3 Derivative financial instruments

FAIR VALUE HEDGES

There were no fair value hedges as at 31 December 2017, as in the previous year. At the reporting date, the unwinding of interest rate swaps resulted in carrying amount adjustments of €32 million (previous year: €43 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 €46 million at the reporting date (previous year: €28 million). The hedged items will have an impact on cash flow by 2019.

The risks from the purchase of diesel and marine diesel fuel, which cannot be passed on to customers, were hedged using commodity swaps that will affect cash flow by 2018. The fair value of these cash flow hedges amounted to €0 million (previous year: €–5 million).

NET INVESTMENT HEDGES

Currency risks resulting from the translation of foreign operations were no longer hedged as at the end of 2017 (previous year: fair value of €–7 million).

43.4 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 2017

€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	**518**	**480**	**38**	**518**
of which available-for-sale financial assets[2]		14		
loans and receivables		466		
Non-current financial assets at fair value	**215**	**215**		**215**
of which fair value option		156		
available-for-sale financial assets		45		
derivatives designated as hedges		14		
Trade receivables at cost	**8,218**	**8,218**		**n.a.**
of which loans and receivables		8,218		
Other current assets at cost	**370**	**370**		**n.a.**
of which loans and receivables		370		
Other current assets outside IFRS 7	**1,814**			**n.a.**
Current financial assets at cost	**76**	**69**	**7**	**n.a.**
of which loans and receivables		69		
Current financial assets at fair value	**576**	**576**		**576**
of which trading		16		
available-for-sale financial assets		500		
derivatives designated as hedges		60		
Cash and cash equivalents	**3,135**	**3,135**		**n.a.**
of which loans and receivables		3,135		
TOTAL ASSETS	**14,922**			**–**
EQUITY AND LIABILITIES				
Non-current financial liabilities at cost[3]	**5,142**	**4,983**	**159**	**5,622**
of which other financial liabilities		4,983		
Non-current financial liabilities at fair value	**9**	**9**		**9**
of which earn-out obligation		6		
derivatives designated as hedges		3		
Other non-current liabilities at cost	**86**	**86**		**86**
of which other financial liabilities		86		
Other non-current liabilities outside IFRS 7	**186**			**n.a.**
Current financial liabilities at cost	**864**	**842**	**22**	**868**
of which other financial liabilities		842		
Current financial liabilities at fair value	**35**	**35**		**35**
of which trading		6		
earn-out obligation		4		
derivatives designated as hedges		25		
Trade payables at cost	**7,343**	**7,343**		**n.a.**
of which other financial liabilities		7,343		
Other current liabilities at cost	**19**	**19**		**n.a.**
of which other financial liabilities		19		
Other current liabilities outside IFRS 7	**4,383**			**n.a.**
TOTAL EQUITY AND LIABILITIES	**18,067**			**–**

[1] Relates to lease receivables or liabilities.
[2] The fair value is assumed to be equal to the carrying amount.
[3] 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 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 bond is therefore not recognised fully at either fair value or amortised cost. The convertible bonds issued by Deutsche Post AG in December 2017 and December 2012 had a fair value of €1,057 million and €215 million as at the reporting date. The fair values of the debt components at the reporting date were €940 million and €112 million.

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	**513**	**469**	**44**	**513**
of which available-for-sale financial assets		11		
loans and receivables		458		
Non-current financial assets at fair value	**176**	**176**		**176**
of which fair value option		145		
available-for-sale financial assets		21		
derivatives designated as hedges		10		
Trade receivables at cost	**7,965**	**7,965**		**n.a.**
of which loans and receivables		7,965		
Other current assets at cost	**357**	**357**		**n.a.**
of which loans and receivables		357		
Other current assets outside IFRS 7	**1,819**			**n.a.**
Current financial assets at cost	**80**	**73**	**7**	**n.a.**
of which loans and receivables		73		
Current financial assets at fair value	**294**	**294**		**294**
of which trading		75		
available-for-sale financial assets		200		
derivatives designated as hedges		19		
Cash and cash equivalents	**3,107**	**3,107**		**n.a.**
of which loans and receivables		3,107		
TOTAL ASSETS	**14,311**			**–**
EQUITY AND LIABILITIES				
Non-current financial liabilities at cost[2]	**4,548**	**4,367**	**181**	**5,102**
of which other financial liabilities		4,367		
Non-current financial liabilities at fair value	**23**	**23**		**23**
of which earn-out obligation		11		
derivatives designated as hedges		12		
Other non-current liabilities at cost	**123**	**123**		**123**
of which other financial liabilities		123		
Other non-current liabilities outside IFRS 7	**249**			**n.a.**
Current financial liabilities at cost	**1,366**	**1,338**	**28**	**781**
of which other financial liabilities		1,338		
Current financial liabilities at fair value	**98**	**98**		**98**
of which trading		38		
earn-out obligation		4		
derivatives designated as hedges		56		
Trade payables at cost	**7,178**	**7,178**		**n.a.**
of which other financial liabilities		7,178		
Other current liabilities at cost	**313**	**313**		**n.a.**
of which 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 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 bond is 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 reporting date. The fair value of the debt component at the reporting date was €428 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 reporting 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 reporting 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 €14 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 classified as available-for-sale financial assets as at 31 December 2017 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. Each class is presented by the level in the fair value hierarchy to which it is 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 2017				
Non-current financial assets	201	480	0	**681**
Current financial assets	500	76	0	**576**
Financial assets	**701**	**556**	**0**	**1,257**
Non-current liabilities	5,315	151	6	**5,472**
Current liabilities	519	31	4	**554**
Financial liabilities	**5,834**	**182**	**10**	**6,026**
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**

[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.

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 in the market (exchange rates, interest rates and commodity prices) are imported from standard market information platforms into the treasury management system. The price quotations reflect actual transactions involving similar instruments in an active market. If currency options are used, they are measured using the Black-Scholes option pricing model. All significant inputs used to measure derivatives are observable in 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 that reflect plausible assumptions. Financial ratios strongly influence the fair values of assets and liabilities. Increasing financial ratios lead to higher fair values, whilst decreasing financial ratios result in lower fair values.

No financial instruments were transferred between levels in financial year 2017. 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	2016			2017		
	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	83	0	0	0	15	0
Gains and losses (recognised in profit or loss)[1]	0	0	0	0	0	0
Gains and losses (recognised in OCI)[2]	0	0	0	0	0	0
Additions	0	15	0	0	0	0
Disposals	−80	0	0	0	−5	0
Currency translation effects	−3	0	0	0	0	0
At 31 December	**0**	**15**	**0**	**0**	**10**	**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	2016	2017
Loans and receivables	−127	−147
Available-for-sale financial assets		
Net gains (+)/losses (–) recognised in OCI	−4	2
Net gains (+)/losses (–) reclassified to profit or loss	63	1
Net gains (+)/losses (–) recognised in profit or loss	−8	−7
Financial assets and liabilities at fair value through profit or loss		
Trading	4	−1
Fair value option	0	0
Other financial liabilities	−15	−5

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 2017						
Derivative financial assets[1]	89	0	89	34	0	**55**
Trade receivables	8,301	83	8,218	0	0	**8,218**
Funds	0	0	0	0	0	**0**
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**

[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 2017						
Derivative financial liabilities[1]	34	0	34	34	0	**0**
Trade payables	7,426	83	7,343	0	0	**7,343**
Funds	0	0	0	0	0	**0**
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**

[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.

44 Contingent liabilities

The Group's contingent liabilities break down as follows:

Contingent liabilities

€m

	2016	2017
Guarantee obligations	91	92
Warranties	59	95
Liabilities from litigation risks	87	96
Other contingent liabilities	746	644
Total	**983**	**927**

The reduction in contingent liabilities is attributable primarily to exchange rate movements.

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 46.

45 Other financial obligations

In addition to provisions, liabilities and contingent liabilities, there are other financial obligations amounting to €11,298 million (previous year: €8,188 million) in the context of minimum lease payments under operating leases in accordance with IAS 17.

The Group's future payment obligations under leases are attributable to the following asset classes:

Lease obligations

€m

	2016	2017
Land and buildings	6,657	9,403
Aircraft	909	1,138
Transport equipment	495	611
Technical equipment and machinery	79	129
Other equipment, operating and office equipment	41	10
IT equipment	7	7
Total	**8,188**	**11,298**

In addition to newly signed leases, the increase in lease obligations by €3,110 million to €11,298 million was due chiefly to new estimates for extension and termination options for certain existing leases, particularly for real estate and aircraft.

Maturity structure of minimum lease payments

€m

	2016	2017
Up to 1 year	1,853	2,091
More than 1 year to 2 years	1,410	1,696
More than 2 years to 3 years	1,027	1,396
More than 3 years to 4 years	826	1,225
More than 4 years to 5 years	597	930
More than 5 years	2,475	3,960
Total	**8,188**	**11,298**

The present value of discounted minimum lease payments amounts to €9,251 million (previous year: €7,082 million) based on a discount factor of 4.00% (previous year: 3.25%). Overall, rental and lease payments amounted to €3,060 million (previous year: €3,019 million); €2,226 million (previous year: €2,143 million) of this amount relates to non-cancellable leases. Future lease obligations are attributable primarily to Deutsche Post Immobilien GmbH in the amount of €3,835 million (previous year: €2,789 million).

The purchase obligation for investments in non-current assets amounts to €254 million (previous year: €234 million).

46 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 may arise, amongst other things, from pending administrative court appeals by an association against the price-cap parameter decision handed down, and the price approval granted, by the *Bundesnetzagentur* under the price cap procedure for 2016 to 2018. The claimant asserts that both of the decisions by the *Bundesnetzagentur* are unlawful for various reasons. The *Bundesnetzagentur* and Deutsche Post AG do not share the claimant's opinion.

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 prohibition 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 AG does not share the legal opinion of the *Bundesnetzagentur* and appealed the ruling.

In its ruling of 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 AG from charging these prices and declared the prices invalid (prohibitive order), since at this time Deutsche Post AG had not yet complied with the adjustment request. Deutsche Post AG 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 this 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 the 2015 and 2016 Annual Reports in the notes under Litigation. In their actions, Deutsche Post AG and the federal government asserted that the state aid decision was unlawful. In the aforementioned judgement of 14 July 2016, the EGC allowed that argument as presented in the action brought by the federal government. The proceedings brought by Deutsche Post AG against the state aid ruling have also been brought to a close. In an order dated 17 March 2017, the EGC declared that there was no longer any need to adjudicate on the action brought by Deutsche Post AG and additionally ruled that the costs were to be borne by the European Commission. Since the European Commission did not file an appeal against the EGC's judgement of 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 that had been deposited in a trustee account for the purpose of implementing the state aid decision was released. The action brought by Deutsche Post AG against the 2011 "extension decision" *(Ausweitungsbeschluss)* is still pending. That action is based on procedural matters involving the validity of the European Commission's 2011 decision to extend the state aid proceedings. In the action pending, the European Commission has advanced the legal argument that the state aid proceedings initiated in 1999 remain partly open and that it could therefore issue a new final decision, bringing the proceedings to a close. With regard to the possible content of this decision, the European Commission did not give any particulars. In the legal opinion of Deutsche Post AG, however, the proceedings initiated in 1999 were resolved in full by way of the European Commission's state aid ruling of 19 June 2002. The European Court of Justice expressly confirmed that opinion in its ruling of 24 October 2013. The European Commission's state aid decision of 25 January 2012 remains null and void with final effect.

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 and the tax authorities hold different opinions on the VAT treatment of certain products. In the interest of resolving these issues, proceedings have been initiated by Deutsche Post AG and competitors and are pending at German tax courts and the European Court of Justice, note 44.

On 30 June 2014, DHL Express France received a statement of objections from the French competition authority alleging anticompetitive 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. A ruling is expected from the Paris Court of Appeals in May 2018. 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.

47 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).

47.1 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.

Of the expenses under the Share Matching Scheme, €30 million (previous year: €27 million) relates to equity-settled share-based payments and €25 million (previous year: €20 million) to the deferral of the associated matching shares.

Additional information on granting and settlement of these rights can be found in notes 32 and 33.

Share Matching Scheme

		2012 tranche	2013 tranche	2014 tranche	2015 tranche	2016 tranche	2017 tranche
Grant date of incentive shares and associated matching shares		1 Jan. 2012	1 Jan. 2013	1 Jan. 2014	1 Dec. 2015	1 Dec. 2016	1 Dec. 2017
Grant date of matching shares awarded for investment shares		1 April 2013	1 April 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Term	months	63	63	63	52	52	52
End of term		March 2017	March 2018	March 2019	March 2020	March 2021	March 2022
Share price at grant date (fair value)							
Incentive shares and associated matching shares	€	12.13	17.02	25.91	27.12	29.04	39.26
Matching shares awarded for investment shares	€	18.22	27.18	29.12	23.98	31.77	41.00[1]
Number of deferred incentive shares	thousands	479	337	332	366	320	180[2]
Number of matching shares expected							
Deferred incentive shares	thousands	n.a.	303	299	329	288	162
Investment shares	thousands	n.a.	567	596	848	901	495
Matching shares issued	thousands	1,114					

[1] Estimated provisional amount, will be determined on 1 April 2018.
[2] Expected number.

47.2 Long-Term Incentive Plan (2006 LTIP) for members of the Board of Management

Since financial year 2006, the company has granted members of the Board of Management cash remuneration linked to the company's long-term share price performance through the issue of stock appreciation rights (SARs) as part of a Long-Term Incentive Plan (LTIP). Participation in the LTIP requires Board of Management members to make a personal investment of 10% of their annual base salary on the grant date, primarily in shares.

The SARs granted can be exercised, in whole or in part, no earlier than after a four-year waiting period, provided the absolute or relative performance targets have been achieved at the end of that period. After expiration of the waiting period, the SARs must be exercised within a period of two years (exercise period); any SARs not exercised expire.

How many, if any, of the SARs granted can be exercised is determined in accordance with four (absolute) performance targets based on the share price and two (relative) performance targets based on a benchmark index. One-sixth of the SARs granted are earned each time the closing price of Deutsche Post shares exceeds the issue price by at least 10, 15, 20 or 25% at the end of the waiting period (absolute performance targets). Both relative performance targets are tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). They are met if the share price equals the index performance or if it outperforms the index by more than 10%. Performance is determined by comparing the average price of Deutsche Post shares or the average index value during a reference and a 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. If the absolute or relative performance targets are not met by the end of the waiting period, those SARs expire without replacement or compensation. Each SAR exercised entitles the Board of Management member 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.

2006 LTIP

	Issue date	Issue price €	Waiting period expires
2012 tranche	1 July 2012	13.26	30 June 2016
2013 tranche	1 August 2013	20.49	31 July 2017
2014 tranche	1 September 2014	24.14	31 August 2018
2015 tranche	1 September 2015	25.89	31 August 2019
2016 tranche	1 September 2016	28.18	31 August 2020
2017 tranche	1 September 2017	34.72	31 August 2021

The Board of Management members were granted a total of 2,003,970 SARs (previous year: 1,202,376 SARs) with a total value, at the time of issue (1 September 2017), of €7.19 million (previous year: €6.25 million as at 1 September 2016). Further disclosures on share-based payment for members of the Board of Management can be found in note 48.2.

47.3 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 2013, all of the related performance targets were met on expiry of the waiting period on 31 July 2017. All SARs under this tranche were therefore able to be exercised. Most executives exercised them as early as 2017. 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. More details on the tranches still existing are shown in the following table:

SAR Plan

	2012 tranche	2013 tranche
Issue date	1 July 2012	1 August 2013
Issue price	€13.26	€20.49
Waiting period expires	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 €73 million was recognised for financial year 2017 (previous year: €94 million).

A provision for the 2006 LTIP and the SAR Plan was recognised at the reporting date in the amount of €73 million (previous year: €134 million), of which €63 million (previous year: €41 million) was attributable to the Board of Management. Of the total provision, €32 million (previous year: €24 million) related to rights exercisable at the reporting date.

47.4 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 2017, a total of €25 million (previous year: €17 million) has been added to capital reserves for the purposes of the plan, with an equal amount recognised in staff costs.

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	2017 tranche
Grant date	1 September 2014	1 September 2015	1 September 2016	1 September 2017
Exercise price	€24.14	€25.89	€28.18	€34.72
Waiting period expires	31 August 2018	31 August 2019	31 August 2020	31 August 2021
Risk-free interest rate	0.11%	−0.10%	−0.62%	−0.48%
Initial dividend yield of Deutsche Post shares	3.52%	3.28%	3.73%	3.31%
Yield volatility of Deutsche Post shares	23.46%	24.69%	23.94%	23.03%
Yield volatility of Dow Jones EURO STOXX 600 Index	10.81%	16.40%	16.83%	16.34%
Covariance of Deutsche Post shares to Dow Jones EURO STOXX 600 Index	1.74%	2.94%	2.93%	2.78%
Quantity				
Rights outstanding at 1 January 2017	3,992,880	4,032,510	3,782,778	0
Rights granted	0	0	0	3,068,226
Rights lapsed	212,940	230,100	163,086	15,180
Rights outstanding at 31 December 2017	3,779,940	3,802,410	3,619,692	3,053,046

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 2017 was 25 months.

48 Related party disclosures

48.1 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 online at dpdhl.com/en/investors.

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 20.7%. 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* (BAnst PT) is a government agency and falls under the technical and legal supervision of the German Federal Ministry of Finance. The BAnst PT continues to manage the social facilities such as the postal civil servant health insurance fund, the recreation programme, the *Postbeamtenversorgungskasse* (PVK – Postal civil servant pension fund), the *Versorgungsanstalt der Deutschen Bundespost* (VAP – Deutsche Bundespost institution for supplementary retirement pensions) and the welfare service for Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG. Tasks are performed on the basis of agency agreements. In 2017, Deutsche Post AG was invoiced for €114 million (previous year: €103 million) in instalment payments relating to services provided by the BAnst PT. Further disclosures on the PVK and the VAP can be found in notes 7 and 38.

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 German 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 2017, this initiative resulted in 45 permanent transfers (previous year: 84) and three secondments with the aim of a permanent transfer in 2018 (previous year: 29).

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 2017, this initiative resulted in 22 permanent transfers (previous year: zero).

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 2017, 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 €1,590 million (which can be offset as plan assets) (previous year: €1,358 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 owners, is exclusively let to Deutsche Post Immobilien GmbH. Rental expense for Deutsche Post Immobilien GmbH amounted to €101 million in 2017 (previous year: €109 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 previous year and the corresponding benefits have been directly committed by Deutsche Post AG since 1 May 2016. Further disclosures on pension funds can be found in notes 7 and 38.

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 2017 with major related parties, resulting in the following items in the consolidated financial statements:

€m	to/from investments accounted for using the equity method		to/from unconsolidated companies	
	2016	2017	2016	2017
Trade receivables	4	4	12	3
Loans	21	0	31	16
Receivables from in-house banking	0	3	6	4
Financial liabilities	15	15	10	8
Trade payables	0	2	5	2
Revenue	2	0	1	1
Expenses[1]	3	1	20	14

[1] Relate to materials expense and staff costs.

Deutsche Post AG issued letters of commitment in the amount of €16 million (previous year: €53 million) for these companies. Of this amount, €11 million (previous year: €48 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.

48.2 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 2017.

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	2016	2017
Short-term employee benefits (excluding share-based payment)	15	14
Post-employment benefits	2	2
Termination benefits	0	0
Share-based payment	24	30
Total	**41**	**46**

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: €35 million).

The share-based payment amount relates to the relevant expense recognised for financial years 2016 and 2017; further details can be found in notes 47.2 and 48.3. The expense is itemised in the following table:

Share-based payment

Thousands of €	2016 SARS	2017 SARS
Dr Frank Appel, Chairman	9,603	13,726
Ken Allen	4,175	6,169
Dr h.c. Jürgen Gerdes	4,430	6,726
John Gilbert	600	2,422
Melanie Kreis	241	1,085
Dr Thomas Ogilvie (since 1 September 2017)	–	57
Tim Scharwath (since 1 June 2017)	–	57
Lawrence Rosen (until 30 September 2016)	5,071	–
Share-based payment	**24,120**	**30,242**

48.3 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 2017 including the components with a long-term incentive effect totalled €18.8 million (previous year: €18.5 million). Of this amount, €7.6 million (previous year: €6.6 million) is attributable to non-performance-related components (annual base salary and fringe benefits), €4.0 million (previous year: €5.6 million) to performance-related components (variable components) and €7.2 million (previous year: €6.3 million) to components with a long-term incentive effect (SARS). The number of SARS was 2,003,970 (previous year: 1,202,376).

FORMER MEMBERS OF THE BOARD OF MANAGEMENT

Benefits paid to former members of the Board of Management or their surviving dependants amounted to €7.0 million (previous year: €5.4 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSS was €95 million (previous year: €97 million).

REMUNERATION OF THE SUPERVISORY BOARD

The total remuneration of the Supervisory Board in financial year 2017 amounted to €2.6 million; as in the prior year, €2.4 million of this amount was attributable to a fixed component and €0.2 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 2017, 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.

49 Auditor's fees

The fee for the auditor of the consolidated financial statements, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, amounted to €12 million in financial year 2017 and was recognised as an expense.

Auditor's fee

€m

	2017
Audit services	11
Other assurance services	1
Tax advisory services	0
Other services	0
Total	**12**

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, accompanying auditors in connection with the implementation of new accounting requirements and the 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 assurance services category particularly pertains to fees for the voluntary auditing of financial information.

50 Exemptions under the HGB and local foreign legislation

For financial year 2017, the following German subsidiaries have exercised the simplification options under section 264(3) of the HGB, section 264b of the HGB and section 291 of the HGB:

- Agheera GmbH
- Albert Scheid GmbH
- All you need 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 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 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 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 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
- 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
- it4logistics GmbH
- Saloodo! GmbH
- StreetScooter 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
- 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
- National Carriers Limited
- Ocean Group Investments Limited
- Ocean Overseas Holdings Limited
- Power Europe Development No. 3 Limited
- Power Europe Operating Limited
- Tibbett & Britten Applied Limited

51 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 2017 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.

52 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, 19 February 2018

Deutsche Post AG
The Board of Management

Dr Frank Appel
Ken Allen

Dr h.c. Jürgen Gerdes
John Gilbert

Melanie Kreis
Dr Thomas Ogilvie

Tim Scharwath

INDEPENDENT AUDITOR'S REPORT

To Deutsche Post AG, Bonn

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Deutsche Post AG, Bonn, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Deutsche Post AG for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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 1 January to 31 December 2017. 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; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Pension obligations and plan assets
❸ Deferred taxes on deductible temporary measurement differences and loss carryforwards

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① In the consolidated financial statements of Deutsche Post AG, goodwill amounting to EUR 11.2 billion is reported under the balance sheet item “Intangible assets”, representing approximately 29% of total assets and 87% of the Group's reported equity. Goodwill is tested for impairment by the Company on an annual basis as of the balance sheet date or if there are indications that goodwill may be impaired. The impairment test of goodwill is based on the value in use, which is determined by applying a measurement model using the discounted cash flow method. This matter was of particular significance in our audit, because the result of this measurement depends to a large extent on the estimation of future cash inflows by the Company's executive directors 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 calculation by, inter alia, comparing this data with the current budgets in the three-year plan prepared by the executive directors and approved by the Company's 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 a material impact on the value in use calculated using this method, 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 Company's calculation procedure. 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 our own additional sensitivity analyses for those cash-generating units with low headroom (value in use compared with the carrying amount) and found that the respective goodwill is sufficiently covered by the discounted future cash inflows. Overall, the measurement parameters and assumptions used by the executive directors to be reproducable.

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 In the consolidated financial statements of Deutsche Post AG a total of EUR 4.5 billion is reported under the balance sheet item "Provisions for pensions and similar obligations". The net pension provisions of EUR 4.3 billion (after consideration of reported plan assets of EUR 0.2 billion) were calculated on the basis of the present value of the obligations amounting to EUR 17.4 billion, netted against the plan assets of EUR 13.1 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 as well as average life expectancy. Furthermore, the discount rate must be determined as of the balance sheet date by reference to the yield on high-quality corporate bonds with matching currencies and consistent terms. Changes to these measurement assumptions are recognized directly in equity as actuarial gains or losses. Changes in the financial measurement parameters resulted in actuarial losses of EUR 0.3 billion. In our view, these matters were of particular significance, as the measurement of the pension obligations and plan assets is to a large extent based on the estimates and assumptions made by the Company's executive directors.

② With the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on the consolidated financial statements, we assessed the appropriateness of the values adopted, in particular the measurement parameters used in the calculation of the pension provisions, inter alia on the basis of actuarial reports made available to us and taking into account the expert knowledge of our internal specialists for pension valuations. Our evaluation of the fair values of plan assets was in particular 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 and assumptions made by the executive directors 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 38 of the notes to the consolidated financial statements.

❸ **Deferred taxes on deductible temporary measurement differences and loss carryforwards**

① In the consolidated financial statements of Deutsche Post AG, deferred tax assets of EUR 2.3 billion (of which EUR 1.8 billion relates to tax loss carryforwards) are reported in the balance sheet. In our view, the deferred tax assets were of particular significance as they depend to a large extent on the estimates and assumptions made by the executive directors and therefore are subject to uncertainty.

② For the purposes of 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 the Company's internal forecasts of its future taxable income situation and evaluated the appropriateness of the assumptions used. In addition, we assessed the reconciliation to the tax expense. We were able to follow the assumptions made by the executive directors concerning the recognition and measurement of the deferred taxes, and agree with the estimates made by the executive directors.

③ The Company's disclosures relating to deferred taxes are contained in note 27 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in the "Statement on Corporate Governance and Non-Financial Report" section of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs.1743 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report 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 the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient 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 consolidated financial statements and the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs 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 the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

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 and of the group management report, 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 audit opinions. 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 of the consolidated financial statements and of arrangements and measures (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 systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. 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 be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the 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 auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 28 April 2017. We were engaged by the supervisory board on 27 July 2017. We have been the group auditor of Deutsche Post AG, Bonn, without interruption since the Company first met the requirements as a public-interest entity within the meaning of § 319a Abs. 1 Satz 1 HGB in the financial year 2000.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Verena Heineke.

Düsseldorf, February 19, 2018
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Gerd Eggemann	Verena Heineke
Wirtschaftsprüfer	*Wirtschaftsprüferin*
(German Public Auditor)	(German Public Auditor)

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FURTHER INFORMATION
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MULTI-YEAR REVIEW

Key figures 2010 to 2017

€m	2010 adjusted	2011 adjusted	2012 adjusted	2013 adjusted	2014 adjusted	2015	2016 adjusted	2017
Revenue								
Post - eCommerce - Parcel (until 2013 Mail)	13,913	13,973	13,972	15,291	15,686	16,131	17,078	18,168
Express	11,111	11,691	12,778	11,821	12,491	13,661	13,748	15,049
Global Forwarding, Freight	14,341	15,118	15,666	14,787	14,924	14,890	13,737	14,482
Supply Chain	13,061	13,223	14,340	14,227	14,737	15,791	13,957	14,152
Divisions total	52,426	54,005	56,756	56,126	57,838	60,473	58,520	61,851
Corporate Center/Other	1,302	1,260	1,203	1,251	1,345	1,269	1,279	1,247
Consolidation	−2,340	−2,436	−2,447	−2,465	−2,553	−2,512	−2,465	−2,654
Total	**51,388**	**52,829**	**55,512**	**54,912**	**56,630**	**59,230**	**57,334**	**60,444**
Profit/loss from operating activities (EBIT)								
Post - eCommerce - Parcel (until 2013 Mail)	1,120	1,107	1,048	1,286	1,298	1,103	1,446	1,502
Express	497	916	1,110	1,083	1,260	1,391	1,544	1,736
Global Forwarding, Freight	383	440	514	478	293	−181	287	297
Supply Chain	231	362	419	441	465	449	572	555
Divisions total	2,231	2,825	3,091	3,288	3,316	2,762	3,849	4,090
Corporate Center/Other	−395	−389	−423	−421	−352	−351	−359	−349
Consolidation	−1	0	−3	−2	1	0	1	0
Total	**1,835**	**2,436**	**2,665**	**2,865**	**2,965**	**2,411**	**3,491**	**3,741**
Consolidated net profit for the period	**2,630**	**1,266**	**1,762**	**2,211**	**2,177**	**1,719**	**2,781**	**2,853**
Cash flow/capex/depreciation, amortisation and impairment losses								
Net cash from/used in operating activities	1,927	2,371	−203	2,989	3,040	3,444	2,439	3,297
Net cash from/used in investing activities	8	−1,129	−1,697	−1,765	−1,087	−1,462	−1,643	−2,091
Net cash used in/from financing activities	−1,651	−1,547	1,199	−110	−2,348	−1,367	−1,233	−1,087
Free cash flow	484	749	−1,885	1,669	1,345	1,724	444	1,432
Capex	1,262	1,716	1,697	1,747	1,876	2,024	2,074	2,277
Depreciation, amortisation and impairment losses	1,296	1,274	1,339	1,337	1,381	1,665	1,377	1,471
Assets and capital structure								
Non-current assets	24,493	21,225	21,568	21,370	22,902	23,727	24,166	23,916
Current assets	13,270	17,183	12,289	14,091	14,077	14,143	14,129	14,756
Equity (excluding non-controlling interests)	10,511	11,009	9,019	9,844	9,376	11,034	11,087	12,637
Non-controlling interests	185	190	209	190	204	261	263	266
Current and non-current provisions	9,427	9,008	8,978	8,481	10,411	9,361	8,507	7,078
Current and non-current liabilities	17,640	18,201	15,651	16,946	16,988	17,214	18,438	18,691
Total assets	**37,763**	**38,408**	**33,857**	**35,461**	**36,979**	**37,870**	**38,295**	**38,672**

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		2010	2011	2012 adjusted	2013 adjusted	2014	2015	2016	2017
Employees/staff costs									
Number of employees[1]	At 31 December	467,088	471,654	473,626	479,690	488,824	497,745	508,036	519,544
Full-time equivalents[2]	At 31 December	418,946	423,502	428,129	434,974	443,784	450,508	459,262	472,208
Average number of employees[1]		464,471	467,188	472,321	478,903	484,025	492,865	498,459	513,338
Staff costs	€m	16,609	16,730	17,770	17,776	18,189	19,640	19,592	20,072
Staff cost ratio[3]	%	32.3	31.7	32.0	32.4	32.1	33.2	34.2	33.2
Key figures revenue/income/ assets and capital structure									
Return on sales[4]	%	3.6	4.6	4.8	5.2	5.2	4.1	6.1	6.2
Return on equity (ROE) before taxes[5]	%	29.8	15.2	23.6	26.7	26.3	19.7	27.7	27.5
Return on assets[6]	%	5.1	6.4	7.4	8.3	8.2	6.4	9.2	9.7
Tax rate[7]	%	6.9	23.7	20.2	14.0	15.5	16.4	11.2	14.3
Equity ratio[8]	%	28.3	29.2	27.3	28.3	25.9	29.8	29.6	33.4
Net debt (+)/net liquidity (–)[9]	€m	−1,382	−938	1,952	1,499	1,499	1,093	2,261	1,938
Net gearing[10]	%	−14.8	−9.1	17.5	13.0	13.5	8.8	16.6	13.1
Key stock data									
Basic earnings per share[11]	€	2.10	0.96	1.36	1.73	1.71	1.27	2.19	2.24
Diluted earnings per share[12]	€	2.10	0.96	1.30	1.66	1.64	1.22	2.10	2.15
Cash flow per share[11,13]	€	1.59	1.96	−0.17	2.47	2.51	2.84	2.03	2.72
Dividend distribution	€m	786	846	846	968	1,030	1,027	1,270	1,409[14,15]
Payout ratio	%	30.9	72.7	51.6	46.3	49.7	66.7	48.1	51.9
Dividend per share	€	0.65	0.70	0.70	0.80	0.85	0.85	1.05	1.15[14]
Dividend yield	%	5.1	5.9	4.2	3.0	3.1	3.3	3.4	2.9
Price-to-earnings ratio[16]		6.0	12.4	12.2	15.3	15.8	20.4	14.3	17.7
Price-to-cash flow ratio[17]		8.0	6.1	−97.6	10.7	10.8	9.1	15.4	14.6
Number of shares carrying dividend rights	millions	1,209.0	1,209.0	1,209.0	1,209.0	1,211.2	1,208.7	1,209.1	1,225.1[15]
Year-end closing price	€	12.70	11.88	16.60	26.50	27.05	25.96	31.24	39.75

[1] Headcount including trainees. [2] Excluding trainees. [3] Staff costs/revenue. [4] EBIT/revenue. [5] Profit before income taxes/average equity (including non-controlling interests). [6] EBIT/average total assets. [7] Income taxes/profit before income taxes. [8] Equity (including non-controlling interests)/total assets. [9] Group Management Report, page 62. [10] Net debt/net debt and equity (including non-controlling interests).
[11] The average weighted number of shares outstanding is used for the calculation. [12] The average weighted number of shares outstanding is adjusted for the number of all potentially dilutive shares. [13] Cash flow from operating activities. [14] Proposal. [15] Estimate. [16] Year-end closing price/basic earnings per share. [17] Year-end closing price/cash flow per share.

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GLOSSARY

Deutsche Post

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.

Ex-ante mail products
All charges subject to approval pursuant to section 19 of the *Postgesetz* with a minimum posting quantity of 50 items.

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.

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.

Inbound to Manufacturing (I2M)
DHL ensures the right components are delivered to the right manufacturing point at the right time. Our solutions provide complete end-to-end logistics management of inventories, facilities and labour associated with the inbound flow of materials.

Lead logistics partner
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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GOGREEN
Climate neutral printing with Deutsche Post DHL Group

FINANCIAL CALENDAR

2018

2018 ANNUAL GENERAL MEETING	24 APRIL 2018
DIVIDEND PAYMENT	27 APRIL 2018
INTERIM REPORT AS AT 31 MARCH 2018	8 MAY 2018
INTERIM REPORT AS AT 30 JUNE 2018	7 AUGUST 2018
INTERIM REPORT AS AT 30 SEPTEMBER 2018	6 NOVEMBER 2018

2019

2018 ANNUAL REPORT	7 MARCH 2019
INTERIM REPORT AS AT 31 MARCH 2019	9 MAY 2019
2019 ANNUAL GENERAL MEETING	15 MAY 2019
DIVIDEND PAYMENT	20 MAY 2019
INTERIM REPORT AS AT 30 JUNE 2019	6 AUGUST 2019
INTERIM REPORT AS AT 30 SEPTEMBER 2019	12 NOVEMBER 2019

Further dates, updates as well as information on live webcasts: @ **dpdhl.com/en/investors**

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