Annual Report 2007

Roadmap to Value

Five steps to value generation

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

Title

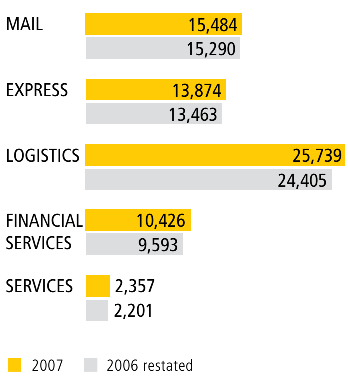
The Roadmap to Value capital markets programme ushers in a new phase in our corporate development, in which we aim to focus the entire Group on value growth.

Key Figures

		2006 restated	2007	+/– %
Group				
Revenue	€m	60,545	63,512	4.9
Profit from operating activities (EBIT)	€m	3,872	3,202	–17.3
Return on sales[1]	%	6.4	5.0	
Consolidated net profit[2]	€m	1,916	1,389	–27.5
Operating cash flow (Postbank at equity)	€m	2,178	2,808	28.9
Net debt (Postbank at equity)[3]	€m	3,083	2,858	–7.3
Return on equity before taxes	%	21.6	15.8	
Earnings per share	€	1.60	1.15	–28.1
Dividend per share	€	0.75	0.90[4]	20.0
Number of employees[5]		461,222	470,123	1.9
Segments				
MAIL				
Revenue	€m	15,290	15,484	1.3
Profit from operating activities (EBIT)	€m	2,094	2,003	–4.3
Return on sales[1]	%	13.7	12.9	
EXPRESS				
Revenue	€m	13,463	13,874	3.1
Profit or loss from operating activities (EBIT)	€m	288	–174	–160.4
Return on sales[1]	%	2.1	–1.3	
LOGISTICS				
Revenue	€m	24,405	25,739	5.5
Profit from operating activities (EBIT)	€m	751	957	27.4
Return on sales[1]	%	3.1	3.7	
FINANCIAL SERVICES				
Revenue	€m	9,593	10,426	8.7
Profit from operating activities (EBIT)	€m	1,004	1,076	7.2
SERVICES				
Revenue	€m	2,201	2,357	7.1
Loss from operating activities (EBIT)	€m	–229	–660	–188.2
Consolidation				
Revenue	€m	–4,407	–4,368	0.9
Profit from operating activities (EBIT)	€m	–36	0	100.0

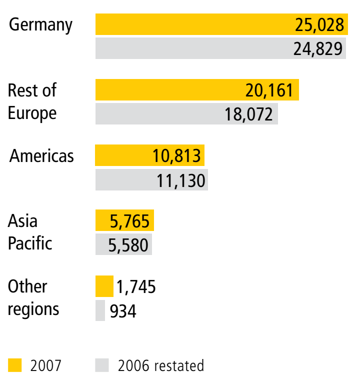
1) EBIT/revenue.
2) Consolidated net profit excluding minorities.
3) Adjusted for financial liabilities to Williams Lea minority shareholders.
4) Proposal.
5) Average FTEs.

Revenue by segment[1), 2)]
€m



1) Exluding Consolidation.
2) Note 8.1.

Revenue by region[1)]
€m



1) Note 8.2.

At a Glance

The Group

Deutsche Post World Net is the global market leader for logistics. Our Deutsche Post, DHL and Postbank brands stand for a wide range of integrated services and customised solutions for the management and transport of letters, goods, information and payments. Over 520,000 employees in more than 220 countries and territories make us the world's sixth largest employer and provide superior logistics services to help our customers be even more successful in their markets.

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

www.dpwn.com

MAIL

Deutsche Post delivers mail and parcels in Germany. It is an expert provider of dialogue marketing and press distribution services as well as corporate communications solutions. We operate a nationwide transport and delivery network in Germany. At the heart of this network are 82 mail centres processing around 70 million items per working day, and 33 parcel centres whose handling volume on six days a week exceeds 2.5 million units. An annual volume of around seven billion items makes us the cross-border mail market leader and Europe's largest postal company.

Deutsche Post

www.deutschepost.com

Cross-references and websites

EXPRESS/LOGISTICS

DHL delivers time-critical shipments as well as goods and merchandise by road, rail, air or sea. We transport courier and express shipments via one of the world's most extensive networks – our gateway to more than 220 countries and territories. DHL is the international market leader in the air and ocean freight and contract logistics segments. To satisfy our customers' needs, we draw on our geographic coverage, multi-modal capabilities and specific skills in numerous sectors.

www.dhl.com

FINANCIAL SERVICES

As the largest single retail bank in Germany, Postbank serves 14.5 million customers, has around 21,000 staff and employs more than 4,200 mobile financial advisers. With its 855 own branches and several thousand outlets of Deutsche Post, it has the most extensive branch network of any bank in Germany. Postbank's wide range of standardised banking products is designed to meet the typical needs of private and business customers. Along with traditional savings and current account offerings, Postbank primarily provides private real estate financing and home loan savings products.

www.postbank.com

What we achieved in **2007**:

With EBIT before non-recurring effects of €3.76 billion, we have met our forecast. Revenue rose 4.9% to €63.5 billion, driven above all by the LOGISTICS Division and Postbank's dynamic new customer business. On the liberalised German mail market, a basis for dependable planning with regard to social standards and price structure up to the year 2011 is now in place. With our Roadmap to Value, we have initiated an extensive capital markets programme.

What we plan to achieve in **2008**:

We anticipate making good headway towards attaining our goal of EBIT before non-recurring effects of around €4.2 billion. We aim to rapidly improve the results situation in our US EXPRESS business which remains flawed. With our Roadmap to Value initiative, we are seeking to achieve sustained value growth. At the same time, we are committed to systematically gearing our efforts to meeting customers' needs as well as intensifying collaboration between divisions and throughout the Group.

1. Profitability

Increase operating earnings

- A significant feature of the capital markets programme is to increase profitibility.
- We plan to increase EBIT by €1 billion by the end of 2009 – through actions taken in our operating business and reductions in overheads.
- We will use further measures to make underperforming units more profitable.

All segments will contribute to increasing EBIT

€m

1) Including overheads.

2. Cash generation

Introduction of a new performance metric

- We are introducing EBIT after asset charge as a new primary performance metric to focus all divisions on sustained value growth. From 1 January 2008, management incentives will also be tied to this metric. In this way, we aim to improve cash generation.
- We also plan for a €700 million reduction in net working capital by the end of 2009.
- Disposals of real estate and other assets are planned over the next 24 months to free up at least €1 billion.

New performance metric to focus management on value growth

EBIT	EBIT currently major performance and steering metric
Asset charge = **WACC[1]** x **NAB[2]**	Focus management attention on capital tied into their business
EBIT after asset charge	EBIT after asset charge to become new key performance indicator at Deutsche Post World Net

1) Weighted average cost of capital.
2) Net asset base.

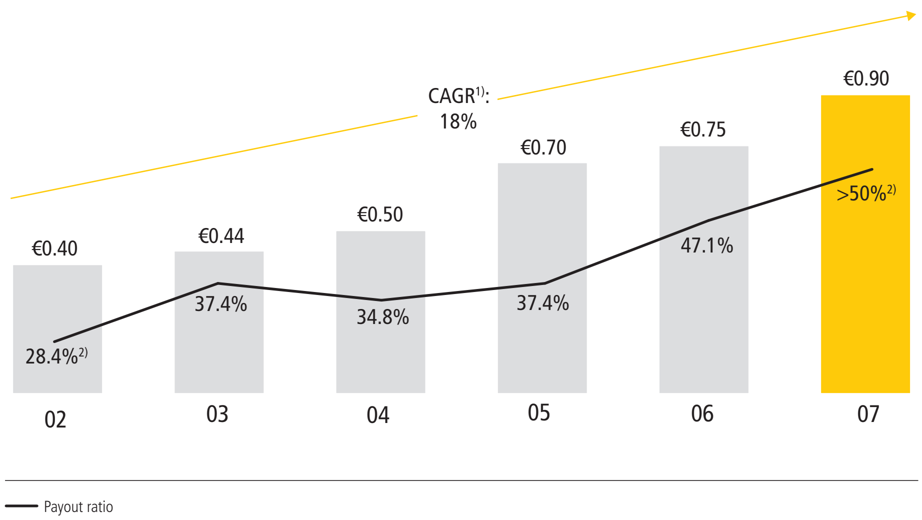

CHARITY

3. Payout to shareholders

2007 dividend to increase by 20%

- At the Annual General Meeting, we will be proposing a dividend increase for 2007 from €0.75 to €0.90 per share. This represents a 20% rise on the previous year.
- We plan to increase the dividend in coming years broadly in line with anticipated growth in net profit excluding non-recurring effects.
- Given surplus proceeds we will consider further forms of cash return.

Dividends to be broadly in line with anticipated growth in net profit excluding non-recurring effects



1) Compound annual growth rate.
2) Before non-recurring effects.

4. Transparency

Improve reporting transparency

- We are committed to further improving the transparency of our financial reporting. Figures will be presented on a stable basis and their development will be comparable over time.
- We plan to adapt our reporting structure accordingly. The SERVICES segment will be unbundled and all Global Business Services costs allocated to the operating divisions.
- The remaining parts of the SERVICES segment will be combined in the new Corporate Centre/Other segment.

SERVICES have reduced costs considerably

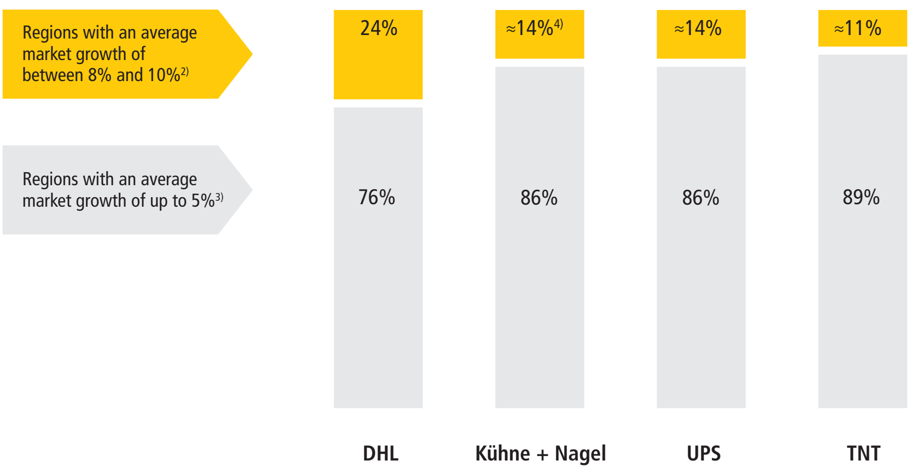
SERVICES segment created (2006)	Goal: higher quality at lower costs
Progress achieved	Savings of over €200 million during the past two years
SERVICES segment unbundled (2008)	All costs of internal service providers will in future be allocated to the operating divisions

5. Organic growth

Growing ahead of the market

- We will further leverage our superior positions in high-growth regions to outperform market growth.
- The First Choice programme will ensure our customers' loyalty and thus also future growth.
- Spending on mergers and acquisitions is expected to stay at the current low level. The criteria for acquisitions of businesses or parts of businesses have been tightened accordingly.

DHL[1] generates more revenue from fast-growing regions than its competitors



1) Only includes Express and Logistics.
2) Asia, Middle East, Africa and Central & South America.
3) Europe and North America.
4) Excluding Central and South America.

Source: annual reports from 2006


Peter 7 years
Alexandra 5 years

Dear Shareholders,

It is my pleasure as new chairman of the Board of Management to present to you the results of our business. On 18 February 2008, the Supervisory Board accepted Dr Klaus Zumwinkel's resignation from office as chairman of the Board of Management and appointed me as his successor.

Klaus Zumwinkel achieved great things over the past eighteen years and we wish to thank him for his business achievements, his strong commitment and the passion with which he made Deutsche Post the world's leading logistics service provider.

The past year saw a number of changes on the Board of Management. John Allan succeeded Edgar Ernst as Chief Financial Officer, Wolfgang Klein took over the helm of Postbank from Wulf von Schimmelmann and Jürgen Gerdes assumed responsibility for the MAIL Division, which was previously headed by Hans-Dieter Petram. On behalf of the Board of Management, I wish to thank our former colleagues on the Board for their contribution to our business success.

The fact that we are right on course in all of the Group's divisions is reflected in the annual results. With EBIT before non-recurring effects of €3.76 billion, we met our earnings target and closed the year with a solid performance. Your company is well equipped to face the future. I will now join with my fellow Board members in building on this solid fundament as a strong team.

I am particularly gratified that Chief Financial Officer John Allan has agreed to extend his contract for another two years up to the end of 2010. For he embodies at once a commitment to continuity and the courage to innovate. Both are vital to carving out a clear path to the future.

Back in November, the Roadmap to Value ushered in a new phase in the company's evolution. Our goal is ambitious. We want to make your company the most attractive investment in the industry. We are seeking to generate a bigger profit, distribute a larger portion of it to you, our shareholders, and sustain our organic growth.

The generally favourable response from amongst your ranks and the pattern traced by the share price confirm that we are on the right track. Between 8 November, when we announced the programme, and the end of the year, our share price climbed by 16.10% to €23.51.

The second milestone was the First Choice programme. Alongside our employees, it is our customers who are at the fore as their loyalty is a prerequisite of our profitable organic growth. The First Choice initiative gives usa frame of reference for systematically meeting customers' needs and will, I am convinced, bring about a shift in our management and corporate culture.

Dr Frank Appel,
Chairman of the
Board of Management

In our business activities, we are facing four major challenges:

First: The German mail market was fully liberalised on 1 January 2008. The good thing is that since last year we have had a sound basis for dependable planning with regard to social standards and price structure up to the year 2011. A statutory minimum wage for mail carriers has been stipulated, postage rates have remained stable and, as the only provider of a nationwide universal service, we are exempt from value-added tax. Overall, this is a good basis for ensuring that quality and reliability decide the field in competition. As the undisputed quality leader, we are very well equipped to welcome other providers into the marketplace.

Second: The express business in the United States remains flawed. The improvements made at the start of 2007 were undone as the economy faltered at the year-end. We have already adopted measures to improve performance. However – and I say this in all openness – the situation as it stands is unacceptable. The problem needs to be resolved. I promise you we will very soon be initiating all steps necessary to achieving a rapid improvement in results.

Third: In our logistics business, we aim to grow faster than the industry. With the integration of DHL and Exel, we executed the largest project of its kind in the industry to date, rapidly and with resounding success. However our ambition does not stop there. When I look ahead, I see the image of an integrated logistics service provider. By intensifying our collaboration between divisions and throughout the Group, we intend to substantially speed up the process of integration, thereby boosting the company's growth and profitability.

And fourth: Our subsidiary Postbank needs clear prospects for future development. With its successful business strategy, Germany's leading retail bank has long been attracting covetous interest. In the coming months, I will be joined by my colleague on the Board of Management, Wolfgang Klein, in paving the way for Postbank to play an active part in the consolidation of the sector as a whole.

Dear shareholders, you followed the development of your company with interest in 2007. We want to give you a greater share in its success than ever before. The Board of Management and the Supervisory Board will be proposing a dividend of €0.90 per share at the Annual General Meeting. Marking a substantial 20% year-on-year rise, the proposed dividend represents a payout ratio of around 50% of our net profit before non-recurring effects.

On a personal note, I am delighted at the fascinating new challenge I am undertaking and wish to thank the Supervisory Board for their trust, my fellow Board members for their support and our 520,000 employees around the globe for their loyalty.

Those who know me also know that I embrace a culture of openness. Let us work together in a spirit of open, honest partnership. My pledge to you is that I will listen carefully, will at all times take your criticisms very seriously and will make clear-cut decisions.

We are aware of the challenges facing us in the coming years and we will overcome them. With our Roadmap to Value and First Choice initiative, we have embarked on a course that will help us become the most attractive investment in the industry and the preferred provider for customers throughout the world.

Bonn, 29 February 2008

Yours sincerely,
Dr Frank Appel
Chairman of the Board of Management

Deutsche Post Shares

Further gains on stock markets

The growth of the German economy in 2007 prompted an upturn on the German stock market. Although negative repercussions from the Far East prompted some brief worries in February, the German DAX index regained impetus around mid-year and reached its 2007 high of 8,106 points on 16 July. Later in the summer, the sub-prime mortgage crisis in the United States brought the positive trend to a halt. Investors became less willing to purchase, which had a global impact on the major stock markets. The true effects of the crisis did not become apparent until towards the end of the year, however, by which time a short-lived recovery had occurred. Despite these influences, the DAX closed the year at 8,067 points. This represents an increase of 22.3% over the year. The EURO STOXX 50, on the other hand, grew by only 6.9%.

Our share data

		2004	2005	2006	2007	+/– %
Year-end closing price	€	16.90	20.48	22.84	23.51	2.9
High	€	19.80	21.23	23.75	25.65	8.0
Low	€	14.92	16.48	18.55	19.95	7.5
Number of shares	millions	1,112.8	1,193.9	1,204.0[1]	1,207.5[1]	0.3
Market capitalisation	€m	18,840	24,425	27,461	28,388	3.4
Average trading volume per day	shares	2,412,703	3,757,876	5,287,529	6,907,270	30.6
Annual performance with dividend	%	6.4	24.1	14.9	6.9	
Annual performance excluding dividend	%	3.4	21.2	11.5	2.9	
Beta factor[2]		0.84	0.75	0.80	0.68	
Earnings per share[3]	€	1.44	1.99	1.60	1.15	–28.1
Cash flow per share[4]	€	2.10	3.23	3.28	4.27	30.2
Price/earnings ratio[5]		11.7	10.3	14.3	20.4	
Price/cash flow ratio[4,6]		8.1	6.4	7.0	5.5	
Dividend	€m	556	836	903	1,087[7]	20.4
Payout ratio	%	34.8	37.4	47.1	78.2	
Dividend per share	€	0.50	0.70	0.75	0.90[7]	20.0
Dividend yield	%	3.0	3.4	3.3	3.8	

1) Increase due to exercise of stock options, see Note 35.
2) From 2006: Beta 3 years; source: Bloomberg.
3) Based on consolidated net profit excluding minorities, see Note 21.
4) Cash flow from operating activities.
5) Year-end closing price/earnings per share.
6) Year-end closing price/cash flow per share.
7) Proposal.

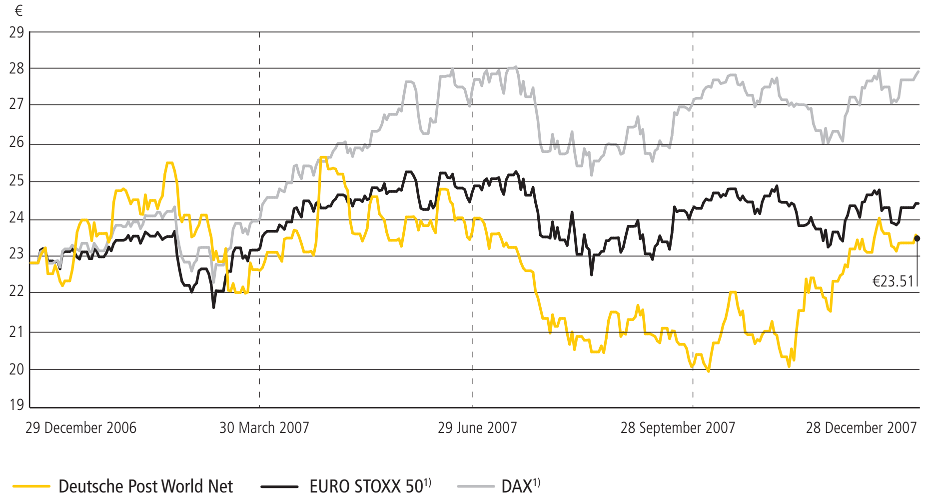
Share price benefits from capital markets programme

At the beginning of the year, our share price initially made favourable progress before mirroring the negative performance of the DAX. In the second quarter, it continued to track the leading German share price index as it rose. The price peaked at €25.65 on 27 April. Thereafter, the share price followed the negative market pattern, reaching its low of €19.95 on 3 October. The upward trend then resumed, fuelled in particular by

Strategy and goals, page 30

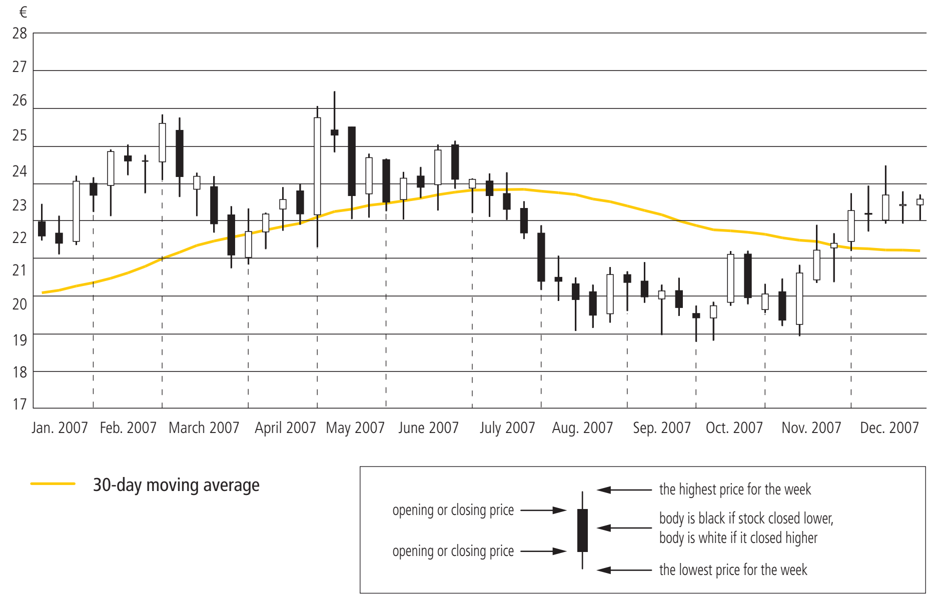
the launch of our capital markets programme, Roadmap to Value, on 8 November 2007. In the course of the year, the share price thus gained ground on both the DAX and our competitors' stock. It closed the year at €23.51, representing a gain of 2.9%. The average number of shares traded on market days was 6,907,270, or 30.6% more than in 2006. Our shareholders reaped the rewards of the higher liquidity.

Share price performance



1) Rebased on the closing price of Deutsche Post shares on 29 December 2006.

Candlestick graph/30-day moving average



Peer group comparison[1)]

		2006	2007	+/– %
Deutsche Post	EUR	22.84	23.51	2.9
TNT	EUR	32.58	28.25	–13.3
FedEx	USD	108.62	89.17	–17.9
UPS	USD	74.98	70.72	–5.7
Kühne + Nagel	CHF	88.65	108.50	22.4

1) Closing prices on the last trading day.

Growing shareholder base in the United States

The regional distribution of our shareholders changed again in the course of the year. The number of shares held in the USA increased by five percentage points, whilst the percentage attributable to German shareholders fell. The interest of our largest individual shareholder, KfW Bankengruppe, remained constant, representing 30.5% of the share capital.

Buy recommendations of analysts prevail

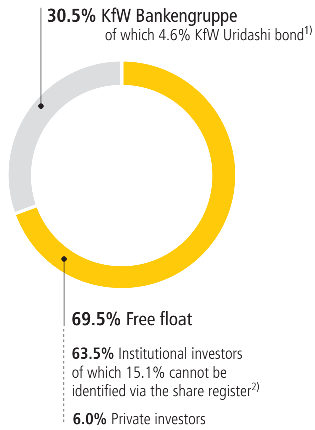
At the end of the year, 22 analysts advised investors to buy, seven to hold and only two to sell our shares.

Communications focus

Of particular interest to investors were the liberalisation of the German mail market on 1 January 2008 and its effects on our company, as well as the situation of the express business in the USA. In the spring, we conducted an extensive survey amongst investors. We wished to establish how they perceive our company and what they want and expect from us in the future. Their responses formed the basis of a catalogue of measures, which we presented in November together with the capital markets programme, Roadmap to Value. By way of the envisaged action, we are seeking to make the company more attractive to investors.

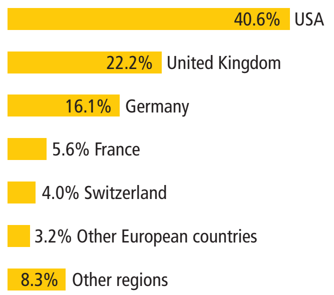
Shareholder structure

31 December 2007



1) In 2005 KfW issued a convertible bond in Japan for private investors (volume: 55.6 million shares). Investors can convert this bond until January 2010.
2) Some institutional investors are not entered directly in the share register but listed via a depository bank.

Regional distribution of identified institutional investors[1)]



1) The chart refers to institutional investors named in the share register. Their share of the free float was 50.9% on the reporting date.

Source: Thomson Financial
As at December 2007


Deutsche Post

Milestones of the Year

Acquisitions and disposals

January Williams Lea buys the UK company The Stationery Office, the public-sector leader in printing services and document management.

June Deutsche Post World Net acquires a 49% stake in the US air transport company ASTAR Air Cargo.

Deutsche Post World Net acquires a 49% interest in US company Polar Air Cargo.

September Postbank sells BHW Lebensversicherung AG as well as its interest in PB Versicherung AG and PB Lebensversicherung AG to Talanx AG.

Products and services

January DHL is the first international logistics service provider to offer a domestic air freight service in China.

February DHL announces plans to substantially expand capacities in Dubai where the first fully integrated logistics platform and the world's largest airport are taking shape.

June Deutsche Post plans to open around 600 outlets in the new Postpoint format in Germany.

October Williams Lea takes over Deutsche Post's document management business with over 2,500 employees in Germany.

November Germany's federal network agency approves Deutsche Post's pricing proposal. Prices for the domestic and international dispatch of letters and postcards will remain unchanged in 2008.

DHL is building a new US$175 million north Asian hub in Shanghai with a view to serving China and other north Asian markets beginning in 2010.

Partnerships and joint ventures

May DHL expands its joint venture with India's Lemuir Group, thereby consolidating its leading position on the Indian logistics market.

September DHL Express and Lufthansa Cargo set up the joint air freight carrier AeroLogic, with flight operations set to begin in April 2009.

December DHL Exel Supply Chain concludes a five-year contract worth over €200 million with UK furniture and fittings retailer MFI.

Group milestones

March The DHL Innovation Center is opened in Troisdorf near Bonn, Germany. It is here that the Group brings together all entities entrusted with managing technical innovations.

May The Annual General Meeting approves a dividend of €0.75 per share for 2006, which represents a 7.1% increase on the previous year.

July Dr Hans-Dieter Petram and Prof. Dr Wulf von Schimmelmann retire from office. New to the Board of Management are Jürgen Gerdes, responsible for the mail and parcel business in Germany, and Dr Wolfgang Klein, who is also chairman of the Board of Management at Postbank.

October John Allan becomes Chief Financial Officer, Dr Frank Appel Board member responsible for the LOGISTICS Division.

The European Council passes a resolution to liberalise the European mail markets. In Germany, the market will already open up fully on 1 January 2008.

November With its Roadmap to Value, the Group presents an elaborate capital markets programme.

December The German Bundestag and Bundesrat stipulate a minimum wage for mail carriers, which comes into effect on 1 January 2008.

Photographs (from top left to bottom right):
The new air freight carrier of DHL and Lufthansa,
the DHL Innovation Center, Deutsche Post mail carrier,
CFO John Allan presents the Roadmap to Value.

Group Management Report

Overview

Profit target achieved

The Group continued to grow in 2007. At €3.76 billion, profit from operating activities (EBIT) before non-recurring effects coincided with our forecast of about €3.7 billion. After adjustment for non-recurring effects, EBIT was €3.2 billion. Revenue rose 4.9% to €63.5 billion. The main drivers of this increase were the LOGISTICS Division, which took over the procurement logistics function for the UK National Health Service, and the FINANCIAL SERVICES Division, which raised its revenue on the back of dynamic development in Postbank's new customer business.

In the MAIL Division, we recorded EBIT of €2,003 million, comfortably reaching our target figure of around €2 billion. Falling revenue in the domestic mail business was offset by the other business units.

Earnings in the EXPRESS Division were negatively affected by impairment losses of €594 million recorded on non-current assets in the Americas region and came to €–174 million. Adjusted for this effect, the division would have returned EBIT of €420 million, slightly in excess of the minimum €400 million forecast. This figure already includes the construction expenditure for the new European hub in Leipzig.

The LOGISTICS Division exceeded expectations, generating EBIT of €957 million. Adjusted for the non-recurring income of €59 million from the disposal of Vfw AG, this was an improvement of 19.6%. DHL Exel Supply Chain played a decisive role in this development.

For the FINANCIAL SERVICES Division, we had forecast a 5% increase in EBIT. Thanks to the outstanding performance of Postbank, EBIT in fact rose by 7.2% to €1,076 million.

The SERVICES Division generated EBIT of €–660 million (previous year: €–229 million). This decrease is due to one-time factors recognised in the previous year, including the redemption of the exchangeable bond on Postbank shares (€276 million), the sale of McPaper AG (€10 million) and the positive outcome of arbitration proceedings against Deutsche Telekom (€89 million, net).

Selected key indicators for results of operations

		2006	2007	+/– %
Revenue	€m	60,545	63,512	4.9
Profit from operating activities (EBIT)	€m	3,872	3,202	–17.3
Return on sales[1)]	%	6.4	5.0	
Consolidated net profit excluding minorities	€m	1,916	1,389	–27.5
Earnings per share	€	1.60	1.15	–28.1
Dividend per share	€	0.75	0.90	20.0

1) EBIT/revenue.

Business and Environment

Business activities and organisation

Our business

Deutsche Post World Net offers integrated services and tailored, customer-focused solutions for managing and transporting letters, goods, information and payments.

In the MAIL Division, we transport mail and parcels in Germany and serve as an expert provider in the direct marketing and newspaper and magazine distribution segments. We also offer mail and communications services through direct links to more than 140 countries across the globe, as well as end-to-end corporate communications solutions.

Our EXPRESS Division provides courier and express services to business and private customers. We can draw on the world's most extensive network, embracing 220 countries and territories. Our business is structured according to the regions in which we operate.

In the LOGISTICS Division, we carry goods by rail, road, air and sea. We rank amongst the world's leading providers of air and ocean freight, contract logistics and for overland freight transport in Europe.

i postbank.com

The FINANCIAL SERVICES Division chiefly comprises the business activities of i Deutsche Postbank, namely Retail Banking, Corporate Banking, Transaction Banking and Financial Markets.

We have centralised the internal services which support the entire Group, including Finance Operations, IT and Procurement. This consolidation enables us to increase the flexibility of our business, improve service quality and leverage economies of scale and cost benefits.

Segments and business units

Deutsche Post World Net comprises four divisions. In 2007, the reporting segments were:

MAIL	EXPRESS	LOGISTICS	FINANCIAL SERVICES	SERVICES
• MAIL Germany	• Europe	• Global Forwarding	• Deutsche Postbank AG	• Global Business Services
• MAIL International	• Americas	• Supply Chain	• Postbank branches	• Corporate Centre
• PARCEL Germany	• Asia Pacific	• Freight	• Pension Service	• Deutsche Post retail outlets
	• EEMEA			

The Group management functions are performed by the Corporate Centre. The divisions operate under the control of their own divisional headquarters.

Organisation and management structure

At the start of 2007, we transferred the German parcel business from the EXPRESS to the MAIL Division and assigned overall responsibility for this business accordingly.

In the MAIL Division, we transferred Global Mail (formerly MAIL International) and Corporate Information Solutions (formerly Value-added Services) to a new MAIL International unit in the second quarter and assigned responsibility for this unit to the board department then called Global Business Services. In addition, Corporate Regulation Management was transferred from the chairman's board department to the expanded former Global Business Services, MAIL International board department.

At the end of the third quarter, we reorganised the Board of Management's responsibilities for Finance, LOGISTICS and Global Business Services. John Allan, who formerly headed LOGISTICS, assumed responsibility for Finance effective 1 October 2007. He also took charge of Global Business Services. At the same time, Dr Frank Appel took control of the LOGISTICS Division, whilst retaining responsibility for MAIL International, Corporate Regulation Management and the First Choice corporate programme. Dr Frank Appel and John Mullen jointly head Global Customer Solutions.

Group structure from various perspectives

Corporate governance structure

Structure in accordance with governance tasks and responsibilities (boards and committees)

- Corporate Centre
- Divisions
- Global Business Services

Management responsibilities

Structure in accordance with decision-making responsibility and reporting lines

- Board departments
- Corporate departments/business departments/regions/service departments
- Departments

Legal structure

Structure based on Deutsche Post World Net legal entities

- Deutsche Post AG
- Deutsche Postbank AG

Brand names

Structure in accordance with brand names used in customer communication

- Deutsche Post
- DHL
- Postbank

Disclosures required under Sections 289(4) and 315(4) of the *Handelsgesetzbuch* (HGB – German commercial code) and explanatory report

Share capital, voting rights and transfer of shares

As at 31 December 2007, the company's share capital totalled €1,207,470,598 and is divided into the same number of no-par value registered shares. Each share carries the same statutory rights and obligations, and entitles the holder to one vote at the Annual General Meeting (AGM). No individual shareholder or group of shareholders is entitled to special rights, particularly rights granting control powers.

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

Shareholdings exceeding 10% of voting rights

KfW Bankengruppe is our largest shareholder, holding around 30.5% of the share capital. The Federal Republic of Germany holds an indirect stake in Deutsche Post AG via KfW. According to the notifications we have received pursuant to Sections 21 ff. of the *Wertpapierhandelsgesetz* (WpHG – German securities trading act), KfW and the German government are the only shareholders who own more than 10% of the share capital, either directly or indirectly.

Appointment and replacement of members of the Board of Management

The members of the Board of Management are appointed and replaced in accordance with the relevant legal provisions (Sections 84, 85 of the *Aktiengesetz* (AktG – German stock corporation act), Section 31 of the *Mitbestimmungsgesetz* (MitbestG – German co-determination act)). The Articles of Association do not contain any special provisions in this respect. According to Section 84 of the AktG and Section 31 of the MitbestG, appointments by the Supervisory Board shall be for a maximum term of five years. Re-appointment or extension of the term of office, for a maximum of five years in each case, is admissible. Details of changes on the Board of Management during the year under review are reported in Organisation and management structure.

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Amendments to the Articles of Association

In accordance with Section 119(1), No. 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 of the AktG such amendments generally require a simple majority of the votes cast and a simple majority of the share capital represented. In such instances where a greater majority is required by law for amendments to the Articles of Association, that majority is decisive.

AGM resolutions were passed on 5 June 2003 (Contingent Capital II), 18 May 2005 (2005 authorised capital) and 8 May 2007 (Contingent Capital III) authorising the Supervisory Board to amend the wording of the Articles of Association in accordance with the respective share issue or utilisation of authorised capital, and following expiry of the respective authorisation period.

Authority of the Board of Management to issue and buy back shares

The Board of Management is authorised, subject to the approval of the Supervisory Board, to issue up to 174,796,228 new, no-par value registered shares by or before 17 May 2010 in exchange for non-cash contributions and thereby increase the company's share capital by up to €174,796,228 (2005 authorised capital, Article 5(2) of the Articles of Association). The shareholders' pre-emptive subscription rights have been disapplied. The use of authorised capital as acquisition currency is standard business practice in Germany. The 2005 authorised capital allows the company to acquire companies and shareholdings flexibly, without recourse to the capital market. The authorised capital is equivalent to less than 15% of the share capital.

New, no-par value registered shares may only be issued from Contingent Capital II (Article 5(3) of the Articles of Association) in order to service the subscription rights granted in accordance with the 2003 Stock Option Plan. To this end, the company's share capital has been contingently increased by up to €13,184,482. Within the context of the 2003 Stock Option Plan, up to 13,184,482 million shares in Deutsche Post AG are still available for subscription. Under this plan, the issue of new stock options is no longer possible.

An AGM resolution was passed on 8 May 2007, authorising the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds (hereinafter referred to collectively as "bonds with warrants and/or convertible bonds"), or a combination thereof, with a total nominal value of up to €1 billion, either once or several times, by or before 7 May 2012, thereby granting option and/or conversion rights on new shares with up to €56 million of the share capital. To this end, the share capital is contingently increased by up to €56 million (Contingent Capital III, Article 5(4) of the Articles of Association). When issuing bonds with warrants and/or convertible bonds, shareholder subscription rights may only be disapplied subject to the terms of the aforementioned resolution and pending the consent of the Supervisory Board. Further details may be found in the motion adopted by the AGM under agenda item 7 of the AGM on 8 May 2007.

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The authorisation to issue bonds with warrants and/or convertible bonds is standard business practice amongst publicly listed companies in Germany. It allows the company to finance its activities flexibly and promptly, and gives it the financial leeway to take advantage of favourable market situations at short notice, for example, by offering company shares or bonds with warrants/convertible bonds as a consideration within the context of company mergers, and when acquiring companies or shareholdings in companies. To date, the Board of Management has not made use of this authorisation.

In addition, the AGM of 8 May 2007 authorised the company to buy back shares up to a level of 10% of the share capital existing as of that date, by or before 31 October 2008. The general proviso is that at no time should the shares acquired in this way, together with the shares already held by the company, account for more than 10% of the share capital. Shares may be purchased on the stock exchange, in the form of a public purchase offer addressed to all shareholders, or by some other means in accordance with the provisions of Section 53a of the AktG. The authorisation permits the Board of Management to exercise it for every purpose authorised by law, particularly to redeem its own shares without a further AGM resolution, subject to the consent of the Supervisory Board. Details may be found in the motion adopted by the AGM under agenda item 6 of the AGM of 8 May 2007.

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It is standard business practice amongst publicly listed companies in Germany for the AGM to authorise the company to buy back shares on an annually recurring basis. On 6 May 2008, the Board of Management and the Supervisory Board will propose to the AGM that this authority be granted for a further year.

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

Remuneration of the Board of Management and the Supervisory Board

Page 114

The basic features of the remuneration system for the Board of Management and the Supervisory Board are described in the Corporate Governance Report under Remuneration Report. The latter also forms part of the Notes.

Economic parameters

World economy loses momentum

In 2007, the global economy remained on course for strong growth. Although cyclical risks increased in the second half-year, the vigour of economic expansion was not appreciably diminished. At around 5%, growth in global economic output was only marginally lower than a year earlier. The international exchange of goods actually grew by more than 6%.

Growth indicators for 2007

%	GDP	Exports	Domestic demand
USA	2.2	7.9	1.6
Japan	2.1	8.7	1.0
China	11.4	27.2	n/a
Euro zone	2.7	6.3[1)]	2.2[1)]
Germany	2.5	8.3	1.1

1) Estimates, as at 14 February 2008.

Sources: Postbank Research, national statistics

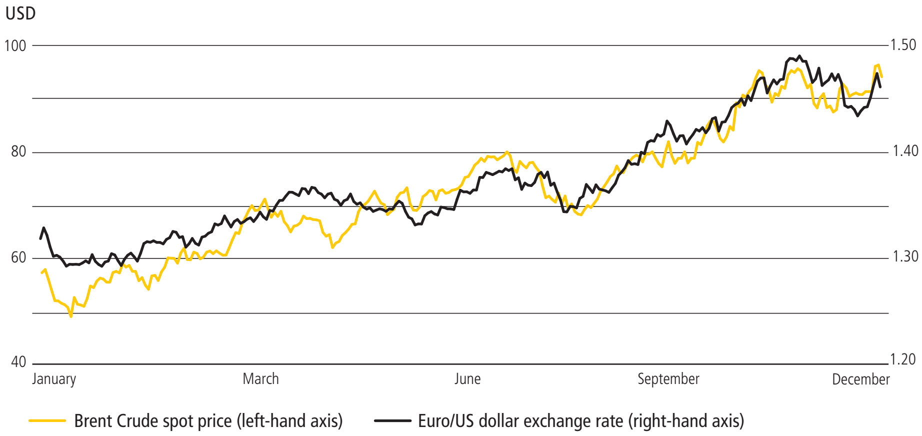
The US economy was hampered by the significant fragility of the residential property market. Private consumption grew well, on the other hand, as did companies' willingness to invest. Demand for commercial property was especially high. In addition, export activity was aided by both the healthy global economy and the weak US dollar. The 2.2% advance in gross domestic product (GDP) was substantially lower than the previous year's rise (2.9%).

The upsurge in Asia continued more or less undiminished. At more than 9%, the emerging markets in Asia recorded the highest growth. In China, GDP increased by 11.4% and exports by around 27%. The trade surplus climbed to more than US$260 billion. The country is also retaining its appeal to foreign investors whose direct investments rose to around US$75 billion. In Japan, on the other hand, the economy lost some of its vigour as GDP grew by only 2.1% (previous year: 2.4%). Whilst foreign trade continued to generate favourable impetus, partly thanks to the weak yen, the advance in domestic demand was more restrained.

Dynamism in the euro zone waned somewhat as the year progressed but, at 2.7%, GDP growth was almost as strong as in the previous year. The economy benefited from a further rise in net exports. On balance, however, the growth was driven by domestic demand. Gross fixed capital formation continued to develop very favourably but the advance in private consumption was less pronounced than in 2006.

The German economy slowed in the course of the year as well but, at 2.5%, growth still exceeded all expectations. More than half of the increase is attributable to foreign trade. Although the labour market was bolstered by the approximately 5% rise in gross fixed capital formation, private consumption faltered due to the significant increase in value-added tax from 16% to 19% at the start of the year, amongst other reasons.

Brent Crude spot price and euro/US dollar exchange rate



Sharp rise in oil price

International oil prices soared during 2007. A barrel of Brent Crude, which was trading for less than US$60 at the start of the year, peaked at almost US$100 and closed 2007 only marginally lower. The annual average oil price was around 10% higher than in 2006.

Steep decline in US dollar

Following a moderate rise in the first six months, the euro strengthened enormously to close the year at US$1.46. Its value therefore appreciated by 10.6%. The gain was driven by the crisis on the sub-prime mortgage market, which imposed a substantial burden on the financial markets. The fear of a recession in the USA grew and prompted a cut in the Federal Reserve key interest rate to 4.25% from September. Since the European Central Bank (ECB) had raised its key interest rate by 0.5% to 4% in the first half of the year and proceeded to hold it steady, the dollar's interest rate advantage was seriously eroded as the year unfolded. Measured against pound sterling, the euro posted a 9.1% gain.

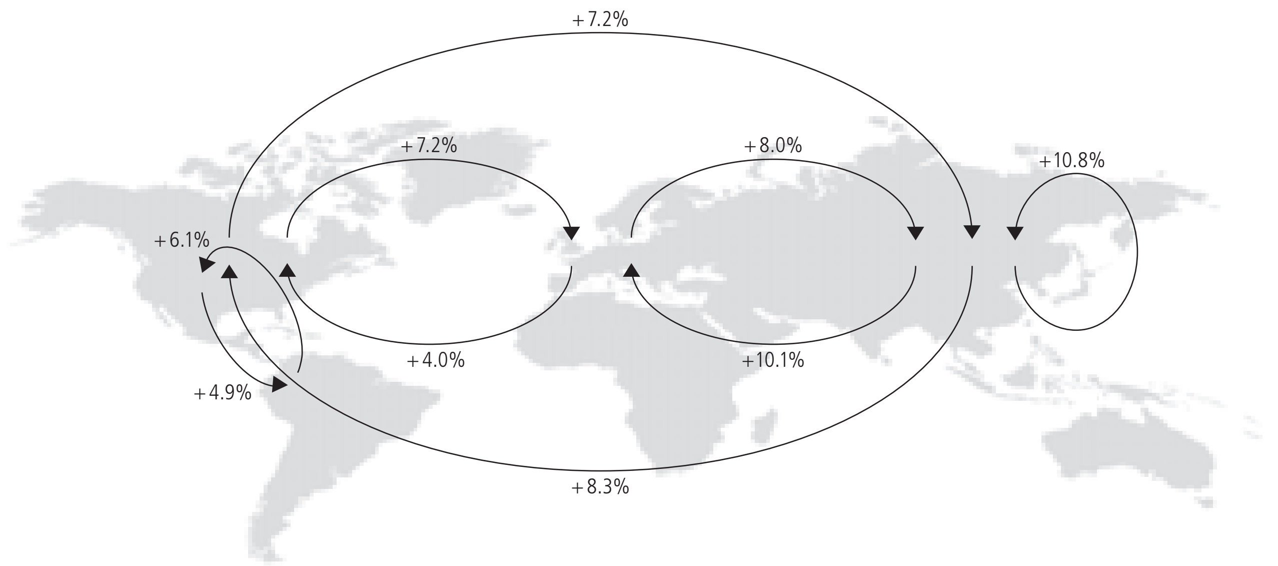
Apprehensive financial markets blight corporate bonds

The economic upswing and base rate increases fuelled a strong rise in capital market returns in the first half of 2007. Thereafter, following the mortgage crisis, government bonds were once again seen as a safe haven. At the end of the year, ten-year US treasury bonds were yielding around 0.6 percentage points less than at the close of 2006. In contrast, the yield on German ten-year treasury bonds increased by a good 0.3 points to 4.3% in the same period. Although long-term interest rates remain low, the climate for corporate bonds has deteriorated appreciably. Apprehension in financial markets has made investors more risk averse and risk premiums have increased significantly as a consequence, even for high-quality corporate bonds.

International trade continues to grow strongly

Underpinned by increased off-shoring of production and the global sourcing of goods and services, trade volumes are expanding more than twice as fast as industrial production. Here a shift in the pattern of growth is becoming visible: Import demand is moving away from high-income countries towards emerging markets. Import growth in these markets came to around 12.5%, compared to only 6.8% in the high-income countries. On the export side, growth in developing countries and emerging markets has been twice as fast as in high-income countries since 2000 (10.8% versus 5.1% a year on average). Intra-Asian trade flows have already become the largest trade lane in the global arena and continue to grow at an outstanding 10.8% (CAGR 2006 – 2009). In second place comes trade between Asia Pacific and Europe, which is growing by 10.1% per year. The following diagram shows the most important international trade flows (foreign trade volumes larger than €100 billion) and their growth rates.

International trade flows 2006 – 2009[1)] (Compound annual growth rate – CAGR)



1) Foreign trade volumes > €100bn

Sources: Global Insight, The World Bank

Our markets

We operate worldwide and are represented in over 220 countries and territories, including all major economic regions. The overview in the margin is of the overall market as well as of the courier, express and parcel (CEP) markets relevant to us. The parameters affecting us in the individual segments and the market shares we attained are detailed in the sections on the individual divisions.

Drivers of our business success

Four trends are currently making a strong impact on our business:

1. **Globalisation** The elimination of trade and customs barriers is enabling companies to develop new markets and move activities to locations that offer competitive advantages. This trend is fuelling the demand for transport and logistics. Trade is growing more quickly in the international than in the national arena despite high oil and energy prices. However, global and complex supply chains give rise to new risks which companies can counter only with the aid of capable logistics partners.
2. **Liberalisation** The member states of the European Union are obliged to open up their mail markets fully to competition in 2011. For some countries, the deadline has been deferred for two years. In Germany, the market was completely liberalised as early as 1 January 2008.
3. **Outsourcing** As production chains are being placed increasingly on an international footing and become more complex, demands on companies are getting tougher. In-house processes have to be fast and flexible, facilitate customised mass production and comply with ecological standards. Increasing complexity also pushes up costs. In the light of this, companies are outsourcing more of their activities and logistics service providers are benefiting from this trend.

Markets and market volumes

Global

- Cross-border mail market: €10.4bn
- Air freight market: €16.4bn
- Ocean freight market: 26.2m TEUs[1)]
- Contract logistics market: €192.7bn

Europe

- German mail communication market: €6.8bn
- CEP market: €42.6bn, of which int. CEP market[2)3)]: €12.1bn

USA

- US mail market: €53.6bn[4)]
- US CEP market: €50.5bn, of which int. US CEP market: €4.6bn

Asia

- CEP market[5)]: €27.8bn, of which int. express markets: €5.6bn

1) Twenty-foot equivalent units.
2) New market definition: all items up to 1,000kg.
3) Country base: GB, NL, E, F, I, D, S, B, BG, PL.
4) Company estimates.
5) Country base: SGP, HK, CN, J, RC, T, RP, RI, IND, AUS, NZ, MAL, VN, ROK.

As at 2006

4. **Digitalisation** The internet is changing the way in which information is exchanged. Written communication is being replaced increasingly by electronic data transmission. Quantities and revenues are declining, especially in the traditional mail business. On the other hand, the internet brings dealers and customers closer together, fosters dialogue and gives customers virtual access to goods. These attributes stimulate business and, in turn, demand for transport and logistics services.

Legal environment

Note 50

In view of our leading market position, a large number of our services are subject to sector-specific regulation under the German postal act. Further information on this issue and legal risk is contained in the Notes.

Strategy and goals

Strategic goals

Beginning on page 47

The market for logistics services is becoming increasingly intricate as individual segments converge and competition increases. At the same time, the number of products and services is rising. Traditional forwarders are reducing shipping times and offering services that were once the preserve of express providers. From the customer's perspective, the task of finding the best logistics solution is becoming steadily more difficult. Logistics customers are therefore reducing the number of suppliers and selecting service providers who cover the entire supply chain. Deutsche Post World Net offers a comprehensive service – not only in each of its divisions but also by way of an integrated offering. We aim to be the market leader in every segment, to generate a high profit margin and to grow faster than the market. At the same time, we seek to create value by fostering even closer co-operation between the individual divisions, in particular between EXPRESS and LOGISTICS. The divisions' individual strategic goals are derived from the overriding corporate strategy.

Roadmap to Value

- 1. Profitability
- 2. Cash generation
- 3. Payout to shareholders
- 4. Transparency
- 5. Organic growth

Roadmap to Value

On 8 November 2007, the Group initiated its Roadmap to Value, an extensive capital markets programme geared to achieving a sustained increase in enterprise value. The idea is to improve profitability, increase cash generation and give shareholders a larger stake in the Group's ensuing positive development, based on organic growth. Investors and analysts are to receive extensive information that will enable them to assess the Group's performance reliably.

Improving profitability

The central focus of the programme is to increase profitability. We plan to increase the profit from operating activities (EBIT) by €1 billion by the end of 2009 – through actions taken in the operating business and through further cost savings.

Increasing cash generation

In future, cash generation will be more central to our strategy than ever before. The Group plans to reduce its net working capital by €700 million by the end of 2009. In addition, we aim to free up at least €1 billion in cash through the disposal of real estate in the next 24 months. In January 2008, a new performance metric, EBIT after asset charge, was introduced as an expression of this value-driven approach. As we move forward, management incentives will be tied to this metric.

Internal Group management, page 34

Value-added for investors

In a move to give our shareholders a larger stake in the value we create, we will be proposing that the dividend for 2007 be increased by 20% to €0.90 per share. We plan to increase the dividend again in the coming years – broadly in line with the anticipated growth in net profit excluding non-recurring effects.

Transparent figures

The Group is committed to improving the transparency of its reporting. The unbundling of the SERVICES Division and the allocation of all Global Business Services costs to the operating units will illustrate more clearly the profitability of the individual segments.

Organic growth

We intend to use the strong platform we have built in recent years as a springboard for organic growth. The strengths we have already established in high-growth regions – e.g. Asia Pacific and Eastern Europe – enable us to participate in their expansion. The construction of our new hub in Shanghai is to be seen as an expression of our confidence in Asia's sustainable growth potential. The rate of growth in the LOGISTICS Division, which has been significantly outperforming the market since 2005 despite the integration of Exel, further reflects our strong position in rapidly growing markets. Spending on company mergers and acquisitions has thus been capped and the criteria for such takeovers have been tightened. Acquisitive investments have already fallen substantially.

We laid a foundation stone for further, sustainable growth when the First Choice programme was launched back in 2006. Its aim is to improve our performance systematically at every point of contact with our customers – from sales through customer centres and the internet to the mail carriers. For us, the programme is a tool for fostering even greater loyalty amongst our customers. In the reporting period, almost 900 initiatives in 116 countries were rolled out and, in some cases, completed within the framework of the programme. In the mail business, for instance, 350 new service managers were employed and Postbank has equipped its branches with mobile counter units in order to reduce waiting times. First Choice remains a key component of our growth strategy. We now intend to focus on smaller countries whilst at the same time integrating employees more closely into the programme.

Own sales team for key accounts

Since 2004, we have been serving our major customers through a dedicated account management organisation, Global Customer Solutions. Here, industry experts with product expertise act as empowered single points of contact along the entire supply chain of the individual key accounts. The team of experts also continuously develop our business in line with changing market or customer needs. Our success proves this formula right: For years, an increasing percentage of customers have been requesting services from not one but several of our divisions.

Our corporate values

- Deliver excellent quality
- Make our customers successful
- Foster openness
- Act according to clear priorities
- Act in an entrepreneurial way
- Act with integrity, internally and externally
- Accept social responsibilities

Mission and conduct

The way in which we act, both as individuals and in the economic arena, is based on seven corporate values that reflect our mission as a company. They also provide guidance for our employees as they take day-to-day decisions. In order to establish terms of reference, we made the Code of Conduct a binding document in 2006. It is based on international guiding principles, such as the Universal Declaration of Human Rights, International Labour Organisation Conventions and the United Nations Global Compact.

Strategic environmental commitment

i Sustainability, page 76

The debate concerning climate change and measures to restrict harmful emissions has reached a new climax. As the world's largest logistics service provider, we give rise to significant greenhouse gas emissions. We have, however, long been aware of our environmental responsibility and act accordingly – as illustrated by numerous individual measures. In 2007, we focused on a range of climate-neutral products in our i GOGREEN initiative. We were the world's first logistics company to adopt the goal of reducing the greenhouse gas emissions from road transport activities in Europe – as envisaged by the Kyoto Protocol – by 5% by 2012 compared with 1990.

Internal Group management

Economic profit as earnings performance indicator

As in previous years, we present economic profit as an additional earnings performance indicator alongside EBIT in our value-based Group management system. Economic profit measures the value we create for shareholders in operating activities, taking into account the cost of capital employed.

The starting point for calculating economic profit is net operating profit after taxes. This consists of EBIT, net income from associates, net income from measurement of the Deutsche Postbank Group at equity and the interest component of operating lease expenses. Taking net operating profit after taxes and deducting the total cost of capital (weighted average cost of capital times average net assets employed) gives economic profit.

Economic profit (Postbank at equity)

		2006 restated	2007	+/– %
Net operating profit after taxes	€m	3,029	2,538	–16.2
Average net assets employed	€m	27,291	26,601	–2.5
x Weighted average cost of capital	%	5.9	6.7	
– Total cost of capital	€m	–1,610	–1,782	10.7
= Economic profit	**€m**	**1,419**	**756**	**–46.7**

With economic profit at €756 million, the Group continued to create substantial value in 2007. Net operating profit after taxes was down on the previous year despite operational improvements. This was due to a €594 million non-cash write-down on EXPRESS Americas non-current assets. Average net assets employed decreased slightly, whilst the weighted average cost of capital sharply increased due to generally higher interest rates. As a result, economic profit dropped by 46.7% compared with the previous year. The weighted average cost of capital had already been set at 6.7% for the beginning of the year.

The weighted average cost of capital (WACC) represents the weighted average net cost of interest-bearing liabilities and equity, taking into account tax effects and sector-specific risk factors in a beta factor.

Equity cost of capital

	Risk-free rate of return	**4.0%**
+	Market risk premium x Beta factor (specific risk premium for Deutsche Post World Net)	**5.0%** **0.8**
=		**8.0%**
	Weighting at market rates	**70%**

Debt cost of capital

	Risk-free rate of return	**4.0%**
+	Average, long-term risk premium	**0.5%**
=		**4.5%**
–	Tax effect (20%)	**–0.9%**
=		**3.6%**
	Weighting at market rates	**30%**

Group cost of capital 6.7%

The average net assets employed figure used in economic profit calculations is determined as follows:

Average net assets employed (Postbank at equity)

€m	2006 restated	2007
Segment assets	30,642	30,266
– Segment liabilities including non-interest-bearing provisions	–10,601	–10,883
= Segment net assets	20,041	19,383
+ Investments in associates and the Deutsche Postbank Group	1,674	1,865
+ Investment property	50	115
+ Net present value of operating lease obligations	4,863	5,211
= Net assets employed at end of year	26,628	26,574
Net assets employed at end of previous year	27,954	26,628
Average net assets employed	**27,291**	**26,601**

New performance metric: EBIT after asset charge

Strategy and goals, page 30

We introduced EBIT after asset charge as a new primary performance metric from 1 January 2008 as part of our Roadmap to Value capital markets programme to focus all divisions on sustained value growth. Managers' incentives will also be tied to this indicator. Unlike EBIT, the performance indicator used so far, EBIT after asset charge takes into account the cost of tied-up capital. In other words, it reflects profit generated over and above the cost of capital.

EBIT – Cost of capital X Net asset base = EBIT after asset charge

Operating assets

Operating liabilities

Goodwill

Net asset base

The net asset base is defined as operating assets minus operating liabilities plus goodwill.

We anticipate that the new performance metric will enhance the focus on cash generation. This means we can make better use of our strengths and more easily identify scope for improvement to boost the value of the company and returns for shareholders.

Earnings, Financial Position and Assets and Liabilities

REVENUE AND EARNINGS PERFORMANCE

The Group

Changes in portfolio and reporting

In financial year 2007, our portfolio changed as follows:

- On 10 January 2007, our Group subsidiary Williams Lea acquired 100% of the shares of the UK company The Stationery Office Holdings Ltd.
- On 8 June 2007, we acquired a 49% shareholding in the US-American air freight company ASTAR Air Cargo Holdings LLC; this has been included in full in the consolidated financial statements.
- On 25 June 2007, we acquired 49% of the share capital of the US-American company Polar Air Cargo Worldwide, Inc.; the company has been included as an associate in the consolidated financial statements.
- On 31 December 2007, we purchased all shares in the Israeli company FC (Flying Cargo) International Transportation Ltd., Tel Aviv.
- The waste management company Vfw AG was sold effective 2 March 2007.
- The Deutsche Postbank Group dissolved and deconsolidated the special funds of BHW Bausparkasse AG as at 31 August 2007.
- BHW Lebensversicherung AG, including its special funds, and the 50% holding in PB Versicherung AG and PB Lebensversicherung AG were sold as at 30 September 2007.
- On 1 October 2007, the Dutch Dedicated Distribution Service B.V. and the Belgian Van Osselaer-Pieters Colli Service B.V.B.A. were sold to Österreichische Post AG.

The prior-year figures have been adjusted to reflect the following changes in segmentation: At the beginning of 2007, we removed the parcel business in Germany from the EXPRESS Division and transferred it to the MAIL Division. The year before we had already transferred the European overland transport business from the EXPRESS Division to the LOGISTICS Division. Details of these changes can be found in Segment reporting disclosures.

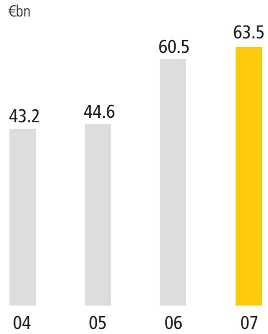
Note 8

Consolidated revenue up again

Consolidated revenue and income from banking transactions rose by 4.9% to €63,512 million (previous year: €60,545 million). The increase was mainly driven by the contract with the National Health Service (NHS) in the LOGISTICS Division, which took effect on 1 October 2006, and the good performance of Postbank. The share of revenue generated outside Germany continued to grow and now accounts for 60.6% of total revenue (previous year: 59.0%). Negative currency effects reduced consolidated revenue by €1,197 million.

Consolidated revenue

€bn



Income and expense

Other operating income declined by €235 million to €2,586 million, due mainly to the one-time factors contained in the prior-year figure: €276 million from exercising the exchangeable bond on Deutsche Postbank shares, net income of €89 million from the positive outcome of the arbitration proceedings against Deutsche Telekom and €10 million from the disposal of McPaper AG. A further €64 million from the sale of shares in the Czech building society Modra Pyramida were compensated for by various smaller non-recurring effects at Postbank. In the year under review, we recorded income of €59 million from the sale of Vfw AG and net non-recurring effects of €–25 million at Postbank. These mainly comprise the gain on the disposal of Postbank's insurance equity investments of €391 million, provisioning in the investment portfolio in the amount of €183 million and impairment losses of €112 million in connection with the sub-prime crisis, as well as extraordinary effects in administrative expenses and non-recurring effects in net interest income.

Materials expense and expenses from banking transactions rose in line with the increase in revenue from €34,349 million to €36,875 million in total. Materials expense rose to €30,488 million (previous year: €28,641 million), expenses from banking transactions rose to €6,387 million (previous year: €5,708 million). Materials expense also includes higher expenses for the NHS contract.

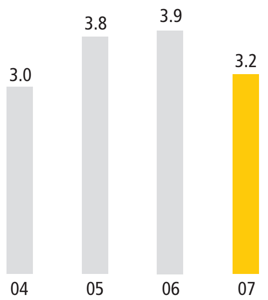
Staff costs dropped slightly by 0.8% to €18,471 million, due in part to a reduction in pension expenses.

Depreciation, amortisation and impairment losses increased by €586 million to €2,357 million (previous year: €1,771 million), primarily due to impairment losses recorded on non-current assets in the Americas EXPRESS business as a result of impairment testing.

i Note 14

At €5,193 million, other operating expenses were up €435 million on the previous year. The increase stems from a series of smaller factors.

Consolidated EBIT
€bn



EBIT before non-recurring effects improved

The developments presented above generated profit from operating activities (EBIT) of €3,202 million. This figure contains non-recurring income of €59 million and net non-recurring effects of €–25 million at Postbank as well as a €594 million impairment loss on the assets of the EXPRESS business in the Americas region. The prior-year earnings figure contained non-recurring income of €375 million. Adjusted for these factors, profit improved by 7.6%.

Net finance costs closed at €1,010 million, a slight improvement on the previous year (€1,030 million). In 2006, interest and measurement effects from the exchangeable bond on Postbank shares was responsible for the higher figure, whilst in the period under review it was higher interest rates that drove up finance costs.

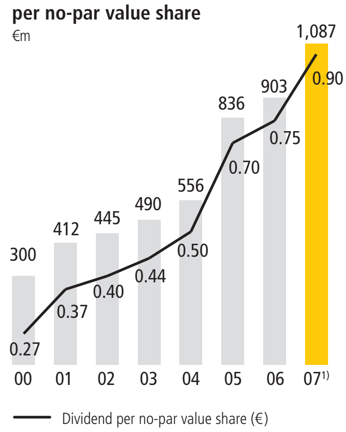
Profit before income taxes fell by €650 million to €2,192 million. Income taxes dropped to €307 million (previous year: €560 million). This reflects the lowering of the tax rate in the wake of the corporate tax reform in Germany. As a result, the Group tax rate dropped from 19.7% to 14.0%.

Consolidated net profit for the period decreased by €397 million to €1,885 million (previous year: €2,282 million). An amount of €1,389 million is attributable to shareholders of Deutsche Post AG and €496 million to minority shareholders. Both the basic and diluted earnings per share fell from €1.60 to €1.15.

Dividend increases by 20%

The Board of Management will propose the payment of a dividend per share of €0.90 at the Annual General Meeting on 6 May 2008. This represents an increase of 20% compared with the previous year. The total dividend will therefore amount to €1,087 million. The payout ratio in relation to Deutsche Post AG's net profit for the year will thus increase from 71.5% to 81.2%. In relation to the consolidated net profit attributable to Deutsche Post AG shareholders, it amounts to 78.2% (previous year: 47.1%). Based on the share price as at 31 December 2007, the net dividend yield is therefore 3.8%. The dividend will be disbursed on 7 May 2008 and, as in previous years, is tax-free for shareholders resident in Germany.

Total dividend and dividend per no-par value share
€m



1) Proposal.

FINANCIAL POSITION AND ASSETS AND LIABILITIES

Principles and aims of financial management

Principles

Besides cash and liquidity management, the Group's financial management activities include: managing interest rate, currency and commodity price risks; overseeing the Group's financing; issuing guarantees and letters of support; and liaising with the rating agencies. Since the requirements and processes of Deutsche Postbank Group differ fundamentally from those of the remainder of the Group, the remarks below refer exclusively to the analysis with Postbank presented on an equity-accounted basis; in other words, cash flows are shown without the Deutsche Postbank Group.

First and foremost, we seek to control risk and to manage processes centrally. Responsibility rests with Corporate Finance, which is supported by three Regional Treasury Centres in Bonn (Germany), Fort Lauderdale (USA) and Singapore. These centres act as interfaces between headquarters and the operating companies, advise the companies on all financial management issues, and ensure compliance with the Group-wide guidelines. These guidelines and processes comply with the *Gesetz zur Kontrolle und Transparenz im Unternehmensbereich* (KonTraG – German law on control and transparency in business) of 27 April 1998.

Aims

Our principal goal is to minimise the cost of capital and financial risks, whilst safeguarding the Group's lasting financial stability and flexibility. In order to maintain its unrestricted access to the capital markets, the Group continues to seek a credit rating that is higher than the average for the transport and logistics industry. In view of this aim, we monitor the development of our operating cash flow against adjusted debt particularly closely. Adjusted debt is the Group's net debt, allowing for pension obligations that are not directly capital-backed and liabilities under operating leases.

Cash and liquidity management

Cash and liquidity management is a central activity overseen by the Corporate Treasury on behalf of the subsidiaries, whose operations span the globe. More than 80% of the Group's external revenue is consolidated in cash pools and used to balance internal liquidity needs. In countries where this practice is ruled out for legal reasons, internal and external borrowing and investment are arranged centrally by the Corporate Treasury. In this context, we observe a balanced banking policy in order to avoid depending excessively on individual banks. Our subsidiaries' internal revenue is also pooled and managed by the in-house bank with a view to escaping external bank charges and margins (inter-company clearing). Payment transactions take place according to uniform guidelines as well as by way of standardised processes and IT systems.

The Group's unsecured firm credit lines total around €4.2 billion, of which some €398 million had been used as at 31 December. Our banking policy seeks to spread the volume of transactions widely and to foster long-term business relationships with financial institutions. Alongside the customary equal treatment clauses and termination rights, the relevant loan agreements do not contain any further undertakings concerning the Group's financial indicators. Bridge-over financing for acquisitions temporarily gave rise to relatively substantial drawdowns on credit facilities in recent years. Average drawings on credit lines came to only around 4.4% in 2007 (previous year: 9.7%).

Managing market risk

The Group manages financial market risks by making use of both primary and derivative financial instruments. Interest rate risks are managed by way of interest rate swaps. Forward transactions, cross-currency swaps and options are used to hedge currency risks. Commodity price risks are largely passed on to customers via surcharges. The parameters, responsibilities and controls governing the use of derivatives are established in internal guidelines.

Note 48.2

Group financing

We apply the principle of covering the Group's financial requirements with a balanced ratio of equity to liabilities. The Group needs funds to repay outstanding debt, for capital expenditure and to finance its business activities. Our most important source of funds is the net cash from operating and investing activities. We cover our borrowing requirements with a flexible approach, using firm bilateral credit lines, capital market offerings, structured financing transactions and, as an off-balance sheet funding vehicle, operating leases. Our aim is to appeal to a broad circle of investors and to raise funds close to the time when the requirement arises. Borrowing largely takes place centrally and in euros, and the funds are distributed internally. Operating leases are used mainly to finance real estate and aircraft but also IT equipment as well as fleet and warehouse vehicles.

The most important currency in which Group debt is denominated is the euro. By way of derivative financial instruments, however, a portion of the euro debt is translated into foreign currencies in order to cover our operating companies' liquidity requirements. Paying due regard to such transactions shows that the portion of the Group's net debt denominated in euros was 60% (previous year: 40%); the US dollar share was 28% (previous year: 27%). The euro share mainly increased as a result of streamlining the foreign-currency debt portfolio.

Guarantees and letters of support

Deutsche Post AG provides collateral as necessary by issuing letters of support or guarantees for the loan agreements, leases and supplier contracts concluded by Group companies. This practice allows better conditions to be negotiated locally. Such collateral is provided and monitored centrally.

Creditworthiness of the Group

Credit ratings represent an independent and current assessment of a company's credit standing. The ratings are based on a quantitative analysis of the subjects' balance sheets, income statements and cash flow statements. Qualitative factors, such as industry particularities and corporate strategy, are also taken into account. Our creditworthiness is regularly reviewed by the international rating agencies Standard & Poor's, Moody's Investors Service (Moody's) and Fitch Ratings. With our current category A rating, awarded to companies whose ability to meet their financial obligations is considered good, we rank above the average for the transport and logistics industry.

Ratings

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
Long-term	A2	A–	A
Outlook	Negative	Negative	Stable
Short-term	P–1	A–2	F1

Standard & Poor's has issued a long-term credit rating of A- together with a negative outlook. This places us at the lower end of category A, which is the ranking for companies whose capacity to meet their financial commitments is considered good. The outlook is an assessment of the direction the rating is likely to take in the medium term. Our short-term credit rating according to Standard & Poor's is A–2, which, like the long-term rating, is a good mark.

Moody's ranks our long-term creditworthiness A2, which is in the mid-range of category A. The current outlook is negative. The agency gives us the highest possible short-term credit rating, namely P–1.

Fitch has given us a long-term rating of A with a stable outlook, which places our long-term creditworthiness in the "good" category. According to this agency as well, our short-term credit rating is the highest possible.

investors.dpwn.com

Detailed analyses by the rating agencies and full information on the rating categories are contained on our website.

Liquidity and sources of funds

As of the balance sheet date, the Group (excluding Postbank) had cash and cash equivalents in the amount of €1,339 million (previous year: €1,761 million) at its disposal. A large portion of this is accounted for by subsidiaries in countries where foreign exchange transactions are unrestricted. The financial liabilities disclosed in our balance sheet break down as follows:

Financial liabilities, 2007 (Postbank at equity)

€m	
Bonds	1,952
Due to banks	978
Finance lease liabilities	625
Liabilities to Group companies	467
Other financial liabilities	956
	4,978

Further information on the disclosed financial liabilities is contained in the Notes.

Note 42

We use off-balance sheet funding vehicles – particularly operating leases – primarily to finance real estate, as illustrated by the following table.

Group financing, page 39

Operating lease obligations by asset class, 2007 (Postbank at equity)

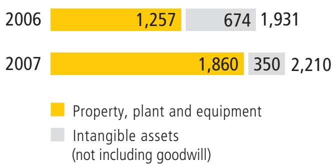
€m	
Land and buildings	6,153
Technical equipment and machinery	164
Other equipment, office and operating equipment	402
Aircraft	165
	6,884

As regards financing business, two transactions stood out in 2007:

- In April, we issued a municipal bond in the amount of US$270 million via the Dayton-Montgomery County Port Authority at a reduced rate of interest to finance the Wilmington Airpark LLC hub in Ohio, USA. The bond is tax-exempt and has a maturity of thirty years.
- On 4 October, the five-year fixed-interest bond issued in 2002 by Deutsche Post Finance B.V., with a nominal volume of €636 million, was repaid from the operating cash flow.

Capital expenditure

Capital expenditure
€m



At a total of €2,210 million as at December 2007, capital expenditure (capex) was higher than in the previous year, as illustrated by the adjacent diagram. €1,860 million of this figure related to investments in property, plant and equipment, and €350 million to investments in intangible assets (not including goodwill). The expenditure in property, plant and equipment was mainly allocated to advanced payments and tangible assets under development (€349 million), to machinery and equipment (€346 million), transport equipment (€277 million), land and buildings (€263 million) and to IT equipment (€243 million).

Capex and depreciation

€m	Group		MAIL		EXPRESS		LOGISTICS		FINANCIAL SERVICES		Other/SERVICES	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Capex	1,931	2,210	253	309	572	721	565	538	159	142	381	496
Depreciation on assets	1,771	2,357[1)]	433	432	394	1,034[1)]	402	423	172	163	370	305
Capex vs. depreciation ratio	1.09	0.94	0.58	0.72	1.45	0.70	1.41	1.27	0.92	0.87	1.03	1.63

1) Including the impairment loss on the non-current assets of the EXPRESS business in the Americas region of €594 million.

To allow for a like-for-like comparison with the 2006 Group's depreciation of assets, the impairment loss in the EXPRESS business in the Americas region of €594 million is to be considered as a one-time effect lowering the total depreciation of assets figure of €2,357 million to €1,763 million. Thus the respective capex versus depreciation ratio for the EXPRESS Division would improve to 1.64 and for the Group to 1.25, figures clearly indicating a significant amount of investments being allocated to the expansion of the Group's business.

Compared with the previous year, capital expenditure increased in the MAIL Division from €253 million to €309 million. Out of the total amount, investments were predominantly made in assets related to IT equipment (€87 million), internally generated intangible assets (€82 million), other operating and office equipment (€55 million) and to machinery and equipment (€39 million).

In order to reinforce our leading position on the domestic mail market, the key action taken in the MAIL Division consisted in modernising the network as well as optimising the production and distribution of letters and parcels. Besides investing in additional mail-specific software, we purchased materials handling assets, handheld scanners and innovative machinery that will enable us to process flat mail (large letters) more cost-effectively.

We improved the quality of service in the parcel business. About 900 Packstations enable customers to send and collect parcels around the clock, seven days a week. We also installed Paketboxes that allow customers to drop off franked parcels and small packets. Sorting, franking and wrapping machines were purchased for production purposes in the international mail business, and its information technology was expanded.

In the Global Mail network, we are currently developing a software platform with a view to gradually superseding, extending and harmonising the heterogeneous system architecture.

In the EXPRESS Division capex increased year-on-year from €572 million to €721 million. The 2007 capex was mainly allocated to advanced payments and property, plant and equipment under development (€162 million), investments in machinery and equipment (€161 million), aircraft (€117 million), IT equipment (€72 million) and leasehold improvements (€63 million). Focusing on a single investment shows that substantial resources were spent on building the new European hub at Leipzig/ Halle airport. Also in Europe, we renewed our vehicle fleet in several countries and improved the technical assets of the national express centres, primarily in the Netherlands and Ireland.

Investments in the Asia Pacific region centred on Hong Kong, China, Korea, Japan and India. Whilst we extended our hub at the international airport in Hong Kong, we are establishing operating facilities as well as modernising and relocating branches and representative offices in China and Korea. In Japan, we are constructing hubs at the international airports in Osaka and Nagoya, and we have renewed our national air fleet in India. In the EEMEA region, we focused on Russia, which is a growth market. We enlarged the vehicle fleet there as well. Our international aircraft fleet also accounted for significant investment.

The amount of capital expenditure fell year-on-year from €565 million to €538 million in the LOGISTICS Division. Out of the total amount, €456 million were related to the DHL Exel Supply Chain business, €50 million were spent by DHL Global Forwarding and €19 million by the DHL Freight business. €13 million were invested in central measures in this division. Within DHL Exel Supply Chain our main investments were particularly allocated to customised transport services, warehousing solutions and the associated information systems. Spending focused on the United Kingdom, Germany, the USA, Canada and South Africa. In the DHL Global Forwarding business, we invested in the facilities of buildings and IT infrastructure and, in the DHL Freight business, spending concentrated on our vehicle fleet.

Postbank integrated the previous year's acquisitions in its operating business. In order to reinforce its sales organisation and leverage synergies, investments were made in the IT systems that facilitate customer advice and selling activities, and in the modern multi-channel architecture. Other spending took place in connection with the supervisory regulations governing risk capital requirements (Basel II) and the establishment of a loan factory at BHW Bausparkasse. In line with our aim to develop and establish Postbank as the premier bank for small and medium-sized businesses, we extended the corporate banking strategy in the credit business. We also refined the branch concept and tested it in eight locations. The goal is to make the branches more appealing. In this way, we aim to retain and acquire customers, and improve the cross-selling ratio with existing clients. In transaction banking, we have established a payment transaction platform with multi-client capability and are developing a solution for archiving our own and third-party data.

Company-wide capex also stepped up, from €381 million to €496 million, and focused on vehicles, retail outlets and information technology. €189 million were invested in Deutsche Post Fleet GmbH: Vehicles which had either reached the end of their optimal economic life were replaced and additional vehicles were procured. For Deutsche Post Retail Outlets capex of €40 million was made to establish new partner outlet formats and introduce new outlet software. In other respects, capital expenditure was increased by the mutual reversal, for legal reasons, of a purchase agreement we concluded with Viterra Logistik Immobilien GmbH & Co. KG in December 2000. The relevant properties were brought into Deutsche Post Immobilienentwicklung Grundstücksgesellschaft mbH & Co. Logistikzentren KG at the end of December 2007.

Cash flow disclosures (Postbank at equity)

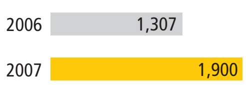
Selected cash flow indicators (Postbank at equity)

€m	2006	2007
Cash and cash equivalents as at 31 December	1,761	1,339
Change in cash and cash equivalents	377	–422
Net cash from operating activities	2,178	2,808
Net cash used in investing activities	–871	–908
Net cash used in financing activities	–876	–2,303

Net cash from operating activities increased by €630 million to €2,808 million. Net cash from operating activities before changes in working capital matched the previous year's level, with a rise in cash outflows for other assets and liabilities being offset by a drop in non-cash income from the reversal of provisions. EBIT was also reduced, amongst other things, by the non-cash write-down on EXPRESS Americas non-current assets, which was added back in under depreciation/amortisation of non-current assets. Net cash from operating activities improved mostly because the net outflow of working capital was €597 million down on the previous year.

Net cash used in investing activities came to €908 million, on a par with the previous year (€871 million). Purchases of non-current assets amounted to €2,009 million. We also acquired interests in The Stationery Office, ASTAR Air Cargo and Polar Air Cargo. Cash inflows of €818 million were primarily accounted for by disposals of other non-current assets and Vfw AG.

Free cash flow
€m



Taking net cash from operating activities and deducting net cash used in investing activities gives a positive free cash flow of €1,900 million, an increase of €593 million on the previous year (€1,307 million).

Net cash used in financing activities rose by €1,427 million to €2,303 million. The main factors in this larger cash outflow were higher dividend payments of €903 million and the scaling back of financial liabilities (accounting for an outflow of €757 million). The increase in interest paid is mainly due to the modified, gross disclosure of financial derivatives from the beginning of 2007. There was a parallel increase in interest received as part of net cash from investing activities.

As a result of the net cash flows for operating, investing and financing activities as set out above, cash and cash equivalents decreased by €422 million compared with 1 January 2007, to €1,339 million.

Assets and liabilities

Consolidated balance sheet

Total assets increased compared with the previous year-end by €17,768 million to €235,466 million. The main factors in the increase were the expansion of Postbank's operating business – as reflected in receivables and other securities from financial services and in liabilities from financial services – along with a larger cash reserve at Postbank. As Postbank plans to sell BHW Bank AG's credit card and sales financing business, the assets and liabilities concerned have been reclassified to non-current assets held for sale and liabilities associated with non-current assets held for sale. Further information on this point is provided in the i Notes.

i Note 34

Non-current assets totalled €25,744 million as at the balance sheet date, a slight drop (1.3% or €330 million) on the previous year's figure (€26,074 million). The reduction in intangible assets (by €426 million) is mostly accounted for by amortisation. Property, plant and equipment decreased by €634 million. This was mainly due to the write-down of assets in the EXPRESS Americas business, which was partly offset by expansion of our operating business including the Leipzig hub. Non-current financial assets grew by €66 million, largely as a result of the Polar Air Cargo acquisition. Other non-current assets increased from €376 million to €497 million as at the balance sheet date, in part due to growth in pension assets. Deferred tax assets amounted to €1,020 million (previous year: €542 million).

Current assets increased by 9.4% to €209,722 million, chiefly due to receivables and other securities from financial services (up €14,706 million), reflecting the strong operating business at Postbank. The non-current assets held for sale item has grown by €559 million to €615 million. As mentioned previously, Postbank intends to sell BHW Bank AG's credit card and sales financing business. Cash and cash equivalents rose from €2,391 million compared with 31 December 2006, to €4,683 million, primarily because of Postbank's larger cash reserve.

Equity attributable to Deutsche Post AG shareholders decreased from €11,220 million to €11,058 million. The equity base was strengthened by €1,389 million from consolidated net profit for the period. This was countered by payment of the increased dividend for the 2006 financial year (€903 million) and by currency translation differences recognised directly in equity.

Current and non-current liabilities increased from €189,513 million to €208,997 million, primarily due to a €19,124 million rise in liabilities from financial services. The Group's financial liabilities were reduced from €10,488 million to €10,181 million. This was partly accounted for by repayment of a €636 million fixed-interest bond in October. In the opposite direction, subordinated debt at Postbank increased financial liabilities by €555 million. Other financial liabilities were €226 million down. In contrast, trade payables rose by €315 million to €5,384 million. At €5,462 million, other current and non-current liabilities were also up on the previous year (€5,175 million).

A major portion of the 11.4% drop in current and non-current provisions to €12,610 million is accounted for by Postbank's sale of its insurance companies.

Selected indicators for the "Postbank at equity" scenario

In the analysis with Postbank accounted for at equity, Postbank is treated as an investment accounted for using the equity method.

Net debt comprises financial liabilities less cash and cash equivalents, current financial instruments, long-term deposits and financial liabilities to minority shareholders of Williams Lea. The figure decreased with the scaling back of financial liabilities, whilst the reduction in cash and cash equivalents had the effect of increasing net debt. Overall, net debt was reduced by €225 million compared with 31 December 2006, to €2,858 million.

Net gearing – the ratio of net debt to the sum of equity and net debt combined – decreased from 21.4% to 20.3%.

Selected indicators for net assets (Postbank at equity)

		2006	2007
Equity ratio	%	31.6	31.4
Ratio of equity to non-current assets	%	46.3	47.0
Net debt	€m	3,083	2,858
Net gearing	%	21.4	20.3
Net interest cover		8.3	14.6
Dynamic gearing ratio	years	1.4	1.0

Net interest cover is the ratio of EBIT to the balance of interest paid and interest received. The figure has increased from 8.3 to 14.6. This indicates that EBIT exceeds net interest obligations by a factor of 14.6.

The dynamic gearing ratio is an indicator of internal financing capacity and expresses the average number of years required to pay outstanding debt using the whole of the cash flow generated in the year under review. As net debt has dropped and operating cash flow has increased, the dynamic gearing ratio has further improved from an average of 1.4 to 1.0 years.

Divisions

Overview

EBIT and revenue by segment[1]

€m	2006 restated	2007	+/– %	Q4 2006	Q4 2007	+/– %
MAIL						
Profit from operating activities (EBIT)	2,094	2,003	–4.3	685	739	7.9
Revenue	15,290	15,484	1.3	4,229	4,309	1.9
of which Mail Communication	6,342	6,070	–4.3	1,676	1,619	–3.4
Dialogue Marketing (formerly Direct Marketing)	2,875	2,914	1.4	803	824	2.6
Press Services (formerly Press Distribution)	820	822	0.2	213	216	1.4
Parcel Germany	2,587	2,558	–1.1	749	748	–0.1
Global Mail/Corporate Information Solutions	2,917	3,338	14.4	866	965	11.4
Consolidation/Other	–251	–218	13.1	–78	–63	19.2
EXPRESS						
Profit or loss from operating activities (EBIT)	288	–174	–160.4	134	–420	–413.4
Revenue	13,463	13,874	3.1	3,538	3,757	6.2
of which Europe	6,381	6,624	3.8	1,715	1,891	10.3
Americas	4,379	4,165	–4.9	1,100	1,036	–5.8
Asia Pacific	2,443	2,576	5.4	647	681	5.3
EEMEA (Eastern Europe, Middle East, Africa)	819	1,064	29.9	225	287	27.6
Consolidation	–559	–555	0.7	–149	–138	7.4
LOGISTICS						
Profit from operating activities (EBIT)	751	957	27.4	255	339	32.9
Revenue	24,405	25,739	5.5	6,693	6,733	0.6
of which DHL Global Forwarding	9,271	9,410	1.5	2,396	2,522	5.3
DHL Exel Supply Chain	11,998	13,099	9.2	3,420	3,382	–1.1
DHL Freight	3,712	3,646	–1.8	979	947	–3.3
Consolidation/Other	–576	–416	27.8	–102	–118	–15.7
FINANCIAL SERVICES						
Profit from operating activities (EBIT)	1,004	1,076	7.2	306	212	–30.7
Revenue	9,593	10,426	8.7	2,482	2,692	8.5
SERVICES						
Loss from operating activities (EBIT)	–229	–660	–188.2	–98	–210	–114.3
Revenue	2,201	2,357	7.1	599	632	5.5
Group						
Profit from operating activities (EBIT)	3,872	3,202	–17.3	1,282	660	–48.5
Revenue	60,545	63,512	4.9	16,334	16,965	3.9

1) Excluding Consolidation.

MAIL

Domestic business units and products

Mail Communication

- Mail products
- Special services
- Franking
- Philately

Dialogue Marketing

- Advertising mail
- Tailored end-to-end solutions
- Special services

Press Services

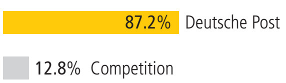
- Distribution of newspapers and magazines
- Special services

Parcel Germany

- Parcel products
- Special services
- Packstation

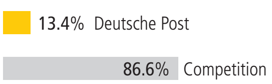
Risks, page 86

Market share (volume) in mail communication in Germany, 2007
Market volume: 9.3 billion items



Source: company estimates

Market share (revenue) in dialogue marketing, 2007
Market volume: €20.9 billion



Source: company estimates

Business units and market positions

Europe's largest postal company

We deliver Germany's mail. The around seventy million items we carry on average every working day make us Europe's largest postal company. Our range of mail products for private and business customers extends from standard letters to merchandise. We also offer services such as cash-on-delivery and registered mail. Three options are available for franking mail items: the conventional postage stamp; online; and, for mass mailings, fully computer-based solutions. More than a million collectors (philatelists) have our new stamp issues delivered postage-paid every month. We also sell and market collectors' coins under a contract with the German government. Alongside our standard products, we develop tailor-made mail solutions for our business customers and for business process outsourcing. We digitalise incoming mail, for example, and deliver it to the internal recipients electronically.

Historically, our mail business has focused on Germany. The domestic market volume of mail communication in 2007 was approximately €6.6 billion, around 3% less than in 2006 (€6.8 billion). The market is shrinking as conventional mail is steadily being ousted by electronic communications media, such as fax, e-mail, text messaging and the internet. This trend is most apparent in the telecoms industry, which is now issuing a significantly greater number of electronic invoices. At the same time, competition is becoming tougher on the German mail market, which remains regulated. These two factors have resulted in a slight decline in our market share but it still remains at 87.2%.

Solutions for direct customer dialogue

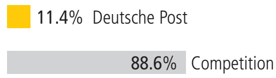
By way of conventional dialogue marketing instruments, we support our business partners' targeted communications with their clients, providing sophisticated IT solutions that enable companies not only to handle mail-shots easily but also to optimise their postage costs. At the same time, we develop solutions for cross-media customer dialogue and advertising campaigns. We offer a full range of services, from consulting and concept development all the way to media planning and buying as well as the production and dispatch of advertising materials. We thus combine dialogue marketing with conventional advertising. We also conduct market research to measure the impact of such advertising.

The market sector relevant to us, namely dialogue marketing in the narrower sense – advertising mailings, telephone and e-mail marketing – grew by 1.6% year-on-year to reach a volume of €20.9 billion. We maintained our share (13.4%) of this highly fragmented market.

Newspapers for Germany

We deliver newspapers and magazines nationwide and on the day specified by the customer. Our Press Services Business Unit offers two product groups. The preferred periodical is the product traditionally used by publishers to mail subscribed publications, whilst the standard periodical is our distribution product primarily for companies which publish customer magazines to advertise their products and services. Our special services include electronic address updating as well as complaint and quality management.

Market share (volume) in press services, 2007
Market volume: 17.9 billion items



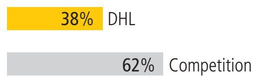
Source: company estimates

According to market studies, the press services market amounted to 17.9 billion items in 2007, or 1.5% fewer than in the previous year. Growth in the business of television programme guides and magazines enabled us to offset decreases, particularly in the daily newspaper segment, so that we maintained our market share (11.4%). The trend towards heavier items, and therefore higher average prices, is being sustained.

Highly contested parcel business

We deliver around 2.5 million parcels a day in Germany and seek to make access to our services as simple as possible for customers. We have developed special solutions tailored to the segments in which our business customers operate. We support mail order companies, for example, in transporting their merchandise to consumers and carrying their returns. By way of more than 13,500 retail outlets and some 900 Packstations, we enable our private customers to send and collect parcels and small packets around the clock practically everywhere. In addition, we have successfully tested the Paketbox – a letterbox for franked parcels. We make systematic use of the high-speed medium that is the internet: Private customers can purchase cardboard boxes, frank parcels, place parcel collection orders and track items online. Business customers can register easily, and send and track parcels immediately.

Market share (revenue) in parcels, 2007
Market volume: €6.3 billion



Source: company estimates

In 2007, the market volume of the parcel business totalled €6.3 billion, which represents a year-on-year rise of 6.3%. Several very capable providers compete for shares in this highly contested sector. We stabilised our share at around 38%.

International business units and products

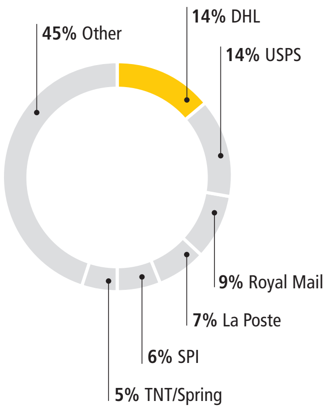
Global Mail

- Import and export of mail
- Cross-border mail
- Domestic mail services in other countries
- Special services

Corporate Information Solutions

- Office Document Solutions
  - Mailroom management
  - Digital archiving
  - Scanning, printing and photocopying
  - Desktop publishing
- Customer Correspondence Management
  - Document management
  - Regular communications
  - Digital mailrooms
  - Fulfilment and logistics
- Marketing Solutions
  - Print management
  - Website development
  - Content management
  - Creative services and design
  - Fulfilment and distribution

Market share (revenue) in global cross-border mail market, 2006
Market volume: €10.4 billion



Sources: company estimates, UPU statistics 2006, annual reports for USPS, Royal Mail, La Poste, SPI and TNT, additional calculations and estimates

Well positioned abroad

We transport mail across borders, serve the domestic markets of other countries and, apart from carrying mail, also provide special services. We serve business customers in key national mail markets, including the USA, the Netherlands, the UK, Spain and France. In the Netherlands, we realigned our product portfolio in the reporting period in response to the fierce price competition in the direct marketing segment. In Japan, we stepped up our co-operation with Yamato Holding in the direct marketing and unaddressed delivery sectors.

The global market volume for cross-border mail was approximately €10 billion – more or less the same as in the previous year. Although competition has become even tougher, we sustained a market share of 14%. We thus defended our position on a par with the United States Postal Service – amongst other things, by increasing the volume of mail from Germany, Austria, Switzerland and the USA.

Expertise in information exchange

Every day, companies need to process large quantities of information as well as transfer documents and data. Managing business processes is becoming steadily more complex – especially in the international business arena. Our subsidiary Williams Lea specialises in the management of digital and printed information. Its principal activities are photocopying, printing, mailroom management and office services; other services include the outsourcing of transaction printing, document management and the end-to-end processing of customer correspondence. We develop individual solutions that enable our customers to attend more closely to their clients and operate more profitably. Such solutions can embrace the outsourcing of services or realignment of business processes. Moreover, effective document management reduces the risk of records getting lost.

Strategy and goals

Our goal is to continue operating highly profitably. In the domestic mail business, our exclusive licence for letters weighing less than 50g lapsed on 31 December 2007. With a view to making good the anticipated loss of market share, we are pursuing three aims: extending our range of services, reinforcing our position abroad and making our transport and delivery network costs more flexible.

Clear parameters for 2008

Ahead of the complete liberalisation of the German mail market, key parameters that will shape our business in the future were defined. Mail prices will continue to be regulated by the *Bundesnetzagentur* (German federal network agency). The new regulations allow us to keep postage costs for private customers stable whilst establishing more flexible pricing for business customers. There are currently no plans to impose value-added tax on mail carried under the postal universal services obligation.

Risks, page 86

Extending range of services

Deutsche Post has long since emerged as more than a company that simply carries and delivers mail and parcels. We now offer services at every link in the mail value chain. In the dialogue marketing segment, we are seeking to establish a position as a provider of cross-media services. Williams Lea is pursuing a strategy of performing additional services for existing partners and harnessing these credentials to acquire new customers.

"In Germany, we are the market and quality leader for mail and parcel services. We now face the challenge posed by the market's complete liberalisation, for which the parameters have become clear. We are very well prepared for the change."

Jürgen Gerdes, MAIL and PARCEL Germany

Our goal in the parcel business is to be readily accessible anywhere, any time. For this reason, we are expanding the existing network of some 900 Packstations to a total of 2,400 machines by 2010. In the initial phase, we are also installing 1,000 Paketboxes across Germany.

Boosting customer satisfaction

Recent studies have confirmed the success of our strategy: Customers in all segments – private customers, small and large businesses as well as key accounts – have indicated their significantly greater satisfaction year-on-year with the scope and quality of our services.

Page 79

Reinforcing position abroad

An opportunity exists for us in the further opening of mail markets abroad as we either enter them for the first time or continue to develop our local business in line with the extent of liberalisation. The timetable agreed in Europe envisages opening up the markets in two steps, in 2011 and 2013. This serves to set the future parameters for our business also in this area.

Making costs more flexible

In recent years, we have made our network costs more flexible, allowing us to adjust them rapidly in response to volume changes. To this end, we have come up with a detailed range of measures. Amongst the requirements are a decrease in the number of mail cargo flights at night and a reduction in outsourced operations, such as transport by lorry. State-of-the-art IT systems enable us to more accurately predict the order intake and optimise capacity utilisation according to traffic volumes. We have also further increased the flexibility of our staff costs in the past two years.

> "We are capable of exploiting our opportunities in the international mail business and are favourably positioned in mail markets abroad. The greatest challenge currently lies in the inconsistent timetable for liberalisation within the European Union."
>
> **Dr Frank Appel, MAIL International**

Revenue and earnings performance

Since the start of the 2007 financial year, we have been reporting on the Parcel Germany unit in the MAIL Division; the prior-year figures were restated accordingly.

The division once again increased its revenues in 2007, pushing them up by 1.3% from €15,290 million to €15,484 million. The fourth quarter, which is traditionally strong, contributed much to this development. We counterbalanced the anticipated decline in domestic mail by growing our business abroad, largely thanks to the first-time inclusion of Williams Lea with effect from 1 April 2006. As in the past, currency effects were marginal in the reporting period. They pushed down revenue by €79 million.

Declining volumes in domestic mail business

Revenue in the Mail Communication Business Unit declined from €6,342 million to €6,070 million. The decrease was less pronounced in the fourth quarter than in the first three, even though parameters remained unchanged. The increasing use of electronic means of communication is resulting in ongoing shrinkage of the market, whilst at the same time competition is becoming more intense. Volumes fell in both the business and the private customer segments because, amongst other things, the period was 1.8 working days shorter than in 2006.

Mail Communication (Deutsche Post AG share)

mail items (millions)	2006	2007	+/– %
Business customer letters	7,011	6,764	–3.5
Private customer letters	1,369	1,348	–1.5
Total	**8,380**	**8,112**	**–3.2**

In the regulated mail sector, we kept our prices stable although the inflation rate underlying the price-cap procedure increased. Furthermore, we lowered our rates for formal delivery orders, secured market shares with competitive products and services, and won back lost customers. We substantially reduced expenses thanks to systematic cost reductions.

According to a comparative study we conducted, our postage rates rank amongst the lowest in Europe. The survey took account of both the nominal price for sending a standard letter (20g) by the fastest method and key macroeconomic factors, such as purchasing power and labour costs.

Dialogue Marketing increases revenue

In the Dialogue Marketing (formerly Direct Marketing) Business Unit, the trend towards higher-quality, on-target services is continuing. As in the second and third quarters, the volume of advertising supplements rose favourably in the period from October to December 2007. At €2,914 million, the unit's revenue even exceeded the high figure posted in 2006 (€2,875 million).

Dialogue Marketing (Deutsche Post AG share)

mail items (millions)	2006	2007	+/– %
Addressed advertising mail	6,721	6,782	0.9
Unaddressed advertising mail	4,373	4,650	6.3
Total	**11,094**	**11,432**	**3.0**

Stable revenue at Press Services

In the Press Services (formerly Press Distribution) Business Unit, revenue stabilised at the prior-year level, climbing marginally from €820 million to €822 million. Although quantities edged down, both item weights and average prices increased.

Higher volume in German parcel business

Competitive pressure remains tough on the domestic parcel market. We therefore reduced prices in the private customer segment in summer 2006, which slowed down the rate of volume decline from the fourth quarter of 2006. In the reporting period, we achieved a turnaround by enabling volume and revenue to climb again. Despite the price reduction, revenue reached €2,558 million, which was more or less on a par with the previous year's high figure of €2,587 million.

Parcel Germany

items (millions)	2006	2007	+/– %
Business customer parcels	644	646	0.3
Private customer parcels	105	107	1.9
Total	**749**	**753**	**0.5**

Revenue growth in international mail business

Once again, the strongest growth was posted in our international business. Revenue in the Global Mail and Corporate Information Solutions units rose by 14.4%, from €2,917 million to €3,338 million. A key factor was the inclusion of Williams Lea with effect from 1 April 2006, which yielded inorganic effects totalling €338 million. We also recorded organic growth, thanks in part to major customer contracts, including the one concluded by the Williams Lea Group with Reader's Digest. These two business units now account for around one fifth of the division's revenue.

Mail International

mail items (millions)	2006	2007	+/– %
DHL Global Mail	7,124	7,457	4.7

Profit target reached

With a profit from operating activities (EBIT) of €2,003 million, we achieved our announced target of around €2 billion. Alongside higher revenues from the international mail business, improved productivity and lower costs also played a role. Compared with the previous year (€2,094 million), our performance deteriorated by 4.3%, amongst other things because the period was 1.8 working days shorter and due to our price reduction in the Parcel Germany business in 2006. In addition, we reduced the price of orders for the formal delivery of documents in January 2007. The figure for the third quarter of 2006 also contained €66 million attributable primarily to the settlement with the *Bundesanstalt für Post und Telekommunikation* (German federal posts and telecommunications agency), which gave rise to reimbursement of the payments already made for financial years 1997 to 2003. The figure for the fourth quarter of 2007 contained €58 million, chiefly from the adjustment of pension provisions in view of the changed retirement age. Measured against 2006, non-recurring effects thus had only a marginal impact. The return on sales was 12.9%.

EXPRESS

Business units and market positions

Globalisation acts as a mainspring of network expansion

The global express market is growing at an annual average rate of 6% to 8%, as globalisation fuels the expansion of worldwide trade, and more and more shipments need to be handled swiftly and reliably. The demand for time-critical express services is rising as a consequence. With 124,000 employees and a network spanning more than 220 countries and territories, we are exceptionally well positioned to participate in the future growth of this attractive segment.

Having transferred the German parcel business to the MAIL Division with effect from 1 January 2007, we are focusing more acutely on international business. There is a particularly strong rise in demand in this market. According to a recent study by Airbus, the volume of intercontinental air traffic is expected to increase by 6% a year until 2025 and we intend to play a part in this expansion. The groundwork has already been laid. In conjunction with our partner companies, we hold the necessary flying rights as well as takeoff and landing slots and can draw on a fleet of more than 350 aircraft.

In June 2007, we acquired an interest in Polar Air Cargo, a US airline. This gives us cargo capacities on the trans-Pacific routes, where the volume of express business is forecast to increase by some 10% in the coming years. In September, we founded the air freight company AeroLogic together with Lufthansa Cargo. From spring 2009, it will enable us to extend our capacity and to shorten transit times on trade routes between Europe and Asia, improving capacity utilisation and reducing costs through the sharing of aircraft. Air transport on the north Atlantic route is serviced by our own fleet, which we can deploy flexibly. To this end, we ordered six Boeing 767 cargo planes in the reporting period. Here, weight is anticipated to grow by between 4% and 5% in the next few years. Extension of the air freight network is being supported by i capital expenditure on modern ground infrastructure.

Standardised, readily accessible offering

DHL Express specialises in carrying goods reliably from door to door, which is facilitated by fixed routes and standardised procedures. Our three product lines – Same Day, Time Definite and Day Definite – satisfy different customer requirements for speed of delivery. In the year under review, we revised and simplified our product range. The gradual roll-out of the new portfolio started on 1 October; it offers customers clearly structured services for international time-definite shipments, which constitute our core business: DHL EXPRESS 9:00, DHL EXPRESS 12:00, and DHL EXPRESS WORLDWIDE.

Regions and products

- **Europe**
- **Americas**
- **Asia Pacific**
- **EEMEA (Eastern Europe, Middle East and Africa)**

- Same Day
- Time Definite
- Day Definite

i Page 42

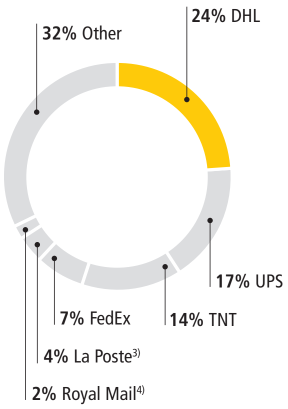
Key accounts with global business interests are to be managed by a new sales unit. Thanks to our enhanced service, we are increasingly establishing ourselves as a partner of enterprises that engage in certain branches of commerce and industry. The principal users of our reliable, time-critical services are the automotive, consumer goods, electronics and life science sectors, in which delivery times are a key driver of success. Our PharmaPlus product, which has been launched in France, is an industry-specific solution for shipping temperature-sensitive goods to numerous countries across the globe.

Through a network of more than 50,000 service points at which items can be dropped off and collected, we are facilitating customers' access to our services. DHL Express is also expanding its range of electronic services. Business customers in Asia, for example, have been able to place shipment collection orders electronically since autumn 2007.

i Sustainability, page 76

At a time when the environmental impact of products and services is a live issue, we are thus far the only express service provider to offer – in our i GOGREEN range – climate-neutral shipping products.

European international CEP market, 2006[1)]
Market volume: €12.1 billion[2)]



1) Country base: GB, NL, E, F, I, D, S, B, BG, PL.
2) These figures are based on the new definition of all shipments <1,000kg.
3) Including DPD and Geopost.
4) Including GLS.

Sources: Market Research Service Centre, Market Intelligence, 2007

Vigorous growth in Europe

For several years, the European market for courier, express and parcel (CEP) services has been expanding at a rate of around 5% to 6%. We have maintained our leading position in the market, as a stable economic climate has invigorated international business, especially as regards shipments to Eastern Europe and Asia. On many trade lanes, we have grown more strongly than the market.

As the number of reliable day-definite shipments in Europe continues to rise – our sales activities now embrace 29 countries – customer demands are also becoming more rigorous in the time-definite segment. We have expanded this service and can now deliver before midday to 80% (previous year: 74%) of all business addresses in Europe.

We have introduced next-day deliveries for shipments between Europe and the United States. Our customers in major European cities are benefiting from the dense delivery network in the United States, which ensures next-day delivery to 96% of the market. We expect this service enhancement to generate further growth on the trans-Atlantic trade lane.

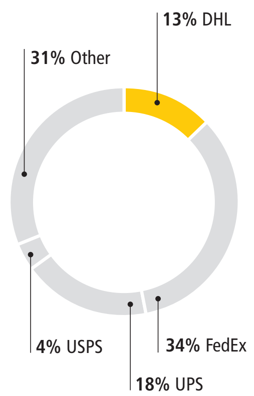
Confirmed as the third major player in the US market

In the Americas, the USA occupies a special position as the largest express market. It is connected to the world's principal trade lanes. Some 47% of all domestic and international DHL shipments are billed in the United States, where half of our 200 largest customers are based. In our global business, offering a high-performance range of products and services here also guarantees business success in other regions.

We operate an air and ground-based transport network, through which we move all domestic and international shipments. The strongest growth was posted by ground-based shipments, where we increased our share of the market. On one of the world's largest trade lanes – between the USA and Canada – we have extended our flight connections. With a share of 13% we have strengthened our position as the third major player in the international CEP market in the United States, despite the difficult economic climate.

We are the market leader in Latin and Central America, where we have extended our offering of time-definite shipments. We now offer guaranteed pre-10:30 delivery, for example, between Mexico and the USA. The growth has been reinforced by capital expenditure on the regional network. In addition, a common accounting and billing platform for almost all the countries has been set up in two locations and has improved internal workflows whilst reducing costs.

US international CEP market, 2006
Market volume: €4.6 billion[1]



1) These figures are estimates for outbound international shipments < 70kg.

Source: Market Research Service Centre in co-operation with Colography Group, 2007

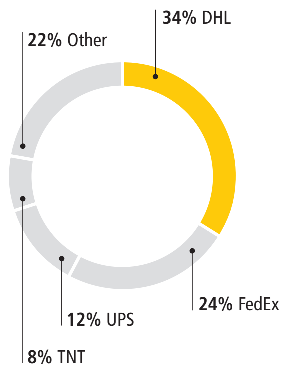
Undisputed market leader in Asia

After years of strong growth, several factors slowed the further expansion of the Asian express market. First, the US economy started to cool down, which significantly hampered exports from Asia. Second, the supply chains that feed internal trade within Asia have changed; and third, more and more goods are being carried by ship. Nonetheless, the region is still regarded as a driver of growth.

DHL Express posted strong operative growth to defend its leading position. In Asia's international express markets – including the region's fourteen largest economies – we hold by far the largest market share (34%). We have made it even easier for customers to access our services by increasing the number of service points and extending the internet-based offering.

In fourteen of the region's countries, we are offering a new service that allows express import shipments to be billed in compliance with the international terms of trade. Our Airport to Door product not only allows business customers to have their shipments delivered with the customary speed and reliability; we also take care of all the customs arrangements on their behalf. It is a service that enables us to address new customer groups and harness fresh growth potential.

Asian international express markets, 2006[1]
Market volume: €5.6 billion[2]



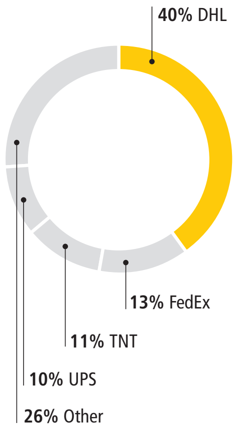
1) Country base: AU, CN, HK, ID, IN, JP, KR, NZ, MY, PH, SG, TH, TW, VN.
2) These figures are based on the new definition of all shipments < 1,000kg.

Sources: AT Kearney, TMS 2007

Emerging markets shaped by strong growth

In the countries of the EEMEA region (Eastern Europe, Middle East and Africa), we recorded strong double-digit growth. We generate around 90% of our trade with business customers operating chiefly in the oil and gas, high-tech, life science and textile industries. In order to sustain growth, we are continuously improving our transit times – in the year under review, we reduced them by one day on more than 200 inter-city routes. We have also enlarged our offering, amongst other things by introducing a new range of hazardous goods transport services.

International express markets EEMEA, 2006[1]
Market volume:[2] €0.8 billion



1) Country base: RU, ZA, SA, BH, IL, UAE, IR, JO, OM, QA, KW, NG, LB.
2) These figures are based on the new definition of all shipments < 1,000kg.

Source: Market Research Service Centre in co-operation with Crescendo Partners, 2007

The Russian express market is exceptionally dynamic. In recent years, growth rates there have reached up to 40%. With a share of 41% of the international and 25% of the domestic market, we are the clear leader in Russia. We intend to continue profiting from this vigorous growth in the future.

Strategy and goals

By establishing a global organisation under uniform management, DHL Express has realigned its strategy. The main purpose is to improve profitability and generate further organic growth. Our goal is to be the preferred provider in the international express business across all products and regions, and we are defining our range of products and services as well as our infrastructure with this aim in mind.

Creating a competitive international network

The core element of our strategy is the international air traffic network. Competitive pricing and a first-rate service on all the major international trade routes is the target. We employ specialist teams to ensure delivery of the best possible performance, profitability and growth on 74 important global trade lanes we have defined.

"DHL Express ranks amongst the leading operators in its segment. Our strengths lie in a network that spans the globe, motivated employees and satisfied customers. The US business remains the greatest challenge. Although we have established ourselves as the number-three player there, we are currently being hampered by the inhospitable economic climate."

John P. Mullen, EXPRESS

Exploiting strong position in domestic markets

We intend to systematically reinforce our leading position in numerous domestic markets. More than 80% of all shipments remain in the country of the sender. We intend to step up the consolidation of domestic and foreign shipments and thus leverage further cost advantages. By way of domestic business, we are also winning international orders from our customers.

Strengthening regional infrastructure

In order to participate in the growth of the express markets, we are creating the necessary ground infrastructure in the different regions. The new European hub at Leipzig/Halle airport represents a major step in this direction. It was integrated into our network in the autumn and will become fully operational in spring 2008. We are also expanding our central Asian hub in Hong Kong and planning a new one in Shanghai.

Making services readily accessible

At the same time, we are developing systems and products for our customers that make it even easier for them to use DHL for their shipping needs – for example, by building electronic interfaces to our customers and integrating these in our workflows, as well as using new technologies to facilitate customers' access to our services.

Revenue and earnings performance

The EXPRESS Division's revenue increased by 3.1% to €13,874 million (restated prior-year figure: €13,463 million) even though business was impacted by negative currency effects (€507 million). Measured in local currencies, we attained organic revenue growth of 6.4%.

Revenue and volumes rise in Europe

In Europe, we achieved gains in both revenue and shipment volumes. Revenue increased by 3.8% to €6,624 million (previous year: €6,381 million); the underlying organic growth for the region reached 4.6%. The domestic business in Central Europe – including the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Romania and Bulgaria – generated the largest advances. We satisfactorily improved our international business in the Benelux countries. The other countries gave rise to moderate revenue growth of 3% to 7%. Exceptions were France and the UK, where revenues remained more or less unchanged year-on-year.

Economic climate hampers US business

Negative currency effects in the amount of €339 million were the main driver of the downturn in revenue in the Americas, which fell by 4.9% year-on-year, from €4,379 million to €4,165 million. In local currency, the organic growth rate was 2.9%. The most notable advance was achieved once again in our Latin American domestic business, especially in Mexico, where the rate reached 20%. Organic growth in the USA was positive at 0.6%. The enhanced performance of our Ground and International products was unable to make good the sharp decline in the Domestic Air business – a pattern which became apparent in the second half-year in particular as economic activity waned.

Double-digit revenue growth in Asia

Revenue in the Asia Pacific region climbed by 5.4% to €2,576 million (previous year: €2,443 million). As in America, changes in the euro exchange rate gave rise to negative currency effects, in this case in the amount of €102 million. Although the rate of growth in the region slowed, we posted organic revenue growth of 9.6%. The principal contributors were China and India.

Growth driven by emerging markets

In the EEMEA region, revenue increased by 29.9%, from €819 million in 2006 to €1,064 million. As in the prior year, the largest gains were recorded in this region, primarily in the Middle East and Russia.

Profit before extraordinary impairment loss on non-current assets in the Americas region increases by 46%

The impairment review conducted at the end of the year led to a €594 million write-down of the EXPRESS non-current assets in the Americas regions. This write-down has no cash impact. It cannot currently be excluded that further write-downs regarding additions to non-current assets might occur. Profit from operating activities (EBIT) before extraordinary impairment loss increased by 46%, from €288 million to €420 million, even after deducting expenses of €76 million for the construction of the new European hub in Leipzig. With one exception, all the regions improved their profitability. In the Americas region, operating business deteriorated as revenue stagnated and the demand shifted in favour of lower-margin products. The return on sales for the EXPRESS business climbed from 2.1% to 3% when measured before the extraordinary impairment loss on non-current assets in the Americas region.

LOGISTICS

Business units and market positions

Number one in air and ocean freight

DHL Global Forwarding is the international market leader in air and ocean freight. As forwarders, we move goods and merchandise on behalf of our customers to an agreed destination within fixed parameters such as transport mode, time and price. We draw upon our geographic coverage and multi-modal capabilities and have specific skills in numerous sectors, including aviation, automotive, chemicals, consumer goods, life sciences, technology and the processing industry to meet the needs of our customers.

Our business is built on sound customer relationships. Working with customers over many years enables us to identify and supply the transport solutions best suited to their needs. We reduce the complexity of our customers' value chains by supplying the information required to determine the appropriate transport route, which also mitigates the risk associated with working in developing markets.

In the air freight business, we are the global market leader, offering direct shipments and air consolidations, including time-defined services that operate on an airport-to-airport or door-to-door basis. In the year under review, the air freight market grew by around 4% (previous year: 5%) according to IATA. Our SeAir product gives customers the best of both worlds: combining the speed of air transport with the lower cost of ocean freight.

In ocean freight, we provide full-container-load and less-than-container-load services as well as non-containerised transport between the world's principal markets. The ocean freight market growth in 2007 was around 10%, fuelled primarily by exports from Asia.

Our forwarding activities are complemented by transport-related, value-added services, such as customs brokerage, cross-docking, pick-up and delivery and cargo insurance to ensure the seamless transfer of cargo across borders. We also advise customers on security issues. Our sophisticated IT systems allow us to track goods in transit at all times, providing customers with maximum visibility and control. On request, we also develop customised programmes such as integrated order management.

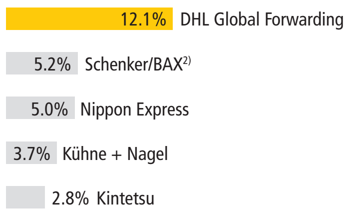
Business units and products

DHL Global Forwarding
- Air freight
- Ocean freight
- Industrial projects

DHL Exel Supply Chain
- Contract logistics
- Ground-based transport
- Value-added services

DHL Freight
- Full truckload
- Less than truckload
- Customs brokerage
- Intermodal

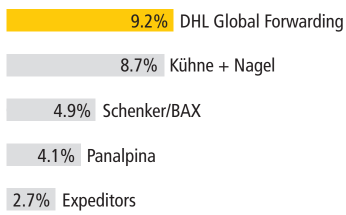
Market shares in air freight, 2006
Market volume: €16.4 billion[1)]



1) Market volume and market share data are based on IATA statistics, which do not correspond to companies' published revenues and cannot be compared with the prior-year figure.
2) Pro forma, BAX Global revenue missing in IATA data for some countries.

Sources: IATA/CASS, company estimates and own sources, 2006

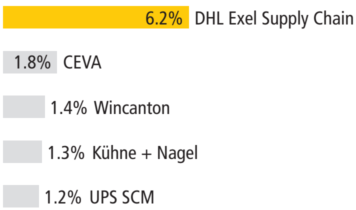
Market shares in ocean freight, 2006
Market volume for forwarding: 26.2 million TEUs[1)]



1) Estimated share of overall market controlled by forwarders.

Sources: Global Insight, annual reports, press releases, company estimates, 2006

Market shares in contract logistics, 2006
Market volume: €192.7 billion[1)]



1) Company estimates.

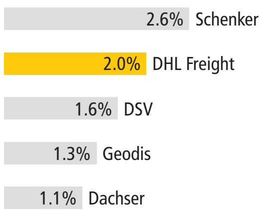
Sources: annual reports, press releases, company websites, Transport Intelligence, analysts' reports

Global market leader in contract logistics

Our DHL Exel Supply Chain Business Unit remains the world leader in contract logistics. Within this area of our business we provide warehousing and ground-based transport services plus specialist sector-based value-added solutions along the entire supply chain. In the year under review, we renewed the majority of existing agreements and gained new ones with existing and new customers in all regions and sectors.

Our teams not only have expert knowledge of logistics but also have specialist knowledge and many years' experience in our key sectors including automotive, life sciences, technology, fast-moving consumer goods as well as retail and fashion. Within the business we are now developing and strengthening specific sector-based solutions to meet the needs of our customers precisely. These have included strengthening our offering in packaging and contract manufacturing and offering a consultative design element as well as implementing and operating supply chains for our customers.

Market shares in European road transport, 2006
Market volume: €157.2 billion[1)]



1) Total for fourteen European countries, excluding bulk and specialties transport.

Sources: MRSC freight reports 2006 and 2007, Eurostat 2006, annual reports, press releases, company websites, estimates

Number two in European freight business

DHL Freight operated as an independent business unit in the LOGISTICS Division for the first full year in 2007. We run a comprehensive less-than-truckload network covering Europe, Russia and traffic into the Middle East with 160 terminals. Our strong full-truckload business is complemented by a fast growing intermodal service. Additionally we offer a comprehensive range of customs services. In the year 2007 the European road transport market grew at around 3.5% with the international market growing faster (4.5%) than the domestic market (3.2%).

The business model of DHL Freight is asset-light. Trucking and a high percentage of cartage and handling is outsourced. We work closely together with Parcel Germany, EXPRESS and the other logistics business units by sharing IT systems, teaming up for joint product offerings and delivering reliable transport solutions to all of these units – thus leveraging the purchasing power and competence of DHL Freight for the whole Group.

Strategy and goals

In 2007, customers have benefited from our integrated approach to the supply chain. Uniquely, we can now offer a logistics and express service with the greatest global reach. We are establishing improvement targets for each business unit and function, working in parallel with the recently launched capital markets programme.

Strategy and goals, page 30

Our customers regularly highlight the need for proactivity and innovation and we have addressed this need in several ways. We have, for example, added to our capabilities within the life science arena; similarly, retail customers have benefited from the introduction of offerings such as demand planning and a strengthening of our co-pack manufacturing services to consumer customers. We have also developed global products which span several of our business units such as service parts logistics and e-fulfilment with the expectation that these will continue to develop in the years to come.

We are focusing on organic growth through three distinct programmes: We are reinforcing our presence in regions whose economies are expanding rapidly, such as Central and Eastern Europe and areas of South America and Asia; we are focusing on key customer accounts where we are looking to increase our share of outsourcing; and finally, we are focusing capital expenditure on innovative products and process harmonisation.

"Our logistics business is well positioned in key global markets to deliver organic growth. We have developed our business to seize the opportunities brought about by growing consumer demands, complex modern supply chains and the ongoing trend of outsourcing. We are also focusing on people development to add value through proactive delivery of solutions and collaboration with other members of the DHL family." **Dr Frank Appel, LOGISTICS**

Roadmap for the future

In our drive to continue creating added value for customers and shareholders, we have adopted a Roadmap for Logistics setting out our vision – which is to lead the industry into a new era by 2010: We intend to set the pace in innovation, quality and productivity whilst at the same time offering our employees fresh opportunities. We will also be seeking to encourage the industry to behave even more responsibly towards society and the environment. In pursuing these goals, we will make the most of our collective passion, experience and scale. We aim to build the best logistics company in the world and to be the first choice for customers and employees alike. There continues to be increased collaboration across all DHL business units, with our customers benefiting from our ability to bundle together products and services from one provider to create seamless support for their critical business needs.

Revenue and earnings performance

In the LOGISTICS Division, the prior-year figures were restated because we transferred our European overland transport business from the EXPRESS Division to the LOGISTICS Division under the name DHL Freight on 1 July 2006.

The growth, performance and integration of our logistics business developed favourably in 2007. Revenue increased by 5.5% to €25,739 million (previous year: €24,405 million). The total was impaired by negative currency effects of €605 million. Inorganic influences, including the disposal of Vfw AG, reduced revenue by a further €270 million. Organic revenue growth came to 9.1% as a result, amongst others, of the ten-year deal with the NHS in the UK.

Volume growth in air and ocean freight

DHL Global Forwarding generated revenue of €9,410 million (previous year: €9,271 million). This figure was affected adversely by currency effects totalling €283 million; after adjusting for these effects, revenue grew by 4.6% year-on-year. This development only partly reflects the higher growth in volumes because our air freight activities also recorded lower freight rates.

Air freight volumes rose by 7.3% in 2007 above market growth of only around 4%. Revenue decreased slightly due to negative impacts from currency effects and lower freight rates on key trade lanes. Our business performed well, above all in Europe, the Middle East and Africa.

DHL Global Forwarding: revenue by segment

€m	2006	2007	+/– %
Air freight	4,956	4,809	–3.0
Ocean freight	2,657	3,014	13.4
Other	1,658	1,587	–4.3
Total	**9,271**	**9,410**	**1.5**

DHL Global Forwarding: volumes

thousands		2006	2007	+/– %
Air freight	Tonnage	4,110	4,409	7.3
Ocean freight	TEUs[1]	2,400	2,764	15.2

1) Twenty-foot equivalent units.

Ocean freight volumes grew by 15.2% in 2007. Here also, we greatly outperformed the market, which grew only by around 10%. Our revenue growth came to 13.4%. Latin America registered substantial volume and revenue increases and our business in the Middle East, in Africa and in Europe also performed well. Moreover, growth in industrial projects was particularly strong.

DHL Exel Supply Chain generates new business

Revenue generated by DHL Exel Supply Chain rose by 9.2% to €13,099 million year-on-year, driven by the ten-year deal with the NHS in the UK as well as higher operational revenue in all regions. In the year under review, we generated new business of around €1 billion in annualised revenue.

DHL Freight grows well above market

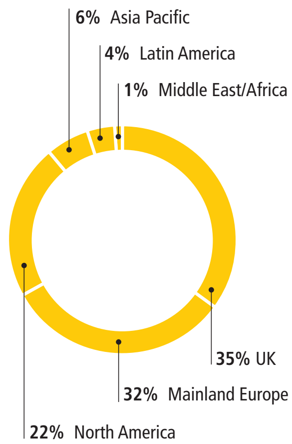
In 2007, DHL Freight reported revenue of €3,646 million (previous year: €3,712 million). The business shows growth well above market with a particularly strong performance in Central Eastern Europe, Benelux and Germany. Adjusted for inorganic effects, we grew by 6.2% as inter-company relations were not reported in 2006.

Good performance improves earnings

Profit from operating activities (EBIT) was €957 million in the reporting period (previous year: €751 million). The 27.4% increase was influenced by the sale of Vfw AG in the first quarter as well as real estate disposals in the last quarter. Allowing for these effects and negative currency effects, our performance here was very positive. Return on sales rose from 3.1% to 3.7%.

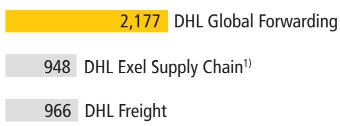
The integration of Exel and DHL was successfully completed by the end of the year 2007, delivering synergies in line with expectations.

DHL Exel Supply Chain: revenue by regional split, 2007



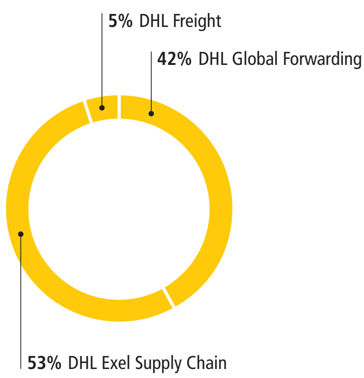
Gross profit by business unit, 2007

€m



1) A different definition of gross profit applies to DHL Exel Supply Chain.

EBIT by business unit, 2007



FINANCIAL SERVICES

Business units and market positions

Postbank business units and products

Retail Banking

- Current account services
- Savings and mutual funds
- Consumer loans
- Mortgages
- Insurance products

Corporate Banking

- Payment transaction solutions
- Commercial real estate finance
- Corporate loans
- Leasing and factoring

Transaction Banking

- Payment transaction processing

Financial Markets

- Liquidity management
- Risk management
- Asset/liability management
- Asset management

Germany's largest single retail bank

Postbank's highly diverse sales channels make it easily accessible to customers at all times – at its branches, through its mobile sales force, online or by telephone. It has the most extensive branch network of any bank in Germany, with its own 855 branches offering Postbank products along with expert advice on financial services. These branches are complemented by several thousand Deutsche Post outlets where selected Postbank services are available. Over 4,200 independent agents within Postbank Finanzberatung AG make up the Postbank mobile sales force and specialise in private mortgage lending, asset accumulation and retirement pension products.

Postbank's wide range of standardised banking products is designed to meet the typical needs of private and business customers. Along with traditional savings and current account offerings, these primarily include private mortgage lending and home savings products but personal loans, securities and pension and insurance products are also gaining in importance. At the same time, Postbank is Germany's largest issuer of credit and debit cards. It holds a leading position in German online and telephone banking. Postbank online customers now have 2.8 million current accounts and 590,000 brokerage accounts. Some 3.7 million customers use telephone banking.

Postbank plans in future to restrict its activities as a "banking service producer" to areas where it can achieve economies of scale and has restructured its insurance business accordingly. The insurance subsidiaries have been sold to the Talanx Group, with which Postbank has entered into a long-term marketing alliance in life and accident insurance. The company has also further boosted its sales capabilities, for example by co-operating with Tchibo and HUK-COBURG. Both companies offer their customers basic Postbank products such as current and savings accounts.

The German retail banking market remains fiercely competitive. Postbank has successfully held its own here as Germany's largest single retail bank. In terms of customer numbers, it's market share increased to a pleasing 9.5% (previous year: 8.8%). In the savings segment, where the total volume of deposits came to €43.9 billion, Bundesbank statistics show an increase in Postbank's market share from 7.4% to 8.1% at the end of 2007. The market share of the €16.6 billion in home saving deposits remained stable at 13.6%. Postbank comfortably achieved its target of attracting a million new customers; its market share in business with new customers came to 12% (previous year: 13%). In new current account business, Postbank had a record year despite fierce competition, with 587,000 consumer accounts opened between January and December (previous year: 469,000).

Postbank further improved its volumes in the private mortgage business from €62.3 billion to €68.0 billion. Due primarily to the VAT increase and the abolition of the home owner's allowance, the operating environment for the private mortgage lending business was marked by a strong decline in demand. Despite low demand and strong competition, Postbank, at 8.6%, almost reached its goal of a more than 10% increase in the volume of self-brokered private mortgage loans.

Products for corporate customers

The Corporate Banking business primarily involves products related to payment transactions and commercial real estate finance. Alongside an investment credit product which it had already successfully launched, Postbank now also arranges development loans from major public-sector development agencies. It has extensive expertise in commercial real estate finance, which it also employs in foreign markets. Thanks to a highly selective lending policy, Postbank has a favourable risk profile.

Expert in transaction banking

In addition to handling its own transactions, Postbank provides payment transaction services for other banks including Deutsche Bank, Dresdner Bank and, starting in 2007, HypoVereinsbank. Postbank is leveraging its traditional strength in transaction banking to join forces with BHW in building an efficient platform for processing building loans.

Financial asset management

Postbank invests its liquid funds in financial markets. Its Financial Markets unit is acknowledged as an efficient service provider in managing interest rate, currency and share price risk.

Strategy and goals

Expanding business with existing customers

Postbank plans to provide its approximately 14.5 million customers with even better service and innovative products while further improving processes and achieving cost leadership. In sales, it will focus more intensively on its 4.6 million-strong base of private customers who do most of their banking through Postbank. It aims to increase this customer base to 5.2 million by 2010. At the same time, Postbank aims to maximise potential in its existing customer base by cross-selling and, ultimately, to gain market share in all important product areas through above-average growth with both new and existing customers. All sales channels will be expanded, with the priority on the two most important: mobile sales as well as sales through branches and retail outlets. Progress on this front will be communicated on a regular basis.

Specialising in finance management

Postbank currently serves some 30,000 corporate customers, primarily with a wide range of payment transaction services. In addition, it has its sights on up to 3,000 customers for whom it aims to become one of their five preferred banks. Postbank also plans to raise its profile as a specialist for finance management, expanding its loan portfolio with small to medium-sized businesses from €2.8 billion in 2006 to €5 billion in future. It will simultaneously embark on targeted, risk-controlled expansion in the profitable commercial real estate finance segment, with the main focus on Europe. Income from corporate banking is targeted to rise from €382 million today to €500 million in 2010.

"Postbank aims to continue expanding in all its business units, based on its unique platform in the market. In particular, we intend to maximise the great potential in our customer base with innovative products and a clear sales strategy. The greatest challenge continues to be competition for private customers."

Dr Wolfgang Klein, FINANCIAL SERVICES

Expansion in transaction banking

Postbank aims to expand the European activities of its Transaction Banking Business Unit. This requires capital spending that will be shared with strategic partners. Postbank will also extend its capabilities in loan processing by employing, amongst other resources, a multi-client platform for handling building loans.

Developing investment products

The Financial Markets Business Unit – Postbank's innovation driver – will focus in future on developing products for private and corporate customers.

Revenue and earnings performance

Postbank reports further improved profit
During the year under review, the division generated revenue of €10,426 million, which exceeded the previous year's figure of €9,593 million by 8.7%. In the banking business, income from interest, fees and commissions and net trading income are equivalent to an industrial company's revenue.

The division also increased its profit from operating activities (EBIT) again. At €1,076 million, it surpassed the previous year's total of €1,004 million by 7.2%. This contained the net effect from the disposal of Postbank's insurance companies, after allowing for transaction costs, for provisioning in the investment portfolio, impairment losses in connection with the sub-prime crisis, extraordinary effects in administrative expenses as well as non-recurring effects in net interest income, which, on balance, reduced EBIT by €25 million.

Postbank raised its balance sheet-related revenues and net fee and commission income by 3.3% year-on-year, from €4,117 million to €4,253 million. The balance sheet-related revenues – net interest income, net trading income and net income from investment securities – increased by 4.2%, from €2,710 million to €2,824 million. Despite an inhospitable interest rate climate, net interest income rose by 4.0% year-on-year to €2,240 million. At €294 million, net income from investment securities was 0.7% up on the previous year. Net trading income climbed by 9.8% to €290 million.

Net fee and commission income also increased, rising by 1.6% to €1,429 million. The portion of total income attributable to net fee and commission income fell slightly, from 34.2% to 33.6%.

At 0.3%, the allowance for losses on loans and advances rose less sharply than the volume of customer loans. Administrative expenses edged up by 1.6% to €2,856 million.

Net other operating income and expenses amounted to €–55 million (previous year: €–27 million). Postbank's return on equity (ROE) before taxes improved from 18.9% to 19.3%. The cost/income ratio also developed favourably, falling from 66.7% to 64.8% in the traditional banking business. Including transaction banking, which is dominated by industrial processing, it came to 67.2% (previous year: 68.3%). As at 31 December 2007 the tier 1 ratio, calculated in accordance with the *Solvabilitätsverordnung* (German solvency regulation) but excluding the initial restrictions pursuant to Section 339 of the solvency regulation, came to 6.9% at 31 December 2007 compared with the previous year (6.6% according to own calculations).

Deutsche Postbank AG provides details of its business development in 2007 in its own annual report, published on 5 March 2008.

ir.postbank.com

SERVICES

Our SERVICES Division bundles Group-wide internal services, with the aim of enhancing service quality and cutting costs. It includes Global Business Services, the retail outlets of Deutsche Post AG and the Corporate Centre containing the Group's central functions. It also includes the non-operating income and expenses of Deutsche Post AG. We report the services performed by internal service providers as internal revenue.

Global Business Services – established internal service providers

Global Business Services provide services for all divisions, with some 13,000 employees supporting the Group in the areas of Legal Services, Insurance, Procurement, Finance Operations, Information Technology, Real Estate, Fleet Management, Inhouse Consulting, Human Resources Operations and Innovation Management.

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We successfully generated value in 2007. Our Procurement unit attained a top score in an external comparative study, and another comparative study testified to the high level of effectiveness and exemplary cost structure in Legal Services. Human Resources Operations is set to provide payroll accounting for employees in the various regions along with centralised human resources management and made a start in 2007 with Germany, Asia and the United States.

Higher quality at lower costs

We significantly cut costs and enhanced quality in many areas, with both kinds of improvement benefiting the entire Group. Procurement achieved major savings for the third year running, whilst a decrease of more than €50 million in insurance costs was secured by taking policies that were previously held externally and combining them in-house. Substantial real estate costs savings were made by reducing vacancy rates. All service units are highly cost-aware in their work and take care when purchasing services on a large scale to ensure that costs rise in less than direct proportion to procurement volume. A customer-supplier relationship has become established between Global Business Services and its internal business partners. Service quality, scope and price are set a year at a time in service level agreements. This assures planning confidence and transparency for both sides.

Revenue and earnings performance

In the 2007 financial year, revenue increased by 7.1% to €2,357 million (previous year: €2,201 million). The loss from operating activities (EBIT) totalled €660 million (previous year: €229 million). The change is chiefly attributable to the income of €276 million generated by calling the exchangeable bond on Postbank shares in the third quarter of 2006. It further stems from net non-recurring income of €99 million in the first quarter of 2006 arising from the favourable outcome of arbitration proceedings involving Deutsche Telekom (€89 million) and the disposal of McPaper AG, Berlin (€10 million).

Non-financial Performance Indicators

Employees

Workforce strengthened by takeovers and growth

As of 31 December 2007, the Group employed 475,100 people (full-time equivalents). Although the total number of employees rose year-on-year, the number of civil servants dropped further to 61,172. The staff costs fell slightly by 0.8% year-on-year, from €18,616 million to €18,471 million.

Note 12

In the MAIL Division, the number of employees fell by 0.9% to 146,208 but this masked conflicting trends. In the international mail business, the acquisition of The Stationery Office brought some 500 employees into the Group. At the same time, more than 1,000 new jobs were created. In contrast, the number of full-time equivalent employees in Germany contracted by almost 2,800, principally because we further improved workflows, extended the weekly working hours of the mail carriers – by common consent – and outsourced parcel delivery districts.

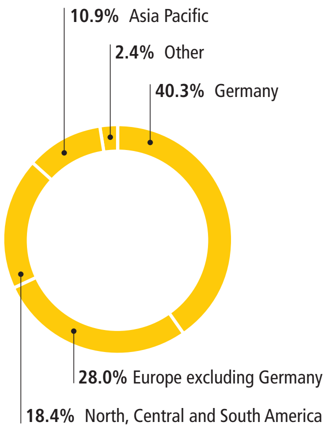
Measured against the previous year, the number of people employed in the EXPRESS Division rose by 5.7% to 112,727. The increase is attributable to the acquisition of ASTAR Air Cargo, expansion of Leipzig/Halle airport into a European hub, workforce adjustments as well as companies being fully consolidated for the first time. In LOGISTICS, notably operational growth pushed up the number of full-time equivalent employees by 4.5% to 170,130. In addition, over 4,000 employees in Europe were statistically recorded for the first time.

Number of employees

	2006	2007	+/–%
At year-end			
Headcount[1]	520,112	536,350	3.1
Full-time equivalents[2]	463,350	475,100	2.5
By division			
MAIL	147,486[4]	146,208	–0.9
EXPRESS	106,635[4]	112,727	5.7
LOGISTICS	162,787[4]	170,130	4.5
FINANCIAL SERVICES[3]	22,769[4]	22,346	–1.9
SERVICES	23,673[4]	23,689	0.1
By region			
Germany	195,577	191,732	–2.0
Europe (excluding Germany)	130,522	133,137	2.0
North, Central and South America	81,175	87,185	7.4
Asia Pacific	46,948	51,852	10.4
Other	9,128	11,194	22.6
Average for the year			
Headcount	507,641	524,803	3.4
Hourly workers and salaried employees	440,203	459,162	4.3
Civil servants	62,560	61,172	–2.2
Trainees	4,878	4,469	–8.4
Full-time equivalents	461,222	470,123	1.9

1) Including trainees.
2) Excluding trainees.
3) Of which Postbank 21,895 (2006), 21,474 (2007).
4) Restated.

Employees by region
as at 31 December 2007[1)]



1) Full-time equivalents.

The FINANCIAL SERVICES Division employed 22,346 people, or 1.9% fewer than in 2006. Staff numbers dropped primarily in the BHW Group and in Postbank branches. In the SERVICES Division, employees were assigned to the service segments at international level. This effect was offset by staff reductions triggered by the further reorganisation of the retail outlet network, which meant that the division's number of employees remained at the prior-year level.

We employ people in 220 countries and territories across the globe. Their regional distribution is illustrated by the adjacent diagram. Germany remains the country with the largest number of employees; however, the workforce there is diminishing. On the other hand, numbers are rising in Europe, America, Asia and the other regions.

Collectively agreed pay rises

The second stage of the collective pay agreement of 13 May 2006 was implemented at Deutsche Post AG with effect from 1 November 2007. The linear wage increase of 2.5% for hourly workers and salaried employees corresponds to a pay rise of 2% compared with the previous year. New collective pay agreements with a term of eighteen months were concluded for some 5,000 people employed by subsidiaries. The companies concerned are DHL Vertriebs GmbH & Co. OHG, DHL Verwaltungs GmbH, DHL Express Germany GmbH, DP IT Services GmbH and the DP property companies. Employees' pay scales were raised by 3.3% with effect from 1 October 2007 or 1 January 2008. Depending on the applicable legacy arrangements, employees received one-off payments of between €400 and €650 for the period between the agreements' conclusion and their taking effect.

Parcel business in Germany reorganised

At the start of 2007, we transferred the German parcel business from the EXPRESS to the MAIL Division. Around 20,000 employees were transferred to the MAIL branches. The transfer took place against the background of a reconciliation of interests and a social plan agreed with the General Works Council.

Excellent health management

At 6.3%, the illness rate at the Deutsche Post Group in Germany remains at a low level. This performance indicator is computed using a new method whereby part-time staff are converted to full-time employees and weekends, public holidays and holiday leave are deducted. For the third year in succession, we received recognition for our health management activities. In a study published by the business daily *Handelsblatt* we occupied first place amongst service enterprises. The certification of our occupational health and safety organisation's quality management system was renewed.

Road safety campaign

In 2007, our occupational safety team launched a road safety campaign throughout the Group. The response was very impressive. Some 76,000 employees of Deutsche Post AG alone attended courses on safe and considerate driving practices in 2007. In the same period, the number of work-related road accidents involving personal injury fell by over 1,300, a decrease of more than 17%. In view of our desire to instil in the workforce a thorough awareness of safety issues, the successful Global Road Safety Initiative is to continue for at least two more years.

Training pact targets exceeded

In 2005 Deutsche Post AG agreed in a training pact with the service sector trade union, ver.di, to offer 2,300 traineeships in Germany every year until 2007. We continued to meet our obligations under this agreement in the year under review. Furthermore, the provision requiring us as a general rule to offer employment to 30% of trainees and students in *Berufsakademie* (German universities of co-operative education) programmes in the period from 2007 to 2009 applied for the first time. We actually offered posts to most of the suitable candidates upon completion of their training programmes and therefore far exceeded the quota agreed in the training pact.

Cultivating talent, caring for the disadvantaged

We have developed a separate programme specifically to recruit, foster and retain particularly capable trainees and *Berufsakademie* students. We undertake to offer permanent employment to the best trainees and students in each year's group who successfully complete the training programme, a clear incentive for improving performance and raising commitment. For several years, we have been running the Youth Job Market Entrance Qualification programme. This long-term internship serves as a foundation for formal vocational training and thus improves the prospects of young people with restricted access to the employment market. In 2007, we offered traineeships for skilled positions in courier, express and mail services to just under 90% of the 280 young people who embarked on the programme in 2006.

Treating each other with respect

We not only respect but encourage diversity in our workforce. Everyone is assessed exclusively according to their skills, performance and conduct. We are developing special programmes to ensure equal opportunities for all. The mentoring programme, for example, which develops the skills of those aspiring to management positions, was extended in 2007 to embrace the entire Group. In December, we signed the charter of diversity, once again underscoring the fact that we foster a climate of acceptance and trust.

We continued to translate our seven i corporate values into action in 2007. In numerous workshops, our employees developed measures relating to everyday work experiences. Alongside the binding terms of reference introduced by the i Code of Conduct in summer 2006, we launched an internet-based information tool in spring 2007.

i Strategy and goals, page 32

E-learning

At the start of 2008, we launched an internal training platform on the internet at www.mylearningworld.net. It currently offers around 200 courses and seminars on a variety of subjects. The curriculum reflects the skills promoted by our human resources development system and thus facilitates focused personal development.

Initiative prize for House of Finance training programme

Our House of Finance programme is targeted at all employees in finance wishing to expand their knowledge in this area. The Group was awarded the *Initiativpreis Aus- und Weiterbildung*, a training and continuing professional development prize, for this programme in 2007.

Everyone counts

An employee survey was conducted in most divisions again in 2007. Responding to questions concerning customer orientation, commitment and active leadership, the workforce pointed to existing strengths and potential for improvements. The results are to form part of our continuous improvement process. The next Group-wide employee survey is scheduled to take place in 2008.

Employees improve workflows

In the reporting period, Deutsche Post employees submitted 202,000 suggestions for making workflows more efficient, reducing repair and energy costs, and improving environmental protection. The benefit to the company totalled €257 million. According to a study of idea management produced by the magazine *Wirtschaftswoche*, we remain the leading non-manufacturing company in this area.

Careers online

i dpwn.com/career

In recent years, career portals on the internet have become one of the foremost recruiting instruments. Our i website is well structured, clearly laid out and varied. In the Top Employer Web Benchmark 2007 ranking published by Potentialpark Communication, the Swedish market research institute, it once again reached the number one spot in both Germany and Europe. Each year, we advertise more than 19,000 jobs online and our database already encompasses over half a million candidates.

Forward-looking personnel planning

In the interests of sustainable human resources planning, we monitor demographic developments. It was in this context that we devised a simulation model in co-operation with the *Forschungsinstitut zur Zukunft der Arbeit* (Institute for the Study of Labour) which is currently being tested in a number of different countries. Using the so-called demographic risk monitor, potential risks can be identified at an early stage and pointers to possible courses of action gained. Following analysis of the test results, this control instrument will be made available to the divisions to help them in their planning.

Talent-seeking

Following the introduction four years ago of our uniform Group-wide performance management system, motiv8, we have now created the post of internal talent broker, whose job is to use the results of the annual evaluation process to fill even more management vacancies from within our own ranks.

Developing leadership skills

Four events took place under the auspices of the International Business Leadership Programme in 2007. Some 100 managers from twenty countries took the opportunity to meet and talk to the Group's Board members and executives, as well as representatives of other companies. The participants honed their leadership skills through active learning orientated towards the requirements of the everyday working environment. The outcomes of case studies have helped to shape corporate strategy, amongst other things through ideas on improving co-operation between divisions.

360-degree feedback

In 2007, we introduced a procedure throughout the Group for generating personal performance feedback not only from supervisors but also anonymously from peers and subordinates. Entitled "360-degree feedback" and intended to promote both personal development and self-reflection, this option is available to all managers. In the same context, we also offer team development courses and individual coaching sessions.

Sustainability

Guiding principles and mission

Strategy and goals, page 32

We continue to conduct ourselves responsibly towards the environment, other people and society, guided by seven corporate values that reflect our company's mission.

In order to establish binding terms of reference, we introduced a Code of Conduct in 2006. It is based on international guiding principles including the Universal Declaration of Human Rights, International Labour Organisation Conventions and the United Nations Global Compact.

dpwn.com/sustainability

Our strategy and key initiatives are published on the internet and in our sustainability report, the next issue of which will be published in mid-2008.

Improved performance

The effectiveness of our action on sustainability is also monitored by external rating agencies. According to Sustainable Asset Management (SAM), our rating improved from 67 in 2006 to 74/100 points in 2007. We were omitted from the latest European Dow Jones sustainability index, the DJSI STOXX, but the FTSE4Good Index confirmed our company's membership. We also remain in the Advanced Sustainability Performance Index Eurozone maintained by the French rating agency Vigeo and in the KLD Global Climate 100 Index.

Challenge of climate protection

dpwn.com/sustainability

Protecting the climate in compliance with the Kyoto Protocol and improving carbon dioxide (CO_2) efficiency were our principal environmental goals in the year under review. We calculate our greenhouse gas emissions with a continuously refined CO_2 monitoring system based on an international standard (the Greenhouse Gas Protocol published by the World Resources Institute and the World Business Council for Sustainable Development). In 2006, we were able for the first time to record all CO_2 emissions directly caused by us. These totalled around 6.1 million tonnes.

Until there are economical large-scale alternatives to fossil fuels, we must seek to organise all logistics processes so efficiently that the rising demand for goods transport is not accompanied by an equivalent increase in emissions. As the examples below indicate, we are embracing this challenge.

By way of our GOGREEN options, we are currently the only logistics service provider to offer climate-neutral products, which offset the emissions associated with their shipping through climate protection projects. In Germany, the product range encompasses the *Pluspäckchen* (small packet plus postage) for retail customers, online franking and parcels for mail order customers. In January 2007, we also began offering climate-neutral express delivery services to business customers in Europe.

We are investing in modern, fuel-efficient cargo aircraft, such as the Boeing 767-300 ER. Our road fleet also uses alternative powertrains, including hybrids, and burns renewable fuels, such as vegetable oil. We also consolidate shipments and optimise route planning.

The infrastructure of our new central air freight hub for Europe, in Leipzig, will emit about 3,000 fewer tonnes of CO_2 each year than conventional systems, thanks to photovoltaic technology and cogeneration.

More than 35% of our employees now work with environmental management systems audited in compliance with ISO 14001. We developed the underlying concept ourselves in a six-stage plan.

Accepting social responsibility

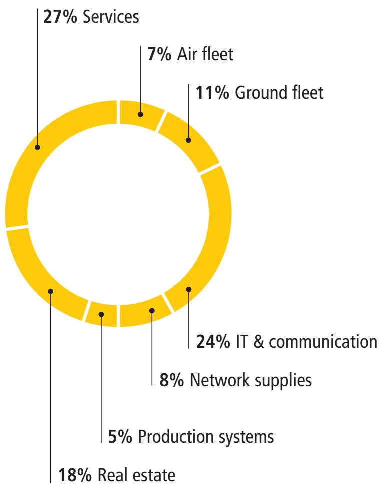
Our partnership with the United Nations Development Programme (UNDP) and the United Nations Office for the Co-ordination of Humanitarian Affairs (OCHA) forms a cornerstone of our socio-political commitment. We have enlarged our disaster relief organisation, which now comprises three well-qualified teams in Singapore, Miami and Dubai. These disaster response teams cover the Asia Pacific region, America, the Middle East and Africa – more than 80% of the world's territory most frequently visited by catastrophe – co-ordinating logistics for incoming aid at local airports in order to help avoid supply bottlenecks. In conjunction with the UNDP, we also improved our disaster mitigation provisions in 2007. Airport managers and employees are learning about pre-disaster planning through the GARD (Get Airports Ready for Disasters) programme.

We are supporting the United Nations Children's Fund (UNICEF) in the global struggle against infant mortality by providing logistics services and financial aid, and through our employees' personal engagement. As reported in 2006, we helped UNICEF to distribute about 3.5 million mosquito nets in Kenya as part of Africa's largest vaccination campaign. We thus contributed to reducing the number of children under the age of five dying from malaria from 34,000 in 2005, according to the World Health Organisation, to 16,000 in 2006. Twelve volunteers from Deutsche Post World Net spent two weeks working for UNICEF in Kenya and taking part in local preventive healthcare programmes. In 2008, we are extending the international reach of our co-operation with UNICEF to include Asia and South America.

In the year under review, our social responsibility found further expression in more than 250 regional and local initiatives. We transported and distributed aid, for example, following the extremely cold spell in Peru, and supported orphans in Angola. We also used Fair Trade products as giveaways, and sponsored school and cultural projects in Bonn, the home of our corporate headquarters.

Procurement

Procurement expenses, 2007
Volume: €10.3 billion



Purchasing of goods and services

Corporate Procurement purchased goods and services with a total value of about €10.3 billion in the year under review. Spending was higher than in 2006 (€9.5 billion) because of the integration of Williams Lea and other factors. Transport services are generally procured by the individual units, with Procurement providing advice on a project basis.

Procurement organisation streamlined

Procurement is a centralised function. The Group employs sixteen product group managers worldwide who work closely together with regional procurement managers. We have optimised Procurement's regional structure with effect from 1 December 2007; and the regions now comprise: Germany/Austria/Switzerland, UK/Ireland, Europe/Middle East/Africa, North America, South America and Asia Pacific. Product group managers and regional procurement managers report to the head of Corporate Procurement. This line reporting structure enables us to pool our needs worldwide while satisfying the service and quality requirements of internal customers.

We seek continuously to improve our performance. Our success in 2007 was corroborated by a study produced by the European Business School, which compared the purchasing departments of 35 other companies with our own. In direct comparison, Deutsche Post Procurement ranked amongst the leaders as regards both procurement cost and economies achieved in relation to procurement volume.

As ever, our success depends on the skills and quality of our employees. For this reason, we extended our Fit4 Procurement programme in the year under review to embrace all the regions; we also conducted numerous subject-specific training courses.

Compliance with environmental guidelines

The principal procurement initiatives during the year attached a high priority to environmental aspects of our business. In Germany, for example, electricity supply agreements were concluded primarily with producers using renewable energy resources. From 2008 onwards, more than 60% of the electricity consumed by our headquarters and branches will come from eco-friendly sources. This will enable us to reduce CO_2 emissions by more than 200,000 tonnes a year. Furthermore, purchasing in tranches enables us to pare administrative costs and secure price advantages for the next one to two years. This procedure allows us to take market pricing trends into account since purchasing is done in tranches throughout the year rather than all at once.

In the United Kingdom, the supply of electricity and gas was put out to tender. In the light of this, our Group subsidiary DHL converted its 104 main facilities to renewable energies. The target is to reduce annual CO_2 emissions by 98,000 tonnes. In Asia and Europe, we have reduced the size of the air waybill, thus eliminating 200 tonnes of paper and the associated costs every year.

We also apply environmental criteria to the purchase of vehicles. Our focus here is on fuel consumption and emission class in accordance with the EU classification.

Working together with customers and suppliers

We have stepped up our co-operation with our internal business partners. The First Choice programme was rolled out throughout Procurement. This Group-wide programme, which aims to enhance our customer relationships, has already given rise to several initiatives. It is driving our endeavour to understand and satisfy our partners' requirements more effectively.

Procurement regularly reviews key suppliers' service quality with its business partners in order to identify potential weaknesses at an early stage and arrange suitable improvement measures with the suppliers. This has enabled us to substantially raise both the quality of services and our internal customers' satisfaction.

Quality

Technological leadership in mail

We reach our customers in Germany via a nationwide transport and delivery network. At the heart of this network are 82 mail centres processing an average of around seventy million items per working day and 33 parcel centres with a handling volume of around 2.5 million units per working day. The extent of automation in our mail business continues to rise; we pushed up the rate from 89% of items in 2006 to more than 90% in the year under review.

We use all available technical and operational options to ensure high-quality and efficient mail processing. In 2007, we tested new machines in our mail centres. These are now capable of sorting flat mail (large letters), achieve almost three times the throughput of current machines and offer enhanced functionality.

Regular market research and the focused processing of complaints tell us that our customers expect us to achieve the highest possible quality standards. The criterion they apply to evaluate the quality of our services is whether mailed items reach their destinations quickly, reliably and undamaged. To satisfy these requirements, we manage quality according to a system audited by the *Technischer Überwachungsverein* (TÜV – German technical inspection association) and certified for compliance with ISO every year. We also have our performance evaluated by Quotas, a quality research institute.

In the year under review, we once again achieved the excellent mail transit times posted in 2006. In Germany, over 95% of the letters posted during our daily opening hours or before the final collection are delivered to their recipients the next day.

MAIL in figures

- **Private customers: 39 million**
- **Business customers: 3 million**
- **Letters in Germany: 70 million per working day**
- **Parcels in Germany: 2.5 million per working day**
- **International items transported: 7,457 million**
- **Production facilities: 162**

We also improved our already outstanding parcel transit times: Delivery, or attempted delivery, of 95.5% of all parcels processed at outbound parcel centres to their recipients took place within the stipulated transit time – by either the next working day or the day after, depending on the distance.

Our transit times for international letters – as determined in a study by the Universal Postal Union – are significantly better than the standard set by the European Union (EU). As in previous years, our quota for three-day delivery of cross-border items mailed within the EU was 96% against the EU requirement of 85%.

Sustainability, page 76

We regard working practices that protect the environment as a further yardstick of quality. In Germany, we employ environmental management systems in both our mail and parcel businesses. Within the framework of our GOGREEN initiative, we offer private and business customers climate-neutral shipping options.

Express services driven by customer satisfaction

Strategy and goals, page 31

The overriding goal of our quality endeavours in the field of express delivery is to satisfy our customers. Our First Choice initiative ensures that we meet the customers' high demand for speed and reliability. We are focusing above all on operating performance and customer contact.

EXPRESS in figures

- **Countries and territories: 220**
- **Hubs: 36**
- **Service points: 50,000**
- **Customers: 8.3 million**
- **Vehicles: 72,000**
- **Aircraft in service for DHL: 350**

The capacity to deliver on time is an important quality indicator. Our central quality measuring programmes allow us to determine the punctuality of deliveries, to analyse delays in individual process stages and to seek ways of accelerating delivery to customers. For this purpose, we have set up global, regional and national teams that work closely together.

The Quality Control Centres are at the heart of our global network. Using state-of-the-art equipment, their employees effectively monitor the performance of our intercontinental flight network and all other transport processes on a daily basis. They track the course of shipments from collection to delivery in real time and provide customers with advance information. We will introduce further quality control centres in all regions. We are already operating such centres to good effect in 26 locations in the Asia Pacific region.

Consistently high quality of service is crucial for a global network operator. We therefore regularly monitor the compliance of our workflows, for instance, to establish whether the required data are delivered in full and on time.

We constantly strive to improve our services in order to more closely satisfy customers' wishes. By regularly conducting customer surveys, we determine whether we are succeeding in this respect. Amongst the key criteria are the availability of our customer service organisation and the speed with which customers' inquiries are processed.

In 2007, as in the preceding years, we once again received several awards from international media and our customers, including:

- “Best International Express Operator 2007” from the magazine Air Cargo Weekly.
- “International Express Operator of the Year” in the UK for the third year in succession.
- The “Mobile 2007” award in the Polish transport business.
- “Best Company for Express Air Freight” from the Portuguese trade journal, Transportes & Négocios.
- In India, we were recognised by the readers of Avaya Global Connect and The Economic Times for our “Customer Responsiveness in the Logistics Industry”.
- The Centre for Customer Satisfaction and Loyalty in Indonesia also expressed its approval by presenting us with the “Best Call Centre Award for Service Excellence”; we also received similar awards in Australia and China.
- “Best Customer Support of the Year” award from the Japan Institute of Information Technology.
- The American Business Award for our human resources work.

Focus on logistics customer satisfaction pays dividends

In the logistics business, we seek to dovetail our services with customers’ needs. Since our business is built on long-term customer relationships, the extent to which existing agreements are renewed is a key indicator of quality. In 2007, the contract renewal rate was 84% (previous year: 77%).

In 2006, we began regularly and systematically polling our customers on their wishes and satisfaction with our services. Surveys were again conducted in the reporting period, covering customers in all business units and regions. The results are used to form part of our continuous improvement process.

In the year under review, we once again received several awards for the quality of our services. The principal ones were:

- “Best European 3PL Awards” from the website eyefortransport.
- The “Asia Pacific 3PL Award” at the SCM Logistics Excellence Awards.
- The “European Retail Solutions Award” for project implementation of the year.
- DHL Exel Supply Chain was named provider of the year by Volvo in Brazil.
- We received the “Provider of the Year” award at the Middle East Supply Chain and Transport Awards.
- The “EPA SmartWay Environmental Excellence Award” for DHL Exel Supply Chain in the USA.
- In Mexico, we won the accolade of “most responsible company” and the Volkswagen Group’s award for outstanding supplier performance.
- DHL Exel Supply Chain occupied second place in the list of leading 3PL companies published by Inbound Logistics magazine and the Transport Topics newspaper named us the best logistics company.

LOGISTICS in figures

DHL Global Forwarding

- Countries and territories: 150
- Locations: 810
- Air freight volume: 4.4 million t
- Ocean freight volume: 2.8 million TEUs

DHL Exel Supply Chain

- Countries and territories: 60
- Distribution centres: 2,500
- Warehouse space: 23 million m²

DHL Freight

- Terminals: 160
- Transport volume: 40 million t
- Full truckloads: 2 million

Postbank in figures

- Customers: 14.5 million
- Private customer current accounts: 4.9 million
- Savings volume: €60.5 billion
- Volume of brokerage accounts: €11.5 billion
- Private loans: €2.9 billion
- Corporate customer loans: €17.6 billion
- Private mortgage lending: €68.0 billion

High accessibility critical for Postbank

As the leading financial services provider for private customers in Germany, Postbank measures the quality of its services, amongst other things, by the ease of access for its 14.5 million customers.

Postbank has also developed key indicators that are subject to regular internal measurement and evaluation procedures. These include the average duration of customer transactions, the skills of employees who have direct contact with customers and waiting times in the Postbank branches.

Customer loyalty is another quality benchmark. It is measured by the number of regular customers and the average number of products purchased by each one.

Enhanced customer focus in internal services

Strategy and goals, page 31

At Global Business Services, the priority in the year under review was on further enhancing customer focus in internal services. This is closely linked with the First Choice initiative. We surveyed customers and business partners within the Group to find out how satisfied they are with our services, and their responses have led to numerous improvements. Marked gains have already been achieved on a number of quality indicators such as response times and IT system availability. We will be repeating the customer satisfaction survey yearly from now on.

Retail outlets in figures

- Deutsche Post employees: 6,939
- Total outlets: 13,526
- Own outlets: 5,440
- Partner outlets: 8,086
- Average weekly opening hours: 42

Local retail outlets as nationwide sales platform

Our “non-mobile” sales network of more than 13,500 retail outlets is one of the most extensive in Germany. Every day, these outlets welcome two to three million customers who come there to use postal services and, in many cases, to take care of their banking needs. We are also currently testing around 900 new Postpoint format outlets, which are located, as are our partner outlets, in different kinds of shops, to ensure proximity to customers and high accessibility.

We have been co-operating successfully with the retail trade for fifteen years. Currently, more than 8,000 outlets are operated by partners offering postal services and in most cases banking services in addition to their own main product range. As this sales model benefits everyone concerned we plan to expand it: Customers profit from short distances; partners benefit from growth in customer numbers and income; and Deutsche Post demonstrates its proximity to the customer whilst improving efficiency. The postal services provided under the Deutsche Post and DHL brands are also available in the 855 finance centres of Postbank.

Brands

One Group, three brands

Deutsche Post World Net is active in the market with three brands: Deutsche Post, DHL and Postbank. Each stands for high-quality products and services, and market research studies have confirmed that each is well established amongst its individual target groups. The awareness of Deutsche Post in Germany amongst both private and business customers has been measured at a consistently high 95% or so for many years.

Awareness of the Postbank brand is similarly high. With a score of around 95%, it ranks amongst Germany's most well-known financial institutions.

In addition, the brand awareness of DHL is steadily increasing amongst its target audiences in the international mail, express and logistics segments. It currently stands at some 93%. In addition, we have further successful segment brands, regionally and at the business unit level, including Exel, Williams Lea, The Stationery Office and BHW.

Brands and business units

Deutsche Post
- MAIL Germany

DHL
- EXPRESS
- LOGISTICS
- MAIL International
- PARCEL Germany

Postbank
- FINANCIAL SERVICES

Clearly orientated brands

Our brands face tough competition from both domestic and international providers. To facilitate our customers' purchasing and investment decisions, we have adopted a clear orientation for each of our brands, in order to communicate clearly what they essentially stand for and the customer benefits they embody.

The Deutsche Post brand stands for personal proximity, reliable quality and groundbreaking services. Its success is built on industry leadership, a unique infrastructure in Germany and consistently high quality in the mail business.

DHL is a brand acknowledged for personal commitment, proactive solutions and local strengths in the global arena. Its commitment stems from the personal dedication of around 285,000 employees and their customer orientation. We employ our extensive services in a forward-looking manner in order to offer every customer a suitable solution. Our branches in 220 countries and territories make us a genuine global player.

The performance pledge of the Postbank brand is: simple, better and more flexible. Above all, our success is founded on readily understood products, easy access to our services and competent financial advice covering the entire product portfolio on attractive terms.

Substantial value

Brands are a vital factor in value creation, as illustrated by the efforts of numerous market research institutes to determine the special value brands have for the companies they represent. Semion Brand Broker, for example, has analysed Deutsche Post according to the following criteria for its "famous German brands" ranking: financial value, brand protection and image, and brand strength, which is expressed in terms of market share, marketing activities, distribution rate, awareness and coherence of the branding. For 2007, Semion calculated a brand value of €15,711 million for Deutsche Post. It thus ranks in fifth position amongst the leading German brands. The value of the DHL and Postbank brands has not as yet been assessed.

Investing in establishing and developing our brands

In the year under review, we invested some €120 million in directly establishing and developing our brands. Activities include advertising and sponsorship measures, as well as direct marketing campaigns, trade fair presentations, market research, internal communications, press relations and sales support.

In keeping with its global presence, the DHL brand attracted around half of the development budget. A quarter was earmarked for each of the German domestic brands, Deutsche Post and Postbank.

Research and development

As a service provider, Deutsche Post World Net does not engage in research and development activities in the strict sense, and therefore has no significant expenses to report in this connection.

i dpwn.com/future

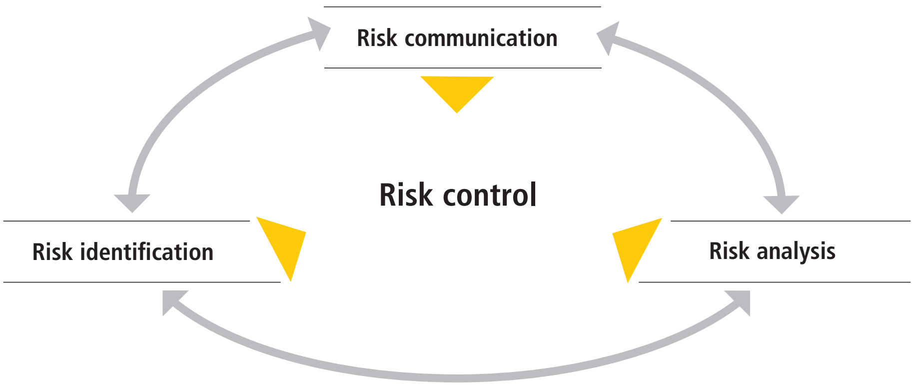
Nonetheless, we are always seeking to harness technical innovation for our services. In Troisdorf near Bonn, for example, we opened the i DHL Innovation Center in March 2007. Here, the Group is bringing together the various entities that have been responsible for managing technical innovation thus far. The goal and task is to place our practical knowledge at the disposal of our partners in such a way that emerging trends in logistics are translated into innovative, marketable products. Our technical partners in business include IBM, Intel and SAP. The Innovation Center comprises a vibrant exhibition area alongside a conference suite.

Risks

Opportunity and risk management

Organisation of opportunity and risk management

All business fundamentally involves opportunities and risks. Active control of these opportunities and risks is supported within Deutsche Post World Net by a Group-wide opportunity and risk management process. The objective is to strengthen the Group's firmly established culture of tackling risks and opportunities proactively in order to secure our business success for the long term. The process developed to this end is based on uniform methods and standards for identifying, analysing and communicating the issues concerned.



Tightly integrated into the existing controlling processes are quarterly opportunity and risk identification and reappraisal. This analysis covers events and developments both within and outside the Group that might lead to deviations from the planned course of commercial success. In the event of significant changes, ad-hoc announcements may be issued at any time.

Opportunity and risk analysis also involves the investigation of major influencing factors, the compiling of action plans and determining indicators for the early detection of critical situations. The analysis is performed on a results-orientated basis using scenarios. Opportunities and risks are assigned to managers responsible for taking action as appropriate to exploit the opportunity or control the risk. This helps clarify who is responsible, particularly with cross-cutting issues.

We deploy identical software for recording, reporting and documenting risk throughout the Group. This replicates the multi-level risk reporting structure and ensures that the managers responsible are involved at various strata of the hierarchy. The process is closely integrated with management and control tools, safeguarding regular communication between the controlling function and management. The Board of Management is kept informed by central risk control, which is organisationally part of Corporate Controlling.

Note 48.1

Postbank's risk control system complies with the bank-specific requirements of the Basel Committee on Banking Supervision (Basel II in line with EU directives) and the Minimum Requirements for Risk Management (MaRisk, laid down by BaFin, Germany's federal financial supervisory authority). Postbank is also integrated into the Group's opportunity and risk control process.

We consider the risks set out in the following to be the significant negative factors currently affecting our net assets, financial position and results of operations. However, these are not necessarily the only risks to which the Group is exposed. Risks of which we are currently unaware or which we do not yet consider to be material could also have an adverse effect on our business activities.

Risk categories and individual risks

General business environment and industry-specific risks

Our business success substantially depends on the financial health of our customers. Despite turbulence in the financial markets, the world's countries are expected on average to sustain their GDP growth, with particularly strong growth rates in emerging and developing economies. A sustained upturn is also accelerating the process of globalisation, leading to growth in demand for storage and transport. This can boost demand for the services of high-performance logistics providers but may also stoke regional and global competition with established and new market players. A cyclical slowdown could reduce customer demand to such an extent as to pose risks for our business activities. However, we do not currently perceive any far-reaching general economic risks facing the Group.

Risks associated with the general business environment primarily arise from the fact that both the Group and its subsidiaries provide some of their services in a regulated market. Our statutory exclusive licence was abolished in Germany on 1 January 2008. However, the *Postgesetz* (German postal act) has allowed exceptions enabling competitors to operate within the weight and price ceilings laid down in our exclusive licence from January 1998 onwards. As a result, around 55% of the revenue generated by competitors in 2007 was within the weight ceilings stipulated by the exclusive licence. By the end of the year, the regulatory authority (*Bundesnetzagentur* – Federal Network Agency) had issued licences to around 2,370 competitors.

On 7 November 2007, the regulatory authority announced its benchmark decision specifying the conditions which will apply from 2008 until the end of 2011 to regulations under the price cap procedure for mail prices requiring approval. This stipulates the general rate of inflation and the expected productivity growth rate for Deutsche Post AG as the key factors applicable to mail prices. Prices have to be lowered if the inflation rate in the reference period is less than the productivity growth rate specified by the regulatory authority. No price cuts are required in 2008, allowing the mail prices requiring approval to remain unchanged. The regulatory authority accepted an application from Deutsche Post AG to this effect on 20 November 2007.

On 18 October 2006, the European Commission presented its proposal for a third Postal Directive and recommended opening the EU postal markets fully to competition starting in January 2009. The European Parliament and Council have begun consultations on the proposal under the EU co-decision procedure. In a first hearing on 11 July 2007, the European Parliament came out in favour of fully opening the EU markets by 1 January 2011 – later than in the Commission proposal – and of granting certain member states a transitional period until 1 January 2013. The Council adopted its common position on 8 November, in which it endorsed the European Parliament's proposed date for market opening. The European legislative procedure continues.

Whilst liberalisation of postal markets entails risks for Deutsche Post AG due to increased competition in Germany, it also opens up new opportunities in other European mail markets.

In 2007, cross-border mail in Europe between Deutsche Post AG and fifteen other western European postal operators was governed by the REIMS II agreement and with another nine eastern European postal companies by the REIMS EAST agreement. The postal operators are currently negotiating a new agreement called REIMS III, which is to come into force with retroactive effect from 1 January 2008 and replace the REIMS II and REIMS EAST agreements.

Discussions continue regarding the extent to which postal services should be exempt from value-added tax (VAT). In correspondence dated 10 April 2006, the European Commission initiated infringement proceedings against the Federal Republic of Germany with regard to the VAT exemption of postal universal services provided by Deutsche Post AG. Germany considers the current VAT exemption to be in compliance with applicable law and responded to the European Commission accordingly. On 24 July 2007, the Commission announced in its decision on the proceedings that the VAT exemption for postal universal services provided by Deutsche Post AG was too far-reaching and called on the German government to amend the applicable law. Independently of these infringement proceedings, the German government announced that it would review the VAT exemption of Deutsche Post AG against the backdrop of the expiration of the exclusive licence on 31 December 2007. In a first statement on the infringement proceedings, a spokesman for Germany's finance ministry stated that the German government considers the current VAT exemption in Germany to be tenable throughout Europe. The German cabinet has resolved to retain the VAT exemption for nationwide universal services in the postal sector.

Concurring with Deutsche Post AG, the regulatory authority is of the opinion that the prices it approved are net prices not including VAT. VAT could therefore be added to the approved prices. However, it cannot be ruled out that the application of VAT would lead to a decrease in revenue and earnings.

Business strategy risks

Deutsche Post World Net continues to focus on meeting the needs of its customers at all times. To do this, we aim to make optimum use of our global platform. In regional expansion of the services network, priority is given to organic growth over business acquisitions.

Starting 1 January 2008, our MAIL Division with its diverse range of mail and parcel services will face heightened competition in the liberalised German mail market. This may result in loss of market share, most of all in the business customer segment. The spread of digital technology also continues, with conventional mail increasingly being replaced by electronic communication methods. We aim to absorb impending losses of market share in the German mail market as far as possible through consistent customer focus, new products and further internationalisation of our mail business. The parcels business in Germany is unaffected by mail market liberalisation, since it has been exposed to competition for many years.

The EXPRESS Division has unified its worldwide management structure. The aim here is maximum possible efficiency in marshalling resources and capital expenditure and to strengthen our position in the regions we serve. As reflected in the successful launch of our First Choice programme, customer satisfaction is amongst our central strategic goals. In a fiercely competitive environment, our focus on customer satisfaction and cost efficiency forms the basis for numerous projects, including the cost-efficient expansion of our infrastructure. Despite intensive planning, temporary quality lapses may arise in the course of complex infrastructure projects, in rare instances with an adverse effect on revenue and earnings.

The LOGISTICS Division has integrated logistics provider Exel sooner than planned. The division grew to take in the European overland transport business in 2006 and now offers a full logistics service portfolio. We plan to extend our market lead, to enhance customer focus and to continue our predominantly organic growth. Our growth targets are dependent on growth in the global economy. If there were to be a cyclical slowdown, worldwide or in specific regions, our commercial success could suffer as a result.

Earnings in the FINANCIAL SERVICES Division are almost exclusively accounted for by Postbank, which plans to strengthen its position in the German banking market, particularly in the fiercely contested private customer segment. To counter the heightened competition as well as meet customer and capital market needs, Postbank will continue to improve sales and internal processes.

Performance and profitability risks

The global expansion of our Group has placed increasing demands on our mission-critical infrastructure. This applies to posting and collection, sorting, transport, delivery and information technology. We aim to avoid business interruptions at key locations by continually monitoring critical infrastructure such as sorting and conveyor systems, air hubs and data centres. The precautions we take and our emergency and contingency plans are effective tools in preventing business interruptions or minimising their effects.

Following the complete opening up of the German mail market, our MAIL Division now faces growing competition. We are well prepared for the changed situation. With modern sorting facilities and efficient processes, we set high quality standards. We are also optimising and rendering more flexible the costs of our transport and delivery network. Consistent customer focus in conjunction with sales and marketing activities additionally reduce the risk of loss of market share.

The EXPRESS Division is exposed to fierce competition both nationally and internationally. To hold our own in this business, we are optimising our global transport network, amongst other things by building or enlarging air hubs. All processes are subject to regular analysis with the aim of effective use of deployed resources. We continuously match up the product portfolio to customer needs. With our First Choice programme, we ensure workforce awareness of the need to view customer satisfaction as a key competitive criterion.

This applies equally in the LOGISTICS Division. Loss of customers, particularly major customers, could put the attainment of our earnings and revenue targets at risk. Far-sighted management can limit this risk but not eliminate it altogether. With custom-tailored logistics solutions especially, our commercial success is closely bound to that of our customers. We therefore aim to support our customers with our experience, the quality of our work and a broad service portfolio.

Postbank accepts normal banking risks whilst strictly observing its risk-bearing capacity. The relevant risks are continuously measured and monitored, and regularly reported to the management. The Basel II capital adequacy requirements in force since 1 January 2007 and the Minimum Requirements for Risk Management (MaRisk) were integrated into Postbank's risk management system at an early stage. Germany's federal financial supervisory authority (BaFin) has permitted Postbank to use its own rating and scoring models to assess risk and ensure capital adequacy for the majority of its transactions. In the course of credit substitute transactions, Postbank has also invested in structured credit products. It has closely monitored the disruption of the capital markets arising from the developments on the US real estate market with regard to potential defaults in its structured credit portfolio. Postbank has systematically analysed its holdings on an ongoing basis and tested them for impairment. Based on a conservative assessment of the portfolio, an impairment loss in the amount of €112 million was recognised in 2007. In the event of an appreciable increase in the turbulence arising from the US real estate market and the crisis spreading to the real economy, further financial impacts cannot be ruled out.

Environmental risks

Monitoring environmental regulations is an integral part of the Group-wide risk management process. We do not currently know of any significant environmental risks with a substantial potential financial impact on the Group. However, we are closely following political discussions within the EU that deal with the introduction of an emissions trading system, especially for the air transport sector. As it is impossible to foresee the outcome of the political discussions, we cannot assess the financial impact, were such a system to be introduced.

Personnel risks

The hard work, expertise and commitment of the workforce are essential to our commercial success. We therefore place high priority on initial and further training, and use motivation-enhancing, performance-based pay structures, with performance assessment that is standardised Group-wide. These are linked to human resources development activities specially tailored for each employee target group. The increasing internationalisation of our business and the growing demands on management increase the need for highly qualified young talent. We identify and promote outstanding managerial talent on an ongoing basis, amongst other things in connection with *Berufsakademien* (German universities of co-operative education) and the Group's own university. International education opportunities and challenging career openings make the Group highly attractive, enabling us to hold our own in the competition for highly qualified specialists and managers as well as to actively counter the risks associated with workforce fluctuation, demographic developments and loss of expertise.

Employees, page 75

Liberalisation of the German mail market may pose further personnel risks. If despite all efforts Deutsche Post AG suffers substantial losses in market share, jobs may come under threat within the Group.

Information technology risks

Information technology is an integral part of our Group's production and service processes. Our business performance therefore depends heavily on the functioning and availability of our applications and infrastructure. Our three globally operating data centres constitute a key success factor. We prevent faults and any downtime by active risk management, and have set up redundant systems and developed detailed emergency plans.

In everyday use, the effectiveness of IT security relies largely on the workforce's implementation of our security guidelines. We have therefore taken steps to enhance workforce risk-awareness. Amongst other things, we have set up the Information Security Knowledge Centre, an interactive platform providing key information on IT security.

We block unauthorised data access and data manipulation with various measures involving the workforce, organisational structure, applications, systems and networks. We continuously improve security mechanisms and plans. The appointment of a global committee on IT security underscores the priority given to IT security within the Group.

Management of financial risks

Information on financial risk management is provided in the Notes.

Note 48.2

Risks from pending legal proceedings

Information on legal risks is provided in the Notes.

Note 50

Other risks

The US Department of Transportation (DOT) has not yet completed a US citizenship test for ABX Air Inc. ABX Air Inc. is an independent company that provides transport services for DHL. There is no deadline for the routine citizenship test by the DOT. ABX advises that it expects a positive outcome of this test that will confirm that it is a US airline pursuant to US laws and DOT regulations. A similar review of ASTAR Air Cargo Inc. was decided positively by the DOT in 2003/2004.

External audits are currently underway at DHL Express (USA) and Airborne Inc. in line with the US unclaimed property laws. These laws state that abandoned assets must either be returned to their rightful owner or transferred to the last known owner's home state or, if this is not known, to the state in which the company is domiciled.

In the course of its expansion, the Group has recognised significant goodwill. According to IAS 36, this goodwill must be subjected to an impairment test at least once a year. If the value of the goodwill is determined to be impaired, an impairment loss must be recognised.

Our insurance strategy separates insurable risks into two groups. The first group comprises risks with a high probability of occurrence and low individual cost. These risks are insured via a captive, an insurance company owned by the Group. The in-house company is able to insure such risks at a lower cost than commercial insurers. The second group comprises risks that have a low probability of occurrence but could entail high losses, such as air transport risks. These risks are transferred to commercial insurers. This global financing and insurance strategy produced cost savings approaching €100 million during the year.

The threat of terrorist attacks could also have negative effects on our business and particularly on our air-based express operations. Higher insurance premiums cannot be ruled out in such an eventuality.

As a service provider, we do not conduct research and development in the narrower sense. There are therefore no material risks to report in this area.

Overall assessment of the Group's risk position

Significant risks capable of threatening the attainment of our budgeted earnings figures are largely associated with the liberalisation of the German mail market. Our risk situation is also affected by fierce competition in our other markets and businesses. The volume of the markets we serve primarily depends on the development of the world economy and cyclical trends in individual countries. In the past financial year, there were no identifiable risks for the Group which, individually or collectively, cast significant doubt upon the company's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future. For a description of the risk position of Deutsche Postbank AG, please refer also to the Postbank Group's risk report.

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Further Developments and Outlook

Report on post-balance sheet date events

Group intends to transfer global IT functions to HP

Deutsche Post World Net and Hewlett-Packard signed a letter of intent on 24 January 2008 to transfer responsibility for parts of our Group's global IT operations to HP Services. Under the terms of the agreement, we expect to save at least €1 billion over the next seven years by driving down overall IT costs and better leveraging IT resources needed to run the business and serve customers. The companies expect to reach a definitive agreement by mid 2008.

Dr Klaus Zumwinkel to resign

Dr Klaus Zumwinkel informed the Executive Committee of the Supervisory Board on 15 February 2008 of his decision to resign from his offices as chairman of the Board of Management of Deutsche Post AG and chairman of the Supervisory Board of Deutsche Postbank AG at the next meeting of the Supervisory Board.

Report on expected developments

Global economy slightly losing momentum

Economic uncertainty is unusually high. Turbulent financial markets, a weak US dollar and high oil prices have the potential to noticeably hamper global expansion. Leading economic institutions and organisations forecast for 2008 that global GDP will advance more slowly and global trade grow a little faster than in the previous year.

Growth forecasts

	2007	2008
Global trade volume[1]	6.3	6.9[2]
Real gross domestic product		
Global	4.9	4.1
Industrial nations	2.6	1.8
Emerging markets	7.8	6.9
Central and Eastern Europe	5.5	4.6
Former CIS states	8.2	7.0
Asia	9.6	8.6
Middle East	6.0	5.9
Latin America/Caribbean	5.4	4.3
Africa	6.0	7.0

1) Only goods (goods and services: 6.6% (2007), 6.7% (2008)).
2) IMF: 6.9%, OECD: 8.1%.

Source: International Monetary Fund, "World Economic Outlook", October 2007;
International Monetary Fund, "World Economic Outlook Update", January 2008

The US economy will continue to suffer from the decline in residential property investment. Although foreign trade is again expected to exert a positive influence, growth will probably be as moderate as it was in 2007, around 2.2%.

Buoyed by both external trade and domestic demand, the Japanese economy is likely to expand further. Growth of between 1.6% and 1.8% appears feasible. China also remains on course for additional growth. A GDP advance of around 10% is anticipated for 2008.

The euro zone will maintain its upswing but at a slower pace. Its economy will continue to be driven by domestic demand, however foreign trade will restrain growth in the euro zone slightly, especially because of the strong euro. At 2.0%, expansion in the euro zone will be slower than in 2007 overall (IMF: 1.6%, OECD: 1.9%, Postbank Research: 2.0%).

The German economy is likely to remain programmed for growth but lose some of its vigour. Thanks to a fall in unemployment, higher collective pay agreements and therefore elevated income, an appreciable invigoration of private consumption is anticipated. With GDP advancing by some 2%, the upswing in Germany is expected to be sustained (OECD: 1.8%, German Council of Economic Experts: 1.9%, Postbank Research: 2.1%).

It is anticipated that the situation in the oil market will ease slightly as 2008 unfolds.

In January 2008, the US Federal Reserve cut its key interest rate by an additional 1.25 percentage points to 3.0% because of the economic risks that exist in the USA but further decreases are to be expected only if the economy enters a recession.

Given the persistent uncertainty of the economic climate, the ECB is likely to hold its key interest rate for the time being.

Mail business in the year of market liberalisation

The demand for mail in Germany depends primarily on the economic climate and the extent to which electronic media such as fax, e-mail, text messaging and the internet take the place of the conventional letter. We expect the domestic market for mail communication to continue shrinking in the coming years. Full liberalisation of the market will also serve to reduce our share but we have prepared ourselves for the forthcoming changes.

Further moderate growth and a sustained trend towards targeted advertising are anticipated in the German advertising market. Although the market for paper-based advertising was opened up at the beginning of 2008, we intend to consolidate our position in this segment and to build on it in the advertising market as a whole. The press services market is likely to contract somewhat because of the increasing use of new media. We are seeking to maintain our revenue position here also by drawing on the growing significance of subscriptions.

In the cross-border mail business, substitution by electronic media is being mitigated by a rise in direct marketing. We therefore expect the market as a whole to remain stable. We intend to hone our leading international position as a provider of corporate information solutions – a market we expect to grow steadily because more and more major companies are outsourcing the activities which are not part of their core businesses. In the light of this, we will continue to develop customised solutions.

The parcel market is growing at the same rate as e-commerce and we are eager to benefit from this trend. We will also be leveraging synergies arising from integration of the parcel business in Germany by standardising IT platforms, optimising transport as well as combining further mail and parcel delivery districts outside cities. We are already delivering mail and parcels together in more than 30,000 districts. Despite growing competition, we intend to defend our share of the private customer market. Strong growth in demand is anticipated for the services we provide to business customers, principally as a result of the expanding e-commerce segment. We aim to profit from this development with a modified product portfolio.

Developing the international express business

The global express market remains on track for growth, with continuing increases in transported quantities and average weights. Double-digit growth rates are expected to persist in Asia and the emerging markets. The international CEP market in Europe is also likely to expand, at an average annual rate of 5% to 7%. In the United States, we expect ground-based shipments to increase at the expense of air-based shipments.

At Leipzig/Halle airport, the new European hub will become fully operational in 2008. This is also where we are establishing the new joint venture with Lufthansa Cargo, which is to assume control of the flight connections between Europe, the Middle East and Asia in spring 2009. By way of our partnership with Polar Air Cargo, we will be able to offer our customers additional flights on the trans-Pacific routes.

In Asia, plans for the new north Asia hub in Shanghai are entering the next phase. Completion is scheduled for 2010. Elsewhere, the construction project in Incheon, South Korea, will increase our capacities in the short term as well as further improve the region's links with the international trade lanes to Europe and the USA. In North America, we are planning to develop our air and ground-based shipments between the United States, Canada and Mexico and thus enhance the networking of our infrastructure in the NAFTA region.

We will complete the restructuring of our time-definite products in the regional markets and increase supply to meet demand. Offering day-definite shipments in the intercontinental arena also forms part of our plans, with a view to satisfying the growing demand for cost-effective products and services. As regards sales activities, we intend to focus our organisation and programmes more sharply on the global trade lanes.

Services and infrastructure in logistics business to be expanded

We intend to concentrate on the following three areas in the year ahead.

1. Focus on growth markets

The economies of the emerging countries, in particular Brazil, India, China and Eastern Europe, will expand further in 2008. We are engaged in establishing new logistics centres to serve our customers operating in these markets.

2. Enhanced service for high-revenue customers

We aim to continue raising the portion of revenues accounted for by our largest customers – although the enhanced service we are offering will not in any way diminish our commitment to the small and medium-sized enterprises, which constitute our most important customer groups for the global forwarding and freight business.

3. New products and services

In 2008, we will be extending our offering in the areas of international supply chains, e-fulfilment, service parts logistics and life science industry solutions, where we see real opportunities for growth. We will also be improving our standard services, including warehousing. For example, we are looking for further ways to create added value, such as by introducing campus solutions. These are sites whose resources, typically staff and means of transport, are shared by several distribution centres.

SERVICES to be unbundled

In our capital markets programme Roadmap to Value we committed ourselves to improving the transparency of our financial reporting for all capital markets audiences. We will therefore adjust our reporting structure and unbundle our SERVICES Division with effect from 1 January 2008. All costs of Global Business Services will be allocated to the operating divisions. The result will be a clean Corporate Centre/ Other segment, on which we will report starting in the first quarter of 2008.

Strategy and goals, page 30

Business development expectations for 2008 and 2009

The following expected results for the divisions are based on the reporting structure for financial year 2007. After unbundling the SERVICES segment we will adjust this outlook for the divisions where appropriate.

For 2008, the Board of Management expects a profit from operating activities (EBIT) of around €4.2 billion. We expect the MAIL Division to generate EBIT of around €1.9 billion. The EXPRESS Division will probably reach EBIT of around €0.65 billion, whilst EBIT at the LOGISTICS Division is likely to amount to around €1.05 billion. For the FINANCIAL SERVICES Division, the Board forecasts EBIT of at least €1.15 billion and for the SERVICES segment it expects a loss of no more than €0.6 billion.

Overall, the Group is aiming for EBIT of about €4.7 billion in 2009. For the mail business, there is a high degree of confidence that a maximum of between 10% and 20% of EBIT will be affected by the full opening of the German mail market, compared with the 2006 level. Thus the company expects the MAIL Division to reach EBIT of between €1.65 billion and €1.85 billion for 2009. For the EXPRESS Division, Deutsche Post forecasts EBIT of between €0.9 billion and €1.1 billion. For the LOGISTICS Division, EBIT of between €1.15 billion and €1.25 billion is forecast, whilst the FINANCIAL SERVICES Division expects EBIT of at least €1.2 billion.

i ir.postbank.com

Please refer to Deutsche Postbank AG's annual report for details of i Postbank's business development expectations.

Profit forecast[1], 2008 and 2009

€bn	2008	2009
MAIL	approx. 1.90	1.65 to 1.85
EXPRESS	approx. 0.65	0.90 to 1.10
LOGISTICS	approx. 1.05	1.15 to 1.25
FINANCIAL SERVICES	min. 1.15	min. 1.20
SERVICES	max. –0.6	–0.4 to –0.5
Group	**approx. 4.2**	**approx. 4.7**

1) EBIT guidance excluding non-recurring effects and before effects due to unbundling the SERVICES segment.

Future dividend

In the following years, the Group intends to increase dividends broadly in line with underlying earnings growth. In addition to that the Group will consider other methods of cash return, such as share buybacks once proceeds from asset disposals reach €1 billion.

Future financing

At the start of 2008, we launched a commercial paper programme with a maximum volume of €1 billion. This complements our portfolio of short-term financing tools and enables us to issue notes in various currencies at short notice with maturities of generally less than ninety days. The lasting fundamental need for financial resources will, however, continue to be met by long-term financing tools, as short-term note issues under the commercial paper programme only meet the financing requirements otherwise covered by short-term bank loans.

Capital expenditure plans

The 2008 budget earmarks expenditure in a slightly larger amount than in 2007. Property, plant and equipment will again attract the larger portion of spending, with more than three-quarters being allocated to the MAIL, EXPRESS and LOGISTICS divisions.

In the domestic mail and parcel business, we intend to improve production, amongst other things by testing machinery that sorts standard and compact letters. In Corporate Information Solutions we will focus on customer projects and the replacement of printers and enveloping machines. We also intend to improve the technical equipment of the international mail business. In the outlets, electronic POS hardware is to be renewed and the agency network expanded.

In the EXPRESS Division, we will complete the European hub in Leipzig/Halle, develop our infrastructure and renew the vehicle fleet in several countries. In the United States, IT applications are to be developed and operating facilities modernised. Infrastructure projects are also envisaged in other regions – hubs in particular in the Asia Pacific region and primarily vehicles in the EEMEA region.

In the LOGISTICS Division, we will continue to invest chiefly in customised transport services, appropriate warehousing solutions and the associated information systems. In view of the targeted business development, we expect capital expenditure to rise overall in the medium term.

Postbank will be primarily investing in the implementation of statutory requirements, including the flat-rate withholding tax on investment income, Basel II and the liquidity management project. The purpose of this project is to appropriately control liquidity risks in compliance with the practices of the Basel Committee on Banking Supervision. Further improvements to branches will also be made.

Company-wide capex will concentrate on vehicle procurement on a scale similar to the previous year.

Future procurement activities

In future, all standard contracts will contain a Code of Conduct for suppliers. We shall thus ensure that all companies working with us comply with our ethical and environmental principles.

Future research and development

As a pure service provider, Deutsche Post World Net does not perform any notable research and development activities. This section therefore does not contain any disclosures.

Opportunities

Opportunities resulting from developments in the economic environment

Globalisation and outsourcing remain key growth drivers for our company, which will benefit from these trends as a logistics provider with extensive reach and outstanding expertise in complex global supply chains. If the economic upswing continues, we will be able to stabilise and expand our business and increase revenue.

Although mail market liberalisation is progressing in the various European countries at different speeds, we have an opportunity to gradually expand our presence in selected markets across Europe. There are further opportunities for us in the North American and Asian mail markets.

Business strategy opportunities

On 8 November 2007, we presented our new Roadmap to Value capital markets programme, which we view as a further pillar of our future business success.

Our broad range and large geographical reach already make us the logistics provider of choice for discerning and in many cases globally operating customers. Our goal is to become the world's preferred logistics service provider. Through our First Choice programme, we aim to enhance customer loyalty and also attract new customers.

Performance and profitability opportunities

In the MAIL Division, we have significantly enhanced our competitive focus and brought our portfolio clearly into line with customer needs in recent years. We are thus well prepared for full liberalisation of the German mail market. We aim to hold our market position as far as possible. As a full-service provider in international mail logistics, we are simultaneously pursuing profitable expansion in open markets.

The EXPRESS Division relies on strong regional units linked by a global network. We are optimising this network on an ongoing basis to secure our competitive position and hence our future success. Current major projects include the relocation of our central European air hub from Brussels to Leipzig/Halle and the construction of a new air hub in Shanghai to serve the northern Asian region. Our presence in countries with high rates of growth presents a further opportunity for future success.

The LOGISTICS Division is excellently positioned now that the integration of Exel has been successfully completed. Through close co-operation between our business units, we offer customers a comprehensive portfolio in air, ocean and road transport as well as in contract logistics from a single source. We are further extending our international market position by expanding in rapidly growing logistics markets such as China, India, Mexico and Brazil.

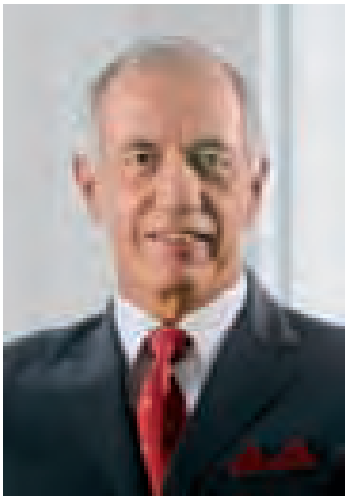
Postbank, whose core business includes retail banking, anticipates rising demand for asset accumulation and protection, mortgage and consumer loan products. It plans to use this trend to further expand its business and increase earnings per customer on a long-term basis.

Other opportunities

In our Global Customer Solutions unit, we are intensifying co-operation within the Group for major customers in order to meet changing market conditions and customer needs. We see this as an opportunity to deploy our global expertise as a sustained competitive advantage and to translate it into commercial success.

Opportunities are also presented by the Global Business Services unit. We will increase efficiency through continuous improvement of organisational structures and processes in internal services such as procurement, property management and IT.

Dear Shareholders,



Dr Jürgen Weber, Chairman

In financial year 2007, Deutsche Post World Net consolidated its position as the world's leading logistics group and remains well-placed to tackle whatever challenges the future may bring. As a market leader in virtually all its business units, the Group is now focused on consolidation, organic growth and ensuring that shareholders participate in our added value.

We are confident that the Roadmap to Value programme launched in November 2007 will bring about a lasting improvement in our going concern value. Through organic growth, we aim to improve earnings power, focus on generating cash and give shareholders a larger stake in this positive development. We are keen to ensure that investors and analysts receive all the data needed to allow them to make an informed assessment of the Group's performance. In addition, the First Choice programme rolled out Group-wide in early 2007 is designed to enhance customer satisfaction, further improve the performance of each and every one of our 530,000 employees and promote profitable growth.

Supervisory Board continually advises and oversees the Board of Management

In financial year 2007, the Supervisory Board devoted close attention to the Group's strategic focus and business development in all areas. Key topics under debate in 2007 included the Roadmap to Value programme, the business development of the EXPRESS Division in the USA, the impact of the credit crisis, changes in the German mail market due to its complete liberalisation, the modified price regulation system, the exemption from value-added tax for providers of a universal service and the minimum wage.

All major decisions affecting the company were discussed in detail with the Board of Management, which informed us in a timely and comprehensive manner on all key issues relating to planning and business development. We received regular reports on the risk situation and risk management, major business transactions and projects in the individual divisions, as well as on strategic measures and the company's future direction. In particular, all measures requiring the consent of the Supervisory Board were discussed in depth. The members of the Board of Management presented their reports on the basis of the related rules of procedure agreed with the Board of Management. The Board of Management kept the chairman of the Supervisory Board continuously updated on all key transactions and major impending decisions, also between Supervisory Board meetings. We prepared our approval for business measures in the relevant committees. The chairs of the committees reported regularly on the committees' work at Supervisory Board meetings.

Contents of the meetings

Two Supervisory Board meetings were held in the first half of the year and three in the second half. No member of the Supervisory Board was absent from more than half of the meetings. At all of its meetings, the Supervisory Board concerned itself with issues of corporate strategy, the business performance of the divisions and risk management.

At the financial statements meeting on 13 March 2007, the Supervisory Board discussed and approved the annual and consolidated financial statements for 2006, following in-depth discussions with the auditors by the Finance and Audit Committee and the chairman of the Supervisory Board. We also approved the joint report by the Board of Management and Supervisory Board on corporate governance, as well as the agenda and proposed resolutions for the 2007 Annual General Meeting (AGM). In addition and as in recent years, all Supervisory Board members completed a revised questionnaire that formed the basis of the recommended efficiency review of the Supervisory Board's work. The meeting also addressed the retirement from office of Prof. Dr Wulf von Schimmelmann and the appointment of Dr Wolfgang Klein to the Board of Management of Deutsche Post AG, as well as the efficiency review of our activities and the remuneration system for the Board of Management. At the same meeting, we also approved two investments attributable to DHL Express.

At the meeting on 8 May 2007, which immediately preceded the AGM, Andrea Kocsis was elected - subject to her appointment by court order, which followed on 29 May - deputy chair of the Supervisory Board, deputy chair of the Executive Committee and chair of the Personnel Committee. Rolf Büttner gave up his seat on the Supervisory Board and all associated duties with effect from the end of the AGM. Following the resignation of Dr Hans-Dieter Petram from his seat on the Board of Management, the duties of the individual Board members were re-allocated accordingly as at 1 July 2007, and Jürgen Gerdes was appointed as a new member of the Board of Management. The MAIL board department was sub-divided into MAIL and PARCEL Germany, headed by Jürgen Gerdes, and MAIL International, under the leadership of Dr Frank Appel, who also assumed responsibility for Corporate Regulation Management. We also consented to the acquisition of two holdings attributable to DHL Logistics.

In July, the Supervisory Board, voting under the circular procedure, approved the sale of all shares in PB Versicherung AG, PB Lebensversicherung AG, BHW Lebensversicherung AG and BHW Pensionskasse AG held by the Postbank Group.

At the meeting on 14 September 2007, the new allocation of duties in the Board of Management was discussed and approved following Prof. Dr Edgar Ernst's retirement from office. John Allan was appointed CFO effective 1 October 2007, and was also placed in charge of Global Business Services, which combines a number of cross-divisional functions such as IT, Procurement, Real Estate and Legal Affairs. Mr Allan was succeeded in his previous role as Board member responsible for the LOGISTICS Division by Dr Frank Appel. The Supervisory Board also discussed a possible joint venture between Deutsche Post World Net and Deutsche Lufthansa AG to create a freight airline.

On 7 November 2007, in an extraordinary meeting, the Supervisory Board debated at length the new capital markets programme presented to the general public on 8 November 2007.

At its final meeting on 13 December 2007, the Supervisory Board approved the business plan for the period 2008 to 2010, apart from EXPRESS Americas. The Finance and Audit Committee, which was given delegated powers, approved this sub-segment of the business plan at its meeting on 23 January 2008. The Supervisory Board also approved the sale of shares in BHW Bank AG. Finally, we also adopted the Declaration of Conformity with the German Corporate Governance Code 2007. Following the Code's recommendations, we created a Nomination Committee which proposes suitable candidates for Supervisory Board nominations to the AGM. The Supervisory Board also adopted a resolution giving global authorisation for the award of loans to Board members by Postbank.

Supervisory Board committees operate efficiently

The Executive Committee met four times during the year under review. Agenda items included Board of Management and Supervisory Board business, as well as the further development of the company's corporate governance.

The Personnel Committee met three times and focused on a number of pivotal issues, including the mentoring programme, employee surveys, value management and leadership culture, as well as the Group's demographic development.

The Finance and Audit Committee met five times, with meetings chaired by Prof. Dr Ralf Krüger. The committee discussed the acquisitions and disposals of companies, which were also addressed in the plenary sessions of the Supervisory Board, as well as the Group's business plan for the period 2008 to 2010. It also examined and approved the annual and consolidated financial statements, discussed the interim reports and dealt with the review of the interim report on the first half of the year. The auditors attended the committee's financial statements meeting. Accounting and risk monitoring, as well as co-operation with the auditors, were also discussed in detail. Additionally, a number of real estate transactions were approved. Furthermore, individual Board of Management members gave presentations on the business performance of their respective divisions for discussion by the committee. Key topics included the express business in the United States, the mail business in Germany as well as the impact of the sub-prime credit crisis on Postbank. The committee also deliberated on the organisation of compliance activities and the compliance tools applied in the Group.

The Nomination Committee created in December 2007 did not meet during the year under review. Once again, the Mediation Committee, which must be formed pursuant to Section 27(3) of the *Mitbestimmungsgesetz* (German co-determination act), did not have to meet in the year under review.

Annual financial statements and dependent company report audited

The auditors appointed by the AGM, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, audited the annual and consolidated financial statements for financial year 2007, including the respective management reports, and issued unqualified audit opinions.

Following a detailed preliminary assessment by the Finance and Audit Committee, the Supervisory Board reviewed the annual and consolidated financial statements and the management reports for the financial year 2007 in the financial statements meeting. The auditors' reports were made available to all Supervisory Board members and were discussed intensively at the meeting with the Board of Management and the auditors in attendance. The audit included a review of the Board of Management's proposal for the appropriation of the unappropriated surplus. The Supervisory Board concurred with the results of the audit of the annual and consolidated financial statements and the management reports, and approved the annual and consolidated financial statements for the financial year 2007 after detailed discussion with the Board of Management and the auditor's representative at today's meeting. Based on the final outcome of the examination of the annual and consolidated financial statements, the management reports and the proposal for the appropriation of the unappropriated surplus by the Supervisory Board and the Finance and Audit Committee, there are no objections to be raised. The Supervisory Board endorses the Board of Management's proposal for the appropriation of the unappropriated surplus and the payment of a dividend of €0.90 per share.

PwC also audited the Board of Management's report disclosing relations with affiliated companies (dependent company report) as required by Section 312 of the *Aktiengesetz* (German stock corporation act) and issued the following auditor's opinion: "On completion of our audit in accordance with professional standards, we confirm that the factual statements made in the report are correct."

The dependent company report required for the period from 1 January 2007 to 8 January 2007 was audited in terms of completeness and accuracy. The Board of Management exercised due care in identifying the affiliated companies. It has taken the necessary precautions in recording legal transactions and other measures which the company undertook or refrained from undertaking during the financial year under review either with, at the instigation of or in the interests of the German federal government as the controlling entity, or other companies affiliated with the federal government. According to the findings of the audit, there are no grounds to suggest that legal transactions or measures have not been recorded in full. The Supervisory Board therefore endorses the auditor's findings. No objections are to be raised against the Board of Management's declaration at the end of the report.

Changes on the Supervisory Board and the Board of Management

The following changes occurred in the Supervisory Board of Deutsche Post AG in 2007: Rolf Büttner left the Board with effect from the end of the AGM on 8 May 2007. Andrea Kocsis was appointed by court order to the Supervisory Board as an employee representative on 29 May 2007. Dr Hubertus von Grünberg retired from office on 27 July 2007. On 6 August 2007, Prof. Dr Wulf von Schimmelmann was appointed to the Supervisory Board by court order as a shareholder representative. The appointment will be submitted to the shareholders for ratification at the AGM on 6 May 2008. Ingrid Matthäus-Maier was elected as a shareholder representative for a five-year term at the 2007 AGM.

Helmut Jurke and Franz Schierer retired from the Supervisory Board as at 31 December 2007, whilst Helmut Jurke also resigned from his positions as deputy chairman of the Finance and Audit Committee and member of the Executive Committee. A court order of 18 February 2008 appointed Rolf Bauermeister and Wolfgang Abel to the Supervisory Board as employee representatives.

The following changes occurred in the company's Board of Management: Prof. Dr Wulf von Schimmelmann and Dr Hans-Dieter Petram retired from office as at 30 June 2007. On 1 July 2007, Dr Wolfgang Klein took over FINANCIAL SERVICES and was also appointed chairman of the Management Board of Deutsche Postbank AG. Since 1 July 2007, Jürgen Gerdes has been responsible for MAIL and PARCEL Germany. After Prof. Dr Edgar Ernst had resigned from his seat on the Board of Management with effect from 30 September 2007, John Allan assumed responsibility for Finance and Global Business Services. On 1 October 2007, Dr Frank Appel took charge of the LOGISTICS Division, MAIL International, Corporate Regulation Management, Global Customer Solutions and the First Choice programme. On 18 February 2008, Dr Klaus Zumwinkel resigned from office. The Supervisory Board accepted his resignation and, on the same day, unanimously appointed Dr Frank Appel as new chairman of the Board of Management. In addition to his previous duties, Dr Frank Appel also assumed responsibility for the chairman's board department.

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

In December 2007, the Board of Management and the Supervisory Board submitted an updated Declaration of Conformity pursuant to Section 161 of the *Aktiengesetz* and published it on the company's website. The previous declarations can also be viewed on this website. Deutsche Post AG is in compliance with all recommendations of the German Corporate Governance Code in the version dated 14 June 2007. Further information on corporate governance within the company, including the remuneration of the Board of Management and the Supervisory Board members, is contained in the Corporate Governance Report on page 112.

We would like to thank the Board of Management and all the employees of the Group for their commitment and successful efforts in the financial year 2007.

In particular, the Supervisory Board expresses its thanks to Dr Klaus Zumwinkel for his outstanding work during the past eighteen years in transforming Deutsche Post AG into a global company and into the number one in the logistics industry.

Bonn, 4 March 2008
The Supervisory Board

J. Weber

Yours sincerely,
Dr Jürgen Weber
Chairman

Supervisory Board

Shareholder representatives

Dr Jürgen Weber
Chairman
- Chairman of the Supervisory Board, Deutsche Lufthansa AG

Willem G. van Agtmael
- Managing Partner, E. Breuninger GmbH & Co.

Hero Brahms
- Management Consultant

Werner Gatzer
- State Secretary, Federal Ministry of Finance

Prof. Dr Ralf Krüger
- Management Consultant

Ingrid Matthäus-Maier
- Chair of the Board of Managing Directors, KfW Bankengruppe

Roland Oetker
- Managing Partner, ROI Verwaltungsgesellschaft mbH
- President of Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Harry Roels
- President and CEO, RWE AG (until 30 September 2007)

Prof. Dr Wulf von Schimmelmann
(since 6 August 2007)
- Management Consultant

Elmar Toime
- Managing Director, E Toime Consulting Ltd.

Left in 2007

Dr Hubertus von Grünberg
(until 27 July 2007)
- Chairman of the Supervisory Board, Continental AG

Employee representatives

Andrea Kocsis
(since 29 May 2007)
Deputy Chair
- Deputy Chair of the ver.di National Executive Board and Head of the Postal Services, Forwarding Companies and Logistics section, ver.di National Executive Board

Frank von Alten-Bockum
- Managing Director, Deutsche Post AG

Marion Deutsch
- Deputy Chair of Works Council, Deutsche Post AG, Mail Branch, Saarbrücken

Annette Harms
- Deputy Chair of Works Council, Deutsche Postbank AG, Hamburg

Dirk Marx
- Chair of Deutsche Post World Net's Group Works Council

Silke Oualla-Weiß
- Chair of Works Council, DHL Express Betriebs GmbH, Düsseldorf (Dortmund office)

Stefanie Weckesser
- Member of Works Council, parcel delegate, Mail Branch, Augsburg

Margrit Wendt
- Chair of European Works Council Forum
- Chair of Deutsche Post World Net Forum

Left in 2007

Rolf Büttner
(until 8 May 2007)
Deputy Chair
- Member of the ver.di National Executive Board (until 31 January 2007)

Helmut Jurke
(until 31 December 2007)
- Head of the Company and Business Policy/Co-determination/Youth section, ver.di National Executive Board (until 31 August 2007)

Franz Schierer
(until 31 December 2007)
- Deputy ver.di Regional District Head, Regional District of Baden-Württemberg (until 27 April 2007)
- Project Manager, Postal Services, Forwarding Companies and Logistics section, ver.di Regional District of Baden-Württemberg (since 28 April 2007)

Committees

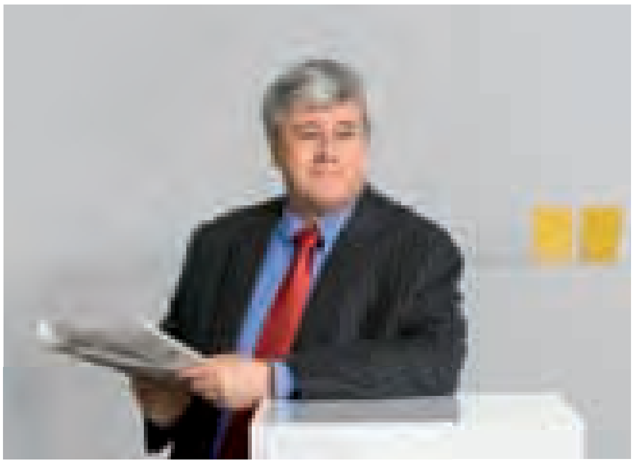
Executive Committee
- Dr Jürgen Weber, Chair
- Andrea Kocsis, Deputy Chair (since 29 May 2007)
- Rolf Büttner, Deputy Chair (until 8 May 2007)
- Hero Brahms
- Werner Gatzer
- Helmut Jurke (until 31 December 2007)
- Margrit Wendt

Personnel Committee
- Andrea Kocsis, Chair (since 29 May 2007)
- Rolf Büttner, Chair (until 8 May 2007)
- Dr Jürgen Weber, Deputy Chair
- Hero Brahms
- Dirk Marx

Finance and Audit Committee
- Prof. Dr Ralf Krüger, Chair
- Helmut Jurke, Deputy Chair (until 31 December 2007)
- Werner Gatzer
- Roland Oetker
- Dirk Marx
- Margrit Wendt

Mediation Committee
(in accordance with Section 27(3) *Mitbestimmungsgesetz*)
- Dr Jürgen Weber, Chair
- Andrea Kocsis, Deputy Chair (since 29 May 2007)
- Rolf Büttner, Deputy Chair (until 8 May 2007)
- Hero Brahms
- Margrit Wendt

Nomination Committee
(formed on 13 December 2007)
- Dr Jürgen Weber, Chair
- Hero Brahms
- Werner Gatzer



Top left to bottom right: Dr Frank Appel,
John Allan, Jürgen Gerdes, Dr Wolfgang Klein,
John P. Mullen, Walter Scheurle

Board of Management

Dr Frank Appel

Chairman and Board member for LOGISTICS, MAIL International

Born in 1961, member of the Board of Management since 2002, appointed until October 2012, responsible for the LOGISTICS Division, the MAIL International unit within the MAIL Division, Corporate Regulation Management, as well as operational management of the Group-wide First Choice programme. In addition to his previous duties, he was appointed chairman on 18 February 2008 and thus assumed responsibility for Corporate Executives, Corporate Communications, Corporate Development, the Corporate Office, Corporate Organisation, as well as Corporate Public Policy and Sustainability.

John Allan

Finance, Global Business Services

Born in 1948, member of the Board of Management since 2006, appointed until December 2010, responsible for Finance including Controlling, Corporate Accounting and Reporting, Investor Relations, Corporate Finance, Corporate Internal Audit/Security, Taxes, as well as Global Business Services

Jürgen Gerdes

MAIL and PARCEL Germany

Born in 1964, member of the Board of Management since 1 July 2007, appointed until June 2010, responsible for the MAIL and PARCEL Germany units within the MAIL Division.

Dr Wolfgang Klein

FINANCIAL SERVICES

Also chairman of the Management Board of Deutsche Postbank AG, born in 1964, member of the Board of Management since 1 July 2007, appointed until June 2012, responsible for the FINANCIAL SERVICES Division.

John P. Mullen

EXPRESS

Born in 1955, member of the Board of Management since 2005, appointed until December 2010, responsible for the EXPRESS Division.

Walter Scheurle

Personnel

Born in 1952, member of the Board of Management since 2000, appointed until March 2010, responsible for Personnel including Corporate Compensation Policies/Labour Law, Human Resources Services and Human Resources Development.

Financial year 2007

- **Dr Klaus Zumwinkel**
  Chairman
  (until 18 February 2008)
- **John Allan**
  Finance, Global Business Services
  (since 1 October 2007)
  LOGISTICS
  (until 30 September 2007)
- **Dr Frank Appel**
  LOGISTICS, MAIL International
  (since 1 October 2007)
  Global Business Services
  (until 30 September 2007)
- **Prof. Dr Edgar Ernst**
  Finance (until 30 September 2007)
- **Jürgen Gerdes**
  MAIL and PARCEL Germany
  (since 1 July 2007)
- **Dr Wolfgang Klein**
  FINANCIAL SERVICES
  (since 1 July 2007)
- **John P. Mullen**
  EXPRESS
- **Dr Hans-Dieter Petram**
  MAIL (until 30 June 2007)
- **Walter Scheurle**
  Personnel
- **Prof. Dr Wulf von Schimmelmann**
  FINANCIAL SERVICES
  (until 30 June 2007)

Mandates held by the Board of Management

Dr Frank Appel
(Chair since 18 February 2008)

- • Deutsche Postbank AG[1] (Member since 19 February 2008, chair since 3 March 2008)
- • Williams Lea Holdings Plc (Board of Directors), since 18 September 2007[1]
- • Williams Lea Group Limited (Board of Directors), since 18 September 2007[1]
- • Exel Investments Limited (Board of Directors), since 12 October 2007[1]
- • Exel Limited (Board of Directors)[1], since 12 October 2007
- • Tibbett & Britten Group Limited (Board of Directors)[1], since 12 October 2007

John Allan

- • National Grid plc (Non-Executive Director)
- • Samsonite Corporation (Non-Executive Director), from 1 January 2007 to 24 October 2007
- • Danzas Holding AG[1] (Switzerland, Board of Directors), until 16 April 2007

Dr Wolfgang Klein (since 1 July 2007)

- • PB Lebensversicherung AG[1] (Chair), until 30 September 2007
- • PB Versicherung AG[1] (Chair), until 30 September 2007
- • BHW Holding AG[1] (Chair)
- • BHW Bausparkasse AG[1] (Chair)
- • Postbank Filialvertrieb AG[1] (Chair)
- • Postbank Finanzberatung AG[1] (Chair)
- • Comma Soft AG (Chair)
- • Deutsche Postbank Financial Services GmbH[1] (Supervisory Board, Deputy Chair)
- • PB Capital Corp.[1] (Board of Directors, Chair)
- • PB (USA) Holdings Inc.[1] (Board of Directors, Chair)
- • Bundesverband deutscher Banken e. V. (Berlin, Board of Directors)

John P. Mullen

- • DHL Distribution Holdings Ltd.[1] (UK, Board of Directors), until 5 February 2007
- • Embarq Corp. (USA, Non-Executive Director)

Walter Scheurle

- • Bundesanstalt für Post und Telekommunikation (Administrative Board)
- • Deutsche BKK (Administrative Board), until 13 November 2007

Dr Klaus Zumwinkel
(Chair until 18 February 2008)

- • Deutsche Postbank AG[1] (Chair), until 19 February 2008
- • Deutsche Lufthansa AG
- • Deutsche Telekom AG (Chair), until 27 February 2008
- • KarstadtQuelle AG
- • Morgan Stanley (Board of Directors)

Left in 2007

Prof. Dr Edgar Ernst
(until 30 September 2007)

- • Deutsche Postbank AG[1]
- • Allianz Versicherungs-AG

Dr Hans-Dieter Petram
(until 30 June 2007)

- • Deutsche Postbank AG[1]
- • HDI Industrie Versicherung AG, until 1 January 2007
- • HDI Privat Versicherung AG, until 1 January 2007
- • HDI Service AG, until 1 January 2007
- • Talanx AG
- • Williams Lea Holdings Plc[1] (Chairman of the Board of Directors), until 30 June 2007
- • Williams Lea Group Ltd.[1] (Board of Directors), until 30 June 2007

Prof. Dr Wulf von Schimmelmann
(until 30 June 2007)

- • PB Lebensversicherung AG[1] (Chair), until 30 June 2007
- • PB Versicherung AG[1] (Chair), until 30 June 2007
- • Maxingvest AG, previously Tchibo Holding AG
- • BHW Holding AG[1] (Chair), until 26 June 2007
- • BHW Bausparkasse AG[1] (Chair), until 26 June 2007
- • Postbank Filialvertrieb AG[1] (Chair), until 30 June 2007
- • Deutsche Telekom AG
- • Postbank Finanzberatung AG[1] (Chair), until 30 June 2007
- • Deutsche Postbank Financial Services GmbH[1] (Supervisory Board, Deputy Chair), until 30 June 2007
- • PB Capital Corp.[1] (Board of Directors, Chair), until 30 June 2007
- • PB (USA) Holdings Inc.[1] (Board of Directors, Chair), until 30 June 2007
- • accenture Corp. (USA, Board of Directors)
- • ALTADIS S. A. (Spain, Board of Directors)
- • Bundesverband deutscher Banken e. V. (Berlin, Board of Directors), until 30 June 2007

• Membership of supervisory boards required by law
• Membership of comparable supervisory bodies of German and foreign companies
1) Group company

Mandates held by the Supervisory Board

Shareholder representatives

Dr Jürgen Weber
Chair
- Allianz Lebensversicherungs-AG
- Bayer AG
- Deutsche Bank AG
- Deutsche Lufthansa AG (Chair)
- Voith AG
- Willy Bogner GmbH & Co. KG
- LP Holding GmbH (Supervisory Board, Chair)
- Tetra Laval Group (Switzerland, Board)

Willem G. van Agtmael
- Energie Baden-Württemberg AG (Advisory Board)
- Landesbank Baden-Württemberg (Advisory Board)
- L-Bank (Advisory Board)

Hero Brahms
- Georgsmarienhütte Holding GmbH (Deputy Chair)
- Arcandor AG (Chair) – previously KarstadtQuelle AG
- Wincor Nixdorf AG
- Live Holding AG (since 24 September 2007)
- M. M. Warburg & CO KGaA (Shareholders' Committee)

Werner Gatzer
- Bundesanstalt für Immobilienaufgaben (Administrative Board, Chair)
- g.e.b.b. mbH (Supervisory Board)

Prof. Dr Ralf Krüger
- Deutsche Postbank AG
- DIAMOS AG (Chair)
- KMS AG (Chair)
- KMS Asset Management AG (Chair)
- SIREO REAL ESTATE ASSET MANAGEMENT GmbH (Advisory Board)

Ingrid Matthäus-Maier
- Deutsche Telekom AG
- RAG Aktiengesellschaft
- Evonik Industries AG – previously RAG Beteiligungs-AG, until 30 November 2007
- Deutsche Steinkohle AG, since 30 November 2007
- Salzgitter Mannesmann Handel GmbH
- KfW IPEX-Bank GmbH (Supervisory Board), since 11 December 2007

Roland Oetker
- IKB Deutsche Industriebank AG
- Mulligan BioCapital AG (Chair), until 28 November 2007
- Volkswagen AG
- Dr August Oetker-Gruppe (Advisory Board)

Harry Roels
- RWE Energy AG (Chair), until 30 September 2007
- RWE Power AG (Chair), until 30 September 2007
- RWE Npower Holdings plc (Chairman, Board of Directors), until 30 September 2007
- RWE Trading GmbH (Chair, Advisory Board), until 30 September 2007
- Allianz AG (Advisory Board)
- Investitions-Bank NRW (Advisory Board)

Prof. Dr Wulf von Schimmelmann
(since 6 August 2007)
- Maxingvest AG – previously Tchibo Holding AG
- Deutsche Telekom AG
- Accenture Corp., USA (Board of Directors)
- ALTADIS S.A., Spain (Board of Directors)
- BAWAG P.S.K., Austria (Supervisory Board, Chair)

Elmar Toime
- Blackbay Ltd., United Kingdom (Non-Executive Director)
- SKYCITY Entertainment Group Ltd., New Zealand (Non-Executive Director)

Left in 2007

Dr Hubertus von Grünberg
(until 27 July 2007)
- Continental AG (Chair)
- Allianz Versicherungs-AG
- Deutsche Telekom AG
- MAN Aktiengesellschaft
- Schindler Holding AG, Switzerland (Board of Directors)
- ABB Ltd., Zurich (Board of Directors, President), since 3 May 2007

Employee representatives

Frank von Alten-Bockum
- Stadtwerke Bonn GmbH
- VPV Lebensversicherungs-AG
- Energie- und Wasserversorgung Bonn/Rhein-Sieg (Supervisory Board)

Annette Harms
- Deutsche Postbank AG

Dirk Marx
- Bundesanstalt für Post und Telekommunikation (Administrative Board)

Left in 2007

Rolf Büttner (until 8 May 2007)
- ADLER Versicherungs-AG
- Vereinigte Postversicherung VVaG
- Vereinigte Postversicherung Lebensversicherungs-AG

Helmut Jurke (until 31 December 2007)
- Postbank Filialvertrieb AG

Franz Schierer (until 31 December 2007)
- PSD-Bank RheinNeckarSaar eG
- Input Consulting GmbH

Corporate Governance Report

Unqualified Declaration of Conformity issued once again

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On 13 December 2007, the Board of Management and Supervisory Board issued a Declaration of Conformity for the sixth consecutive year. It confirms that since the previous Declaration of Conformity was issued on 14 December 2006, Deutsche Post complied with the recommendations of the German Corporate Governance Code in the version dated 12 June 2006. In future, we will also comply with the recommendations of the Government Commission on the German Corporate Governance Code in the current version dated 14 June 2007. The electronic forwarding of information to the shareholders requires the prior approval of the Annual General Meeting (AGM). Approval shall therefore be recommended to the 2008 AGM. Based on this resolution, the convention documents for the 2009 AGM could also be sent electronically upon request by the shareholder.

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On 30 November 2007, our listed subsidiary Deutsche Postbank AG issued its own unqualified Declaration of Conformity.

Dual management and supervisory structure

As a German public limited company, Deutsche Post operates a dual management system. The Board of Management is responsible for the management of the company, and is appointed, overseen and advised by the Supervisory Board. Following the departure of Board members Dr Hans-Dieter Petram and Prof. Dr Wulf von Schimmelmann as at 30 June 2007, Jürgen Gerdes and Dr Wolfgang Klein were appointed as their successors with effect from 1 July 2007. Prof. Dr Edgar Ernst resigned from the Board of Management as at 30 September 2007. On 18 February 2008, Dr Klaus Zumwinkel resigned from office. The Supervisory Board accepted his resignation and, on the same day, unanimously appointed Dr Frank Appel as new chairman of the Board of Management.

The duties of individual members have been reallocated to reflect these changes: The MAIL board department has been sub-divided into MAIL and PARCEL Germany, headed by Jürgen Gerdes, and MAIL International, under the management of Dr Frank Appel. John Allan, previously in charge of the LOGISTICS Division, is now responsible for Global Business Services (focusing on cross-divisional functions) and Finance as of 1 October 2007. Dr Frank Appel has also been responsible for the LOGISTICS Division and Corporate Regulation Management since the same date. Moreover, on 18 February 2008, Dr Frank Appel assumed responsibility for the chairman's board department in addition to his previous duties.

The Supervisory Board comprises twenty members, who are listed on page 107. Ten shareholder representatives are elected by the AGM, whilst a further ten are elected by the workforce in accordance with the provisions of the *Mitbestimmungsgesetz* (German co-determination act). Information about additional mandates held by Board of Management and Supervisory Board members in the supervisory bodies of other companies may be found on pages 110 and 111. The Supervisory Board's report on its activities in financial year 2007 is published on page 102.

At the AGM on 8 May 2007, Ingrid Matthäus-Maier was elected to the Supervisory Board for a five-year term on an individual basis, following the retirement from office of Dr Hubertus von Grünberg as at 27 July 2007. Prof. Dr Wulf von Schimmelmann was appointed to the Supervisory Board by court order on 6 August 2007. His election will feature on the agenda at this year's AGM. Rolf Büttner also retired from office with effect from the end of the AGM on 8 May 2007. Andrea Kocsis was appointed as his successor by court order on 29 May 2007. On 31 December 2007, Helmut Jurke and Franz Schierer stepped down as members of the Supervisory Board. At the same time, Helmut Jurke also retired from his roles as deputy chairman of the Finance and Audit Committee and member of the Executive Committee. By court order of 18 February 2008, Rolf Bauermeister and Wolfgang Abel were appointed to the Supervisory Board as employee representatives. The fact that the majority of its Supervisory Board members are independent means that Deutsche Post AG complies with the corresponding recommendation in the Code.

Five committees formed
The Supervisory Board has formed a total of five committees. In addition to the Mediation Committee required by the *Mitbestimmungsgesetz*, these include the Executive Committee, the Finance and Audit Committee, the Personnel Committee and, new for 2007, the Nomination Committee, as per the Code's recommendation. The composition of these committees may be found on page 107. The Supervisory Board's report on the committees' activities in the year under review is published on page 104.

Transparent communications
We are committed to open communication with our shareholders. All dates that might be of interest are displayed on our website, including the dates on which the annual report and interim reports are published. The website also contains up-to-date information about our shares and share price movements, as well as announcements regarding the purchase and sale of company shares and related financial instruments pursuant to Article 15a of the *Wertpapierhandelsgesetz* (German securities trading act).

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Members of the Board of Management and Supervisory Board are required to disclose immediately any potential conflicts of interest to the Supervisory Board. Outside activities pursued by members of the Board of Management are subject to the approval of the Supervisory Board.

Compliance with statutory and internal regulations
The Group expects all its employees to base their actions and decisions on compliance with statutory and internal regulations. Based on the company's corporate values, the Board of Management has therefore introduced a Code of Conduct for the employees which all executives are required to sign. As part of our Group-wide compliance system, we have set up a Global Values Office and Regional Values Offices to provide advice on and monitor implementation of the various compliance processes. Employees can also report any violations to the "whistle-blowing hotline".

In case of infringements, suitable measures will be taken, which can include action under labour and disciplinary law if appropriate. Compliance with the Code of Conduct is an issue regularly addressed by the Internal Audit department, which is part of the Finance board department. The subject of compliance is discussed at regular intervals by the Supervisory Board's Finance and Audit Committee.

Risk management, accounting and auditing

Our opportunity and risk management system ensures that any risks are identified early on. The system is continuously refined and updated to reflect the latest developments. Further details can be found in our risk report starting on page 85.

The Group accounts are prepared in accordance with International Financial Reporting Standards (IFRSs). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, was appointed by the AGM as the auditor of the annual and consolidated financial statements for the 2007 financial year, and to review the half-year financial report. Before engaging the auditors, the Supervisory Board took steps to ensure that the existing relationships between the auditors and the company or its executive and controlling bodies did not call into question the auditors' independence.

Remuneration Report

The following remuneration report also forms part of the Notes.

Board of Management remuneration

The total remuneration of the Board of Management members is determined by the Executive Committee, which is headed by the chairman of the Supervisory Board. The Supervisory Board discusses the structure of the remuneration system based on the recommendation submitted by the Executive Committee and reviews it regularly. The remuneration of the Board of Management reflects the size and global reach of the company, its economic and financial situation and the roles fulfilled by the individual members. It is set to ensure competitiveness with comparable German and international companies, thus incentivising the Board of Management members to deliver maximum performance and achieve results. The Supervisory Board conducts regular reviews to determine whether the remuneration of the Board of Management is appropriate, taking into account the company's results, the industry in which it operates and its future prospects.

The remuneration of the Board of Management is performance-based and comprises fixed and variable elements as well as long-term incentives.

Components not linked to performance are the basic salary, fringe benefits and pension commitments. The basic salary is paid monthly. Fringe benefits are comprised mainly of the use of company cars, the reimbursement of travel expenses, a telephone allowance, supplements for insurance premiums as well as special allowances and benefits for assignments outside Germany.

The variable, performance-linked element is the annual bonus. The Executive Committee of the Supervisory Board exercises its due discretion to determine the annual bonus on the basis of the company's performance. The amount of the bonus reflects the extent to which predefined targets are achieved or exceeded. Achievement of the upper target for the financial year is rewarded with the maximum annual bonus. The maximum annual bonus opportunity is 100% of the annual basic salary. In addition, the Supervisory Board can elect to award an appropriate special bonus for extraordinary achievement.

As a variable remuneration component with long-term incentive effect, the Board of Management members receive stock appreciation rights (SARs) issued on the basis of a long-term incentive plan.

The remuneration paid to active members of the Board of Management in the financial year 2007 totalled €15.70 million (previous year: €18.50 million). This amount comprised €8.68 million in non-performance-related components (previous year: €9.65 million) and €7.02 million in bonuses (previous year: €8.85 million). The members of the Board of Management were granted a total of 1,375,000 SARs in financial year 2007 with a total value of €6.37 million (previous year: €6.38 million) at the time of issue (1 July 2007).

The table below presents an individual breakdown of the remuneration paid and covers all activities of the members of the Board of Management within the Group:

Remuneration of the Group's Board of Management in financial year 2007

€	Components not linked to performance		Performance-related components		Components with long-term incentive effect	
	Basic salary	Fringe benefits	Bonus	Total	Number of SARs	Value of SARs on 1 July 2007
Dr Klaus Zumwinkel, Chairman	1,499,558	57,084	1,226,639	2,783,281	330,000	1,527,900
John Allan	860,000	436,312	781,740	2,078,052	55,000	254,650
Dr Frank Appel	867,167	31,527	709,342	1,608,036	220,000	1,018,600
Prof. Dr Edgar Ernst (until 30 September 2007)	711,113	22,829	711,113	1,445,055	220,000	1,018,600
Jürgen Gerdes (since 1 July 2007)	357,500	18,728	292,435	668,663	110,000	509,300
Dr Wolfgang Klein (since 1 July 2007)	437,500	24,947	397,688	860,135	0	0
John P. Mullen	860,000	521,443	877,836	2,259,279	220,000	1,018,600
Dr Hans-Dieter Petram (until 30 June 2007)	497,779	13,548	497,779	1,009,106	0	0
Walter Scheurle	860,000	25,865	703,480	1,589,345	220,000	1,018,600
Prof. Dr Wulf von Schimmelmann (until 30 June 2007)	555,000	14,960	825,000	1,394,960	0	0
Total	**7,505,617**	**1,167,243**	**7,023,052**	**15,695,912**	**1,375,000**	**6,366,250**

Share-based remuneration

In 2006, the Executive Committee of the Supervisory Board adopted the long-term incentive plan 2006 (LTIP 2006) based closely on the lapsed stock option plan 2003 (SOP 2003). On 1 July 2006, the members of the Board of Management were for the first time awarded SARs under this plan instead of the stock options granted in previous years.

Each SAR entitles the holder to receive a cash settlement equal to the difference between the issue price of the SAR and the closing price of the Deutsche Post share on the last trading day before the exercise date. As in the past, the members of the Board of Management must each invest 10% of their annual target salary in Deutsche Post shares. The number of SARs to be issued to the members of the Board of Management is determined by the Executive Committee of the Supervisory Board as each tranche is issued. The other essential features of the previous stock option plan have been retained. Following a three-year lock-up period that begins on the date of issue, the SARs, like the stock options, can be wholly or partially exercised within a period of two years only if an absolute or relative performance target is achieved. Any SARs not exercised during this two-year period expire.

To determine how many – if any – of the SARs granted can be exercised, the average share price or the average index is compared for the reference period and for the performance period. The reference period, as in the past, comprises the last twenty consecutive trading days before the issue date. The performance period is the last sixty trading days before the end of the lock-up period. The average share price (closing price) is calculated as the average of the closing rates of the Deutsche Post share in the Deutsche Börse AG's Xetra electronic trading system.

As in the past, the absolute performance target is achieved if the closing price of the Deutsche Post share is at least 10%, 15%, 20% or 25% above the issue price. The relative performance target is tied to the performance of the share in relation to the performance of the Dow Jones STOXX 600 Index (Bloomberg SXXP Index; ISIN EU0009658202). It is met if the share price is not outperformed by the index during the performance period or if it outperforms the index by at least 10%.

A maximum of four out of every six SARs can be "earned" via the absolute performance target and a maximum of two via the relative performance target. If neither an absolute or relative performance target is met by the end of the lock-up period, the SARs of the related tranche will expire and no replacement or compensation of any kind will be provided. The table below presents further details of the tranches of the LTIP 2006:

LTIP 2006

	Tranche 2006	Tranche 2007
Issue date	1 July 2006	1 July 2007
Issue price	€20.70	€24.02
Expiry of lock-up period	30 June 2009	30 June 2010

The value attributable to the financial year 2007 for stock options issued in previous years amounted to €241,615.62 for Dr Klaus Zumwinkel, €161,075.58 for Dr Frank Appel, €161,075.58 for Walter Scheurle and €106,270.08 for John P. Mullen. The options granted to Jürgen Gerdes in previous financial years have a value for the period from 1 July 2007 of €11,366.19. The pro rata value up to 30 June 2007 of options granted to Dr Hans-Dieter Petram and Prof. Dr Wulf von Schimmelmann is €117,656.04 each. The pro rata value of the options granted to Prof. Dr Edgar Ernst up to 30 September 2007 is €139,365.81. The table below provides detailed information on the individual tranches of the expired stock option plans:

Note 35.5

Stock options

	SOP 2000		SOP 2003		
	Tranche 2001	Tranche 2002	Tranche 2003	Tranche 2004	Tranche 2005
Issue date	15 March 2001	1 July 2002	1 August 2003	1 July 2004	1 July 2005
Exercise price	€23.05	€14.10	€12.40	€17.00	€19,33
Expiry of lock-up period	14 March 2004	30 June 2005	31 July 2006	30 June 2007	30 June 2008
	Exercisable at 1/6	Exercisable at 6/6	Exercisable at 6/6	Exercisable at 4/6	
Expiry of exercise period	14 March 2006	30 June 2007	31 July 2008	30 June 2009	30 June 2010

Any options of Tranche 2002 that had not been exercised expired on 1 July 2007 at the end of the exercise period, with no replacement or compensation provided.

Pension commitments

The members of the Board of Management have direct pension commitments on the basis of their individual contracts, providing for benefits in case of permanent disability, death or retirement. If the contract of a member ends after at least five years of service on the Board of Management, the entitlements he has acquired will vest. Members become entitled to benefits due to permanent disability after at least five years of service. Eligibility for retirement benefits begins at the earliest at the age of 55, or 60 years of age in the case of John P. Mullen and 62 years of age for Jürgen Gerdes. The members of the Board of Management can choose between ongoing pension payments and a lump sum. The amount of benefits depends on the pensionable income and the number of years of service.

Pensionable income consists of the annual basic salary based on the average salary of the last twelve months of employment. Members of the Board of Management appointed for the first time after 2001 attain a pension level of 25% after five years of service on the Board of Management. The maximum pension level (50%) is attained after ten years of service. The maximum pension levels of members of the Board of Management appointed before 2002 are 60% and 75% respectively. The graduated increase in the pension level based on individual contractual arrangements depends either on the period of service or the periods of appointment on the Board of Management. Subsequent pension benefits will be adjusted (increased or decreased) to reflect changes in the consumer price index in Germany.

Pension commitments: individual breakdown

Pension commitments for the Board of Management

	Pension commitments		
	Pension level on 31 Dec. 2007	Maximum pension level	Service cost for pension obligation Financial year 2007
	%	%	€
Dr Klaus Zumwinkel, Chairman	75	75	0[1]
Dr Frank Appel	25	50	334,558
Prof. Dr Edgar Ernst[2]	75	75	566,584
Jürgen Gerdes[3,4]	0	50	76,011
Dr Wolfgang Klein[3,5]	60	60	184,414
John P. Mullen	35	50	652,498
Dr Hans-Dieter Petram[6]		75	0[1]
Walter Scheurle	30	60	627,516
Prof. Dr Wulf von Schimmelmann[5,6]		75	1,623,938

1) Ongoing financing complete.
2) Member of the Board of Management until 30 September 2007.
3) Member of the Board of Management since 1 July 2007.
4) Minimum period not yet complete. In the event of immediate entitlement, the provisions of the existing pension plan apply.
5) The pension commitment is owed by Deutsche Postbank AG. The service cost is for the whole year.
6) Member of the Board of Management until 30 June 2007 (retirement).

The pension commitment made to Dr Wolfgang Klein relates to his function as chairman of the Management Board of Deutsche Postbank AG and is therefore owed in its entirety by Deutsche Postbank AG. The commitment therefore varies in certain respects from the arrangements discussed above at Deutsche Post AG; the basic structure is, however, identical. The benefit amount depends on the pensionable income and the pension level derived from the years of service. Dr Wolfgang Klein has already attained the maximum pension level of 60%. According to his contract, retirement benefits are generally paid from the age of 62 or, if the employment contract is not renewed, after reaching the age of 55. A bridge allowance will be paid for a two-year period in addition to the retirement benefits if he leaves the employ of the company upon reaching the age limit of 62 or due to permanent disability. Subsequent adjustments of the retirement benefits will be based on the percentage change in the highest pay scale group in the collective agreement covering the Association of German Public Sector Banks.

Upon his appointment to the Board of Management, John Allan was not included in the pension scheme for members of the Board of Management. Due to his past contractual relationship with Exel, he will receive a taxable annual lump-sum payment of €363,017, in addition to the remuneration paid, that he can use to secure his own pension coverage. This amount is contained in the individual breakdown of fringe benefits.

The remuneration of former members of the Board of Management or their surviving dependants amounted to €13.58 million. The defined benefit obligations (DBOs) for current pensions calculated under IFRSs amount to €27.0 million.

Miscellaneous

Dr Frank Appel, John Allan and John P. Mullen will receive their contractual remuneration until the end of the ordinary term of their contracts if the contract as a member of the Board of Management is terminated prematurely by Deutsche Post AG for good cause, provided this cause is not related to a serious breach of duty. The Board of Management contract of John Allan contains a non-compete clause for two years after the end of the contract. For this two-year period, he receives 50% of his basic salary. Any other income exceeding half of the basic salary will be credited against it.

Supervisory Board remuneration

In accordance with Article 17 of the Articles of Association of Deutsche Post AG as adopted by the AGM, the annual remuneration of the members of the Supervisory Board comprises a fixed component, a short-term performance-related component and a performance-related component with a long-term incentive effect.

The fixed component amounts to €20,000, the short-term performance-related component to €300 for every €0.03 by which the consolidated net profit per share exceeds the amount of €0.50 in the financial year in question. In 2007, the consolidated net profit per share was €1.15 and therefore exceeded the amount of €0.50 by 21.67 x €0.03. The short-term performance-related remuneration came to 21.62% of the total remuneration of all the members of the Supervisory Board. For financial year 2007, the members of the Supervisory Board are entitled to annual performance-related remuneration with a long-term incentive effect of €300 for every 3% by which the consolidated net profit per share for financial year 2009 exceeds the consolidated net profit per share of financial year 2006. The remuneration falls due for payment at the end of the 2010 AGM. Taken individually, the two variable remuneration components may not exceed the amount of the fixed remuneration of €20,000.

The chairman of the Supervisory Board receives double the remuneration, his deputy one and half times the remuneration. The chairman of a Supervisory Board committee also receives double the remuneration, whilst a member of a committee receives one and a half times the remuneration. This does not apply for membership of the Mediation and Nomination Committee. Persons who only belong to the Supervisory Board and its committees for part of the year receive corresponding compensation on a pro rata basis. The members of the Supervisory Board are entitled to claim out-of-pocket expenses incurred in the exercise of their office. Any value-added tax on the Supervisory Board remuneration and out-of-pocket expenses is reimbursed. In addition, each member of the Supervisory Board attending a meeting receives an attendance allowance of €500 for each plenary meeting of the Supervisory Board or committee meeting. In financial year 2007, the total remuneration of the Supervisory Board, excluding the long-term performance-related remuneration, amounted to approximately €0.9 million (previous year: €1 million). The table below provides a breakdown of the remuneration:

Supervisory Board remuneration

€	Fixed component	Short-term performance-related remuneration	Attendance allowance	**Total**	Value of long-term performance-related remuneration claim[1)]
Current members					
Dr Jürgen Weber (Chair)	70,000.00	22,050.00	6,500.00	98,550.00	0.00
Rolf Büttner (Deputy Chair until 8 May 2007)	22,500.00	7,087.50	3,500.00	33,087.50	0.00
Andrea Kocsis (Deputy Chair since 29 May 2007)	37,500.00	11,812.50	3,000.00	52,312.50	0.00
Willem G. van Agtmael	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Frank von Alten-Bockum	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Hero Brahms	40,000.00	12,600.00	6,500.00	59,100.00	0.00
Marion Deutsch	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Werner Gatzer	40,000.00	12,600.00	7,500.00	60,100.00	0.00
Dr Hubertus von Grünberg (until 27 July 2007)	11,666.67	3,675.00	1,500.00	16,841.67	0.00
Annette Harms	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Helmut Jurke (until 31 December 2007)	40,000.00	12,600.00	7,000.00	59,600.00	0.00
Prof. Dr Ralf Krüger	40,000.00	12,600.00	5,500.00	58,100.00	0.00
Dirk Marx	40,000.00	12,600.00	7,000.00	59,600.00	0.00
Ingrid Matthäus-Maier	20,000.00	6,300.00	2,500.00	28,800.00	0.00
Roland Oetker	30,000.00	9,450.00	5,500.00	44,950.00	0.00
Silke Oualla-Weiß	20,000.00	6,300.00	2,000.00	28,300.00	0.00
Harry Roels	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Franz Schierer (until 31 December 2007)	20,000.00	6,300.00	2,500.00	28,800.00	0.00
Prof. Dr Wulf von Schimmelmann (since 6 August 2007)	8,333.33	2,625.00	1,500.00	12,458.33	0.00
Elmar Toime	20,000.00	6,300.00	2,000.00	28,300.00	0.00
Stefanie Weckesser	20,000.00	6,300.00	3,000.00	29,300.00	0.00
Margrit Wendt	40,000.00	12,600.00	6,000.00	58,600.00	0.00
Total	**620,000.00**	**195,300.00**	**88,000.00**	**903,300.00**	**0.00**

1) The basis for the measurement of the long-term performance-related remuneration claim is the provision that needs to be recognised for this purpose. A provision was not recognised in 2007 because the profit per share was lower than the previous year.

Shareholdings of the Board of Management and Supervisory Board

Effective 31 December 2007, shares held by the Board of Management and Supervisory Board of Deutsche Post AG amounted to less than 1% of the company's share capital.

Consolidated Financial Statements

Income Statement

1 January to 31 December

€m	Note	2006	2007
Revenue and income from banking transactions	(9)	60,545	63,512
Other operating income	(10)	2,821	2,586
Total operating income		**63,366**	**66,098**
Materials expense and expenses from banking transactions	(11)	–34,349	–36,875
Staff costs	(12)	–18,616	–18,471
Depreciation, amortisation and impairment losses	(13)	–1,771	–2,357
Other operating expenses	(14)	–4,758	–5,193
Total operating expenses		**–59,494**	**–62,896**
Profit from operating acitvities (EBIT)		**3,872**	**3,202**
Net income from associates	(15)	4	3
Other financial income		198	998
Other finance costs		–1,232	–2,011
Net other finance costs	(16)	–1,034	–1,013
Net finance costs		**–1,030**	**–1,010**
Profit before income taxes		**2,842**	**2,192**
Income tax expense	(17)	–560	–307
Consolidated net profit for the period	(18)	**2,282**	**1,885**
attributable to			
Deutsche Post AG shareholders		1,916	1,389
Minorities	(19)	366	496
		€	€
Basic earnings per share	(20)	**1.60**	**1.15**
Diluted earnings per share	(20)	**1.60**	**1.15**

Balance Sheet

as at 31 December

€m	Note	31 Dec. 2006 restated[1]	31 Dec. 2007
ASSETS			
Intangible assets	(22)	14,652	14,226
Property, plant and equipment	(23)	9,388	8,754
Investment property	(24)	122	187
Investments in associates		63	203
Other non-current financial assets		931	857
Non-current financial assets	(25)	994	1,060
Other non-current assets	(26)	376	497
Deferred tax assets	(27)	542	1,020
Non-current assets		**26,074**	**25,744**
Inventories	(28)	268	248
Income tax assets	(29)	281	312
Receivables and other assets	(30)	9,306	9,806
Receivables and other securities from financial services	(31)	179,280	193,986
Financial instruments	(32)	42	72
Cash and cash equivalents	(33)	2,391	4,683
Non-current assets held for sale	(34)	56	615
Current assets		**191,624**	**209,722**
Total assets		**217,698**	**235,466**
EQUITY AND LIABILITIES			
Issued capital	(35)	1,202	1,207
Other reserves	(36)	1,528	875
Retained earnings	(37)	8,490	8,976
Equity attributable to Deutsche Post AG shareholders	(38)	**11,220**	**11,058**
Minority interest	(39)	2,732	2,801
Equity		**13,952**	**13,859**
Provisions for pensions and other employee benefits	(40)	6,134	5,989
Deferred tax liabilities	(27)	1,426	1,569
Other non-current provisions	(41)	4,780	3,015
Non-current provisions		**12,340**	**10,573**
Non-current financial liabilities	(42)	8,543	8,625
Other non-current liabilities	(43)	237	361
Non-current liabilities		**8,780**	**8,986**
Non-current provisions and liabilities		**21,120**	**19,559**
Income tax provisions	(44)	237	334
Other current provisions	(41)	1,656	1,703
Current provisions		**1,893**	**2,037**
Current financial liabilities	(42)	1,945	1,556
Trade payables	(45)	5,069	5,384
Liabilities from financial services	(46)	168,663	187,787
Income tax liabilities	(29)	101	139
Other current liabilities	(43)	4,938	5,101
Liabilities associated with non-current assets held for sale	(34)	17	44
Current liabilities		**180,733**	**200,011**
Current provisions and liabilities		**182,626**	**202,048**
Total equity and liabilities		**217,698**	**235,466**

1) See Note 4.

Cash Flow Statement

1 January to 31 December

€m	Note	2006 restated[1]	2007
Net profit before taxes		**2,842**	**2,192**
Net finance costs		1,030	1,010
Profit from operating activities (EBIT)		**3,872**	**3,202**
Depreciation/amortisation of non-current assets		1,771	2,357
Net income from disposal of non-current assets		–509	–282
Non-cash income and expense		453	385
Change in provisions		–783	–753
Change in other assets and liabilities		–52	–145
Taxes paid		–343	–340
Net cash from operating activities before changes in working capital		**4,409**	**4,424**
Changes in working capital			
Inventories		–51	10
Receivables and other assets		–876	–659
Receivables/liabilities from financial services		–368	707
Liabilities and other items		808	669
Net cash from operating activities	(47.1)	**3,922**	**5,151**
Proceeds from disposal of non-current assets			
Divestitures		331	622
Other non-current assets		943	759
		1,274	**1,381**
Cash paid to acquire non-current assets			
Investments in companies		–2,094	–347
Other non-current assets		–1,972	–2,309
		–4,066	**–2,656**
Interest received		100	520
Current financial instruments		–5	2
Net cash used in investing activities	(47.2)	**–2,697**	**–753**
Change in financial liabilities		345	–439
Dividend paid to Deutsche Post AG shareholders		–836	–903
Dividend paid to other shareholders		–105	–159
Issuance of shares under stock option plan		124	73
Interest paid		–393	–659
Net cash used in financing activities	(47.3)	**–865**	**–2,087**
Net change in cash and cash equivalents		360	2,311
Effect of changes in exchange rates on cash and cash equivalents		–38	–46
Changes in cash and cash equivalents associated with non-current assets held for sale		–15	0
Changes in cash and cash equivalents due to changes in consolidated group		0	27
Cash and cash equivalents at beginning of reporting period		2,084	2,391
Cash and cash equivalents at end of reporting period	(47.4)	**2,391**	**4,683**

1) See Note 47.

Statement of Changes in Equity

1 January to 31 December

€m	Issued capital	Other reserves: Capital reserves	Other reserves: IAS 39 reserves	Other reserves: Currency translation reserve	Retained earnings	Equity attributable to Deutsche Post AG shareholders	Minority interest	Total equity
Note	(35)	(36)	(36)	(36)	(37)	(38)	(39)	
Balance at 1 January 2006	**1,193**	**1,893**	**169**	**–41**	**7,410**	**10,624**	**1,791**	**12,415**
Capital transactions with owner								
Capital contribution from retained earnings						0		0
Dividend					–836	–836	–105	–941
Stock option plans (exercise)	9	115				124		124
Stock option plans (issuance)		29				29		29
						–683	**–105**	**–788**
Other changes in equity not recognised in income								
Currency translation differences				–410		–410	–40	–450
Other changes			–227			–227	720	493
						–637	**680**	**43**
Changes in equity recognised in income								
Consolidated net profit					1,916	1,916	366	2,282
Total changes in equity recognised in income and not recognised in income						1,279	1,046	2,325
Balance at 31 December 2006	**1,202**	**2,037**	**–58**	**–451**	**8,490**	**11,220**	**2,732**	**13,952**
Balance at 1 January 2007	**1,202**	**2,037**	**–58**	**–451**	**8,490**	**11,220**	**2,732**	**13,952**
Capital transactions with owner								
Capital contribution from retained earnings						0		0
Dividend					–903	–903	–159	–1,062
Stock option plans (exercise)	5	68				73		73
Stock option plans (issuance)		14				14		14
						–816	**–159**	**–975**
Other changes in equity not recognised in income								
Currency translation differences				–446		–446	–23	–469
Other changes			–289			–289	–245	–534
						–735	**–268**	**–1,003**
Changes in equity recognised in income								
Consolidated net profit					1,389	1,389	496	1,885
Total changes in equity recognised in income and not recognised in income						654	228	882
Balance at 31 December 2007	**1,207**	**2,119**	**–347**	**–897**	**8,976**	**11,058**	**2,801**	**13,859**

Segment Reporting

Segments by division

€m	MAIL[1]		EXPRESS[1]		LOGISTICS[1]		FINANCIAL SERVICES		SERVICES[1]		Consolidation[1]		Group	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
External revenue	14,944	15,108	12,910	13,366	23,642	25,141	9,019	9,871	30	26	0	0	60,545	63,512
Internal revenue	346	376	553	508	763	598	574	555	2,171	2,331	–4,407	–4,368	0	0
Total revenue	15,290	15,484	13,463	13,874	24,405	25,739	9,593	10,426	2,201	2,357	–4,407	–4,368	60,545	63,512
Profit or loss from operating activities (EBIT)	2,094	2,003	288	–174	751	957	1,004	1,076	–229	–660	–36	0	3,872	3,202
Net income from associates	0	0	5	3	–1	0	0	0	0	0	0	0	4	3
Segment assets[2]	5,646	5,588	9,607	9,160	14,540	14,472	182,325	197,448	2,259	2,514	–1,554	–1,604	212,823	227,578
Investments in associates[2]	22	22	35	174	5	6	0	0	1	1	0	0	63	203
Segment liabilities including non-interest-bearing provisions[2]	2,526	2,386	2,782	3,520	5,346	5,070	169,502	188,681	1,218	1,316	–1,412	–1,523	179,962	199,450
Segment investments	1,018	630	769	961	773	756	1,708	152	379	509	–233	–116	4,414	2,892
Depreciation, amortisation and write-downs	433	432	394	1,034	402	423	172	163	370	305	0	0	1,771	2,357
Other non-cash expenses	166	14	179	105	204	166	499	508	127	169	0	0	1,175	962
Employees[3]	149,338	149,857	106,028	108,655	158,030	164,239	23,285	23,369	24,541	24,003	0	0	461,222	470,123

Segments by region

€m	Germany		Europe excluding Germany		Americas		Asia Pacific		Other regions		Group	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
External revenue	24,829	25,028	18,072	20,161	11,130	10,813	5,580	5,765	934	1,745	60,545	63,512
Segment assets[2]	167,589	182,722	29,923	28,449	11,053	11,581	3,865	4,309	393	517	212,823	227,578
Segment investments	2,265	1,048	1,233	1,013	655	512	219	245	42	74	4,414	2,892

1) Prior-period amounts restated, see Note 8.
2) As at 31 December.
3) Average FTEs.

For segment reporting disclosures, see Note 8.

Notes

to the Consolidated Financial Statements of Deutsche Post AG for the Period Ended 31 December 2007

1 Basis of accounting

As a listed company, Deutsche Post AG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the 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 of Deutsche Post World Net therefore provide a true and fair view of its net assets, financial position and results of operations.

The consolidated financial statements consist of the income statement, balance sheet, cash flow statement, statement of changes in equity as well as the Notes. The disclosures in the Notes also include a segment report. In order to improve the clarity of presentation, various items in the balance sheet and in the income statement have been combined. These items are disclosed and explained separately in the Notes. The income statement has been classified in accordance with the nature of expense method.

The accounting policies, as well as the explanations and disclosures in the Notes to the IFRS consolidated financial statements for financial year 2007, are generally based on the same accounting policies used in the 2006 consolidated financial statements. Exceptions to this are the changes in international accounting under IFRSs described in Note 4 that have been required to be applied by the Group since 1 January 2007 and the restatement of prior-period amounts. The accounting policies are explained in Note 6.

The financial year of Deutsche Post AG and its consolidated subsidiaries is the calendar year. Deutsche Post AG, whose registered office is in Bonn, is entered in the commercial register of the Bonn Local Court.

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

2 Consolidated group

In addition to Deutsche Post AG, the consolidated financial statements for the period ended 31 December 2007 generally include all German and foreign operating companies in which Deutsche Post AG directly or indirectly holds a majority of voting rights, or whose activities it can in some other way control. The companies are consolidated from the date on which Deutsche Post World Net is able to exercise control.

The companies listed in the table below are consolidated in addition to the parent company Deutsche Post AG.

Consolidated group

	2006	2007
Number of fully consolidated companies (subsidiaries)		
German	133	113
Foreign	920	857
Number of proportionately consolidated joint ventures		
German	2	1
Foreign	6	12
Number of companies accounted for at equity (associates)		
German	4	3
Foreign	32	18

The list of the Group's shareholdings in accordance with Section 313(2) Nos. 1 to 4 and (3) of the HGB is published in the Electronic Federal Gazette. In addition, a complete list of Deutsche Post AG's shareholdings has been filed with the commercial register of the Bonn Local Court. A list of the significant subsidiaries, joint ventures and associates included in the consolidated financial statements is presented in Note 53.

The following table gives an overview of significant acquisitions required to be included and new company formations in financial year 2007:

Companies included for the first time

	Equity interest %	Inclusion method	Date of acquisition/ initial inclusion	Notes
MAIL				
The Stationery Office Holdings Limited, United Kingdom	100	Fully consolidated	10 January 2007	Purchased
EXPRESS				
ASTAR Air Cargo Holdings LLC, USA	49	Fully consolidated	8 June 2007	Purchased
Polar Air Cargo Worldwide Inc., USA	49	Measured using equity method	25 June 2007	Purchased
AeroLogic GmbH, Germany	50	Proportionately consolidated	26 September 2007	Formed
LOGISTICS				
FC (Flying Cargo) International Transportation Ltd., Israel	100	Fully consolidated	31 December 2007	Purchased
FINANCIAL SERVICES				
Postbank Versicherungsvermittlung GmbH, Germany	100	Fully consolidated	8 May 2007	Formed

MAIL

Williams Lea acquired 100% of the shares of The Stationery Office Holdings Limited (TSO), London, on 10 January 2007. The Stationery Office provides print and document management services primarily for UK government agencies and public-sector organisations, is the market leader in the public sector and has built excellent relationships with clients in public administration. At the same time, the acquisition will strengthen the position of Williams Lea as a global leader in corporate information management solutions. The allocation of the purchase price for TSO is presented below. As part of the acquisition, Deutsche Post World Net repaid financial liabilities in the amount €135 million. TSO contributed €25 million to the Group's EBIT.

€m	10 January 2007
Cost of the investment	22
Transaction costs	1
Total cost	23
Less net assets acquired at fair value	–116
Goodwill	**139**

€m	Carrying amount	Adjustments	Fair value
Intangible assets	0	83	83
Property, plant and equipment	3	0	3
Non-current financial assets	0	0	0
Current assets and cash and cash equivalents	22	0	22
Non-current liabilities and provisions	–158	–4	–162
Current liabilities and provisions	–34	–3	–37
Deferred taxes, net	0	–25	–25
Net assets acquired	**–167**	**51**	**–116**

€m	10 January 2007
Brand name	11
Customer list	72
Pension obligations	–4
Other non-current provisions	–3
Deferred taxes, net	–25
Adjustments to assets and liabilities	**51**

EXPRESS

On 8 June 2007, Deutsche Post World Net acquired 49% of the shares and 24.9% of the voting rights of US airline ASTAR Air Cargo Holdings LLC (Astar) for a purchase price amounting to €66 million. In accordance with SIC 12, the company was fully consolidated. Owing to past business arrangements, Astar aircraft had already been included in the consolidated financial statements since 1 January 2006 as finance leases in accordance with IFRIC 4 in conjunction with IAS 17. Those aircraft were therefore included in the consolidated financial statements at their existing carrying amounts. Astar's principal activity is the provision of services for Group companies.

€m	8 June 2007
Cost of the investment	66
Transaction costs	1
Total cost	67
Less proportionate net assets measured at fair value (49%)	–11
Goodwill	**78**

€m	Carrying amount	Adjustments	Fair value
Intangible assets (customer list)	10	–4	6
Receivables from finance leases (aircraft)	65	0	65
Other property, plant and equipment	5	0	5
Non-current financial assets	1	0	1
Current assets and cash and cash equivalents	68	0	68
Non-current liabilities and provisions	–94	0	–94
Current liabilities and provisions	–87	0	–87
Deferred tax assets, net	12	2	14
Net assets acquired	**–20**	**–2**	**–22**

On 26 September 2007, Deutsche Post World Net and Deutsche Lufthansa AG launched a joint cargo carrier, AeroLogic GmbH (AeroLogic), through their subsidiaries DHL Express und Lufthansa Cargo. The company's registered office is located in Leipzig. DHL Express and Lufthansa Cargo each hold 50% of the shares. In future, AeroLogic will provide cargo services to and from Asia. Flight operations are scheduled to begin in April 2009. Initially, eight aircraft are being leased under the terms of operating lease agreements for this purpose. The resulting financial obligations will be reported from the beginning of the lease term (January 2009) under other financial obligations. AeroLogic's lease counterparty and lessor is Deucalion Capital VII Ltd., Cayman Islands.

On 25 June 2007, Deutsche Post World Net acquired a 49% interest in US company Polar Air Cargo Worldwide, Inc. (Polar Air Cargo), a leading provider of global air freight services. Polar Air Cargo is included in the consolidated financial statements as an associate. The total purchase price, including a post-acquisition adjustment, amounts to €129 million, of which €56 million was paid on completion of the transaction and €16 million in November 2007. The balance of the purchase price will be paid on 15 January 2008 and on 17 November 2008. In addition, DHL is to conclude a twenty-year fixed capacity agreement with Polar Air Cargo, guaranteeing it a certain amount of capacity on routes to major Asian destinations.

LOGISTICS

With effect as at 31 December 2007, DHL Global Forwarding acquired all of the shares in FC (Flying Cargo) International Transportation Ltd., Tel Aviv. The company is the market leader in air and ocean freight in Israel and has acted there for many years as an agent for DHL Global Forwarding. The purchase price amounts to €74 million; the first instalment of €43 million is due in January 2008, whilst the second instalment of €31 million is due in January 2010. Goodwill is provisionally estimated to be €73 million. The allocation of the purchase price is expected to be completed in the 2nd quarter of 2008.

In total, around €347 million was spent on acquisitions in financial year 2007 (previous year: €2.2 billion). The purchase prices of the acquired companies were paid by transferring cash and cash equivalents. Further details about cash flows can be found in Note 47.

The following disposal and deconsolidation effects from fully consolidated companies have been determined:

LOGISTICS
In March 2007, Deutsche Post World Net sold 100% of the shares of Vfw AG, Germany. This resulted in a deconsolidation gain of €59 million, which was reported in other operating income.

FINANCIAL SERVICES
In addition, BHW Lebensversicherung AG, including its special funds, and the 50% interests in PB Versicherung AG and PB Lebensversicherung AG were sold effective 30 September 2007. The gain on deconsolidation amounted to €391 million and was reported in other operating income.

EXPRESS
In October 2007, DHL EXPRESS sold Dedicated Distribution Services B.V., the Netherlands, and Van Osselaer-Pieters Colli Service B.V.B.A., Belgium, to Österreichische Post AG. The transaction gave rise to a gain on deconsolidation amounting to €7 million.

Disposal and deconsolidation effects of fully consolidated companies

€m	2007
Disposal effects	
Intangible assets	7
Property, plant and equipment	15
Non-current financial assets	3
Inventories	1
Receivables and other assets	154
Receivables from financial services	2,546
Cash and cash equivalents	47
IAS 39 reserves	–6
Provisions	–1,807
Trade payables and other liabilities	–139
Liabilities from financial services	–31
Financial liabilities	–2
Deferred taxes, net	–6
Revenue	51
Effect of deconsolidation	456

Joint ventures
The following table provides information about the balance sheet and income statement items attributable to the significant joint ventures included in the consolidated financial statements:

As at 31 December €m	2006[1]	2007[1]
Balance sheet		
Intangible assets	46	48
Property, plant and equipment	10	8
Receivables and other assets	69	93
Cash and cash equivalents	24	18
Trade payables and other liabilities	–77	–93
Provisions	–1	–2
Financial liabilities	–14	–20
Income statement		
Revenue	433	352
Profit from operating activities (EBIT)	17	19

1) Proportionate amounts.

The consolidated joint ventures relate primarily to Express Courier Ltd. (New Zealand) and Exel-Sinotrans Freight Forwarding Co. Ltd., China.

3 Significant transactions
In addition to the acquisitions and disposals cited in Note 2, the following significant transactions affected the Group's net assets, financial position and results of operations in financial year 2007:

As a result of the 2008 corporate tax reform, the nominal rate of income tax applying to German Group companies was reduced from 39.9% to 29.8% (corporation tax and solidarity surcharge 15.8%, municipal trade tax 14%). As the amount of deferred tax liabilities reported by German Group companies is considerably higher than the amount of deferred tax assets reported, remeasurement in financial year 2007 resulted in a tax benefit of around €188 million.

The sale of the Deutsche Postbank Group's insurance companies resulted in a deconsolidation gain amounting to €391 million. This was offset by losses from the sale of low-interest securities (€–183 million), additional portfolio optimisation measures, transaction costs, write-downs in connection with the subprime crisis (€–112 million), extraordinary effects relating to administrative expenses and non-recurring effects in net interest income, resulting in a net effect of €–25 million.

In December 2007, an impairment loss of €594 million was recognised in respect of the non-current assets of the EXPRESS Americas cash-generating unit, which were written down to their fair value less costs to sell.

The table below presents an overview of the significant non-recurring effects in financial year 2007 (at Group level):

Significant transactions

€m	2007
Profit from operating activities (EBIT) before non-recurring effects	3,762
Deutsche Postbank Group non-recurring effects, net	–25
Sale of Vfw AG	59
Impairment of non-current assets	–594
Profit before operating activities (EBIT) after non-recurring effects	3,202
Tax benefit from the 2008 tax reform	188

4 New developments in international accounting under IFRSs and the restatement of prior-period amounts
The following standards, changes to standards and interpretations are required to be applied on or after 1 January 2007:

The first-time application of IFRS 7 (Financial Instruments: Disclosures) improves the information provided about financial instruments from both a qualitative and a quantitative point of view. Disclosures about the extent of risks arising from financial instruments, including specific minimum disclosures relating to credit, liquidity and market risk, as well as sensitivity analyses, provide a more complete picture of existing market risks. The new standard replaces IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions), as well as the disclosure requirements of IAS 32 (Financial Instruments: Disclosure and Presentation). Amendments to IAS 1 for the first time set out additional disclosure requirements relating to the amount of the entity's capital and the objectives, policies and processes for managing it.

IFRIC 7 (Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*) clarifies questions arising in connection with the application of IAS 29 in cases where the economy of the country whose currency is the functional currency of the reporting entity becomes hyperinflationary. The first-time application of IFRIC 7 has had no effect on the consolidated financial statements.

IFRIC 8 (Scope of IFRS 2) clarifies how IFRS 2 (Share-based Payment) should be applied to arrangements where the reporting entity makes share-based payments for nil or inadequate consideration. The first-time application of IFRIC 8 has had no effect on the consolidated financial statements.

IFRIC 9 (Reassessment of Embedded Derivatives) deals with the question of whether an assessment should be made of whether a contract contains an embedded derivative in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) only when an entity first becomes party to the contract or throughout its life. The first-time application of IFRIC 9 has had no effects on the consolidated financial statements.

IFRIC 10 (Interim Financial Reporting and Impairment) addresses the interaction between the requirements of IAS 34 relating to interim financial reporting and the provisions of IAS 36 and IAS 39 concerning the reversal of impairment losses for certain assets. The Interpretation concludes that impairment losses recognised in respect of certain assets in interim financial statements may not be reversed in the financial statements for a subsequent period. The first-time application of IFRIC 10 has had no effect on the consolidated financial statements.

New accounting requirements adopted by the European Union

IFRS 8 (Operating Segments), which supersedes the existing IAS 14 (Segment Reporting), contains new provisions relating to the presentation of segment reporting. IFRS 8 requires segment reporting to be based on the management approach. Under this approach, the definition of the segments and the disclosures for each segment are based on the information used internally by management for the purposes of allocating resources to the components of the entity and assessing their performance. Application of IFRS 8 is mandatory for periods beginning on or after 1 January 2009. The first-time application of IFRS 8 is not expected to have any significant effects on the consolidated financial statements.

IFRIC 11 (IFRS 2 Group and Treasury Share Transactions) clarifies the issue of how IFRS 2 should be applied to share-based payment arrangements involving the grant of the entity's own equity instruments or equity instruments of another entity within the same group. The Interpretation is effective for financial years beginning on or after 1 March 2007. The first-time application of IFRIC 11 is not expected to have any significant effect on the consolidated financial statements.

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

The IASB and the IFRIC have issued further Standards and Interpretations whose application is not yet mandatory for financial year 2007. The application of these IFRSs is dependent on their adoption by the European Union.

The revised version of IAS 23 (Borrowing Costs) issued in 2007 requires borrowing costs that are directly attributable to the acquisition, construction, or production of qualifying assets to be capitalised. The existing option to recognise borrowing costs immediately as an expense will no longer be available. Application of IAS 23 (as revised in 2007) is mandatory for financial years beginning on or after 1 January 2009. The effects on the consolidated financial statements of applying the new provisions are currently being assessed.

IFRIC 12 (Service Concession Arrangements) sets out the accounting treatment for arrangements whereby public-sector bodies grant contracts for the supply of public services to private operators. In order to supply these services, the private operator makes use of infrastructure that remains within the control of the public-sector grantor. The private operator is responsible for the construction, operation and maintenance of the infrastructure. Application of the Interpretation is mandatory for financial years beginning on or after 1 January 2008. The effects of the first-time application of IFRIC 12 on the consolidated financial statements of Deutsche Post AG are currently being assessed.

IFRIC 13 (Customer Loyalty Programmes) sets out the accounting treatment of revenues arising in connection with customer loyalty programmes operated by the manufacturers or service providers themselves or by third parties. The Interpretation is effective for financial years beginning on or after 1 July 2008. The effect of the first-time application of IFRIC 13 on the consolidated financial statements is currently being assessed.

IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) was published on 5 July 2007 and supplements the existing provisions of IAS 19 relating to the limit on the measurement of a defined benefit asset (IAS 19.58 ff.). In addition, the Interpretation sets out how the requirement to limit a defined benefit asset should be applied in the event of statutory or contractual minimum funding requirements. The Interpretation is effective for financial years beginning on or after 1 January 2008. Deutsche Post World Net has already applied IFRIC 14 as at 31 December 2007 with no effects on its pension provisions or pension expenses.

The revised version of IAS 1 (Presentation of Financial Statements) is intended to improve users' ability to analyse and compare the information given in financial statements. Application of the revised standard is mandatory for financial years beginning on or after 1 January 2009; earlier adoption is permitted. First-time application of the revised standard will have no significant effects on the presentation of the consolidated financial statements.

Restatement of the consolidated balance sheet

The carrying amounts in the consolidated financial statements as at 31 December 2006 have been restated, firstly because of the reclassification of the Deutsche Postbank Group's subordinated debt from other liabilities to financial liabilities in order to report all interest-bearing liabilities under the same item. Secondly, a change was made to the method of reporting income tax assets and liabilities. The other types of taxes previously included – together with income taxes – under the tax items were reclassified as receivables and other assets, other liabilities and other provisions.

Restated consolidated balance sheet

as at 31 December €m	2006	Adjustments	2006 restated	Notes
Tax receivables (new term: income tax assets)	670	–389	281	Reclassification of other tax receivables
Receivables and other assets	8,917	389	9,306	Reclassification of other tax receivables
Tax liabilities (new term: income tax liabilities)	875	–774	101	Reclassification of other tax liabilities
Other liabilities	4,164	774	4,938	Reclassification of other tax liabilities
Tax provisions (new term: income tax provisions)	460	–223	237	Reclassification of other tax provisions
Other provisions	1,433	223	1,656	Reclassification of other tax provisions
Non-current financial liabilities	3,495	5,048	8,543	Reclassification of subordinated debt
Other non-current liabilities	5,285	–5,048	237	Reclassification of subordinated debt

5 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 Deutsche Post World Net, the functional currency is predominantly the local currency. In the consolidated financial statements, assets and liabilities are therefore translated at the closing rates, whilst income and expenses are generally translated at the monthly closing rates. The resulting currency translation differences are taken directly to equity. In financial year 2007, currency translation differences amounting to €446 million (previous year: €410 million) were recognised directly in equity (see also the statement of changes in equity).

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

The following exchange rates were generally applied to foreign currency translation in the Group:

Currency	Country	Closing rates		Average rates	
		2006 EUR 1 =	2007 EUR 1 =	2006 EUR 1 =	2007 EUR 1 =
USD	USA	1.3175	1.4708	1.25586	1.37145
CHF	Switzerland	1.60735	1.65708	1.57308	1.64364
GBP	UK	0.67101	0.73558	0.68182	0.68441
SEK	Sweden	9.0391	9.41621	9.25353	9.25393

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

In accordance with IAS 21, receivables and liabilities in the single-entity financial statements of consolidated companies that have been prepared in local currencies are translated at the closing rate as at the balance sheet date. Currency translation differences are recognised in other operating income and expenses in the income statement. In financial year 2007, income of €262 million (previous year: €207 million) and expenses of €266 million (previous year: €272 million) resulted from currency translation differences. In contrast, currency translation differences relating to net investments in a foreign operation are recognised in equity.

6 Accounting policies

The consolidated financial statements are prepared on the basis of historical costs, with the exception of available-for-sale financial assets as well as financial assets and financial liabilities at fair value through profit or loss (especially derivative financial instruments).

Overriding principle

The overriding principle was applied in respect of a transaction relating to financial years 2005 and 2006. On 3 July 2006, Deutsche Post AG as the debtor exercised its option under the terms and conditions of the bond to call the exchangeable bond on Postbank shares prior to maturity effective 31 July 2006. Following this transaction, Deutsche Post AG holds an interest in the Deutsche Postbank Group of 50% plus one share. The €276 million gain on disposal of the Postbank shares based on the conversion right was reported in other operating income. Of this amount, €100 million represented income from the reversal of a liability recognised in connection with the measurement of the conversion right. The conversion right was measured on the basis of Postbank's retained earnings. Deutsche Post AG deviated from measurement of the conversion right based on market data in accordance with IAS 32.26 in conjunction with IAS 39.47(a), citing IAS 1.17. If Deutsche Post AG had measured the conversion right in accordance with IAS as a derivative liability, an additional liability totalling €239 million chargeable as an expense would have had to be recognised in financial year 2005. This liability would have had to be reversed to the income statement in financial year 2006. The net disposal gain would thus have increased by €239 million.

Revenue and expense recognition

Revenue and income from banking transactions, as well as other operating income, is 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 the income statement when the service is utilised or when the expenses are incurred.

Intangible assets

Intangible assets are measured at amortised cost. Intangible assets reported include internally generated and purchased intangible assets and purchased goodwill.

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. At Deutsche Post World Net, this concerns internally developed software. If the criteria for capitalisation are not met, the expenses are recognised immediately in the income statement 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 are not included in production costs. 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 using the straight-line method over useful lives of between two to five years.

Intangible assets are amortised using the straight-line method over their useful lives. Licences are amortised over the term of the licence agreement. Capitalised customer relationships are amortised using the straight-line method over a period of 5 to 18 years. Impairment losses are recognised in accordance with the principles described in the section headed "Impairment".

Intangible assets with indefinite useful lives (e.g. brand names) are not amortised but are tested for impairment annually or whenever there are indications of impairment. 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 costs include an appropriate share of allocable production overhead costs. Borrowing costs are not included in the production costs. They are expensed directly. 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 generally charged using the straight-line method. Deutsche Post World Net uses the estimated useful lives indicated below for depreciation. If there are indications of impairment, the principles described in the section headed "Impairment" are applied.

Useful lives

Years	2006	2007
Buildings	5 to 50	5 to 50
Technical equipment and machinery	3 to 10	3 to 10
Passenger vehicles	4 to 6	4 to 6
Trucks	5 to 8	5 to 8
Aircraft	15 to 20	15 to 20
Other vehicles	3 to 8	3 to 8
IT systems	3 to 8	3 to 8
Other operating and office equipment	3 to 10	3 to 10

Impairment

At each balance sheet date, the carrying amounts of intangible assets, property, plant and equipment, and investment property are reviewed for indications of impairment. If there are any such indications, an impairment test must be carried out. For this purpose, the recoverable amount of the relevant asset is determined and compared with its carrying amount.

In accordance with IAS 36, the recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use is the present value of the pre-tax cash flows expected to be derived from the asset in future. The discount rate used is a pre-tax rate 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 (cash-generating unit, CGU) to which the asset in question can be allocated and which generates independent cash flows. 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 which 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.

Against the background of the performance of the US economy, there has been no noticeable improvement in the results of CGU EXPRESS Americas. This is also reflected in the medium-term planning for the CGU for the period 2008 to 2010, with the result that it must be assumed that the CGU is permanently impaired. As the consequence of an impairment test carried out, the impairment write-down calculated to be necessary was allocated to the non-current assets in CGU EXPRESS Americas. The write-downs were limited to the amount which resulted in a carrying amount for the particular asset equal to its fair value less costs to sell.

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 annually tested for impairment in accordance with IAS 36, regardless of whether any indication of possible impairment exists. In addition, the obligation remains to conduct an impairment test if there is any indication of impairment, as in the case of intangible assets with an indefinite useful life. 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 CGUs 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.

Operating leases

For operating leases, Deutsche Post World Net as the lessor reports the leased asset at amortised cost as an asset under property, plant and equipment. The lease payments recognised in the period are shown under other operating income. As a lessee, the lease payments made are recognised as lease expense under materials expense.

Finance leases
A lease financing transaction 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 bears substantially all the risk and rewards incident to ownership of the leased asset. To the extent that beneficial ownership is attributable to Deutsche Post World Net, 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 measured subsequently at amortised cost using the effective interest method. The depreciation methods and estimated useful lives correspond to those of comparable purchased assets.

Fair value option
Deutsche Post World Net applied the fair value option for the first time for financial year 2006. Under this 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 made use of the option in two instances in order to avoid accounting mismatches. The Deutsche Postbank Group applies the fair value option solely in relation to specific building finance loan portfolios that are hedged by interest rate derivatives. The use of the fair value option avoids an accounting mismatch that arises from reporting the loans at amortised cost whilst changes in the fair value of the hedging instruments are recognised in profit or loss. In another case, the fair value option has been applied in order to neutralise the effects on the income statement of a liability indexed to share prices that is linked to financial instruments which would originally have been classified as available for sale. The cash flows arising from the contract vary depending on the movement in the index. Under the terms of IAS 39, changes in the fair value of the related financial assets would have had to be reported directly in equity. As a result of applying the fair value option, the effects of changes in the fair value of both financial instruments offset each other in the income statement.

Investments in associates
Investments in associates are carried at equity in accordance with IAS 28 (Accounting for Investments in Associates). Based on the cost of acquisition at the time of purchase of the investments, the carrying amount of the investment is increased or reduced to reflect the share of earnings, dividends distributed and other changes in the equity of the associates attributable to the investments of Deutsche Post AG or its consolidated subsidiaries. The goodwill contained in the carrying amounts of the investments is accounted for in accordance with IFRS 3. Investments in companies accounted for using the equity method are written down as impaired if the recoverable amount falls below the carrying amount.

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 primary 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.

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 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 the revaluation reserve in equity. The reserve is reversed to income either upon disposal or if the fair value falls below cost more than temporarily. If, at a subsequent balance sheet date, the fair value 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 in respect of unquoted equity instruments may not be reversed. Available-for-sale financial instruments are allocated to non-current assets unless the intention is to dispose of them within twelve months of the balance sheet date. In particular, investments in unconsolidated subsidiaries, financial instruments and other equity investments are reported in this category.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted on an active market. Unless held for trading, they are recognised at cost or amortised cost at the balance sheet date. The carrying amounts of money market placements correspond approximately to their fair values due to their short maturity. Loans and receivables are considered current assets if their maturity is not more than twelve months after the balance sheet date; otherwise, they are recognised as non-current assets. If the recoverability of receivables is in doubt, they are recognised at amortised cost, less appropriate specific 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 amount of the write-down is recognised in income.

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

To avoid variations in net profit 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 simultaneously recognised in income. Depending on the hedged item and the risk to be hedged, Deutsche Post World Net uses fair value hedges and cash flow hedges.

The carrying amounts of financial assets not carried at fair value through profit or loss are tested for impairment at each balance sheet date and whenever there are indications of impairment. The amount of any impairment loss is determined by comparing the carrying amount and the fair value. If there are objective indications of impairment, an impairment loss is recognised in the income statement under other operating expenses or net finance costs. Impairment losses are reversed if there are objective reasons arising after the balance sheet date indicating that the reasons for impairment no longer exist. The increased carrying amount resulting from the reversal of the impairment loss may not exceed the carrying amount that would have been determined (net of amortisation or depreciation) if the impairment loss had not been recognised.

Impairment losses are recognised within the Group if the debtor is experiencing significant financial difficulties, it is highly probable that the debtor will be the subject of bankruptcy proceedings, there ceases to be an active market for a financial instrument, 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 significant 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 simultaneously recognised in income.

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 into 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).

Hedges of net investments (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 equity, whilst the gain or loss attributable to the ineffective portion is recognised directly in income. The gains or losses taken directly to equity continue to be recognised in equity until the disposal or partial disposal of the net investment. Detailed information on hedging transactions can be found in Note 48.2.

Regular way purchases and sales of financial assets are recognised at the settlement date. 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 disposal rules pursuant to IAS 39 as to whether the asset should be derecognised. A disposal gain/loss arises upon disposal. The remeasurement gains/losses recognised directly in equity in prior periods must be reversed as of 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 or 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 five and 50 years. The fair value is determined on the basis of expert opinions. Impairment losses are recognised in accordance with the principles described under 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 and 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 which 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.

Non-current assets held for sale and liabilities associated with non-current assets held for sale

Non-current assets held for sale are assets available for sale in their present condition and whose sale is highly probable. They may consist of individual non-current assets, groups of assets (disposal groups), or components of an entity (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 non-current assets held for sale. Non-current 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 the profit or loss from continuing operations until the final date of disposal. Gains and losses arising from the measurement to fair value less costs to sell of discontinued operations classified as held for sale are reported in the profit or loss from discontinued operations. This also applies to the profit or loss from operations of these components of an entity and the gain or loss on disposal.

Receivables and other securities as well as liabilities from financial services (Deutsche Postbank Group)
The operating activities of the Deutsche Postbank Group are presented under the balance sheet items receivables and other securities from financial services and liabilities from financial services. The classification of financial instruments required by IFRS 7.6 is as follows:

Measured at amortised cost[1)]

Balance sheet item	IAS 39 category
Loans and advances to other banks	Loans and receivables
Loans and advances to customers	Loans and receivables Held to maturity
Non-current financial assets	Held to maturity Loans and receivables
Deposits from other banks	Liabilities at amortised cost
Amounts due to customers	Liabilities at amortised cost
Securitised liabilities	Liabilities at amortised cost
Subordinated debt	Liabilities at amortised cost

Measured at fair value

Balance sheet item	IAS 39 category
Loans and advances to customers	Designated as at fair value
Investment securities	Available for sale
Trading assets	Held for trading
Trading liabilities	Held for trading
Hedging derivatives (assets)	
Hedging derivatives (fair values)	

1) Including fair value changes to hedged risk for hedged items (fair value hedge).

Loans and advances to other banks and customers are generally recognised at amortised cost ("loans and receivables" category). This category also includes money market lendings. Premiums and discounts including transaction costs are recognised in the income statement under net interest income. Interest accrued on loans and advances as well as premiums and discounts are reported together with the loans and advances to which they relate under the relevant balance sheet items. Premiums and discounts are deferred using the effective interest method.

Identifiable credit risks are covered by specific valuation allowances (or collective valuation allowances). In addition, portfolio-based valuation allowances are recognised for groups of financial assets with similar default risk profiles in respect of risks that have arisen but have not yet been identified. The amounts of the allowances are determined on the basis of Basel II parameters (expected default rates and probability). The allowance for losses on loans and advances is deducted from assets as a separate balance sheet item. It comprises the allowance for losses on loans and advances to other banks and customers.

Trading assets comprise securities and derivatives with positive fair values acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins. They also include the positive fair values of banking book derivatives and derivatives associated with hedged items measured under the fair value option. These transactions are recognised at the trade date. Trading assets are measured at their fair values. Remeasurement gains and losses as well as gains or losses on the sale or disposal of trading assets are recognised in net trading income. If there are publicly quoted market prices on an active market as defined by IAS 39.AG 71 ff., these are generally used as the fair value; if this is not the case, fair value is determined using recognised valuation models.

Investment securities are composed of bonds not held for trading and other fixed-income securities, equities and other non-fixed-income securities. Investment securities are recognised at the settlement date and are measured at cost at the time of initial recognition. Held-to-maturity bonds and securities not listed on an active market are carried at amortised cost. Premiums and discounts are allocated directly to the financial instruments and deferred over the remaining maturity using the effective interest method.

Liabilities and subordinated debt are carried at amortised cost (IAS 39.47). The carrying amount of hedged liabilities that meet the requirements for hedge accounting is adjusted for the gains and losses from changes in fair value attributable to the hedged risk. Premiums, discounts and issue costs are recognised in net interest income by applying the effective interest method.

Trading liabilities comprise derivatives with negative fair values that were acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins. They also include the negative fair values of banking book derivatives. Remeasurement gains and losses as well as gains or losses realised on the settlement of trading liabilities are recognised in net trading income. Derivatives carried under trading liabilities are recognised at the trade date.

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 and are carried at their principal amount. Overdraft facilities used are recognised in the balance sheet as amounts due to banks.

Share-based payment
In accordance with IFRS 2, the stock option plan for executives is measured using investment techniques based on option pricing models. The objective is to determine a fair value for options. A stochastic simulation model is used for this purpose, which assumes a logarithmic normal distribution of the returns on Deutsche Post shares and the Dow Jones EURO STOXX Total Return Index and is therefore based on the same fundamental assumption as the Black-Scholes model. The options are measured at fair value on the grant date. The option price thus calculated is recognised in income under staff costs and spread over the term of the options.

Stock appreciation rights (SARs) issued to members of the Board of Management and executives are measured using investment techniques based on option pricing models in accordance with IFRS 2. The objective is to determine their fair value. A stochastic simulation model is used for this purpose, which assumes a logarithmic normal distribution of the returns and is therefore based on the same fundamental assumption as the Black-Scholes model. The SARs are measured at each reporting date and at the settlement date. The amount determined is recognised 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.

Pension obligations

In a number of countries Deutsche Post World Net maintains defined benefit pension plans based on the pensionable compensation and length of service of employees. Most of these benefit plans are funded through external pension funds. Provisions for pensions are measured using the projected unit credit method prescribed by IAS 19 for defined benefit plans. In accordance with IAS 19.92, actuarial gains and losses are recognised only to the extent that they exceed the greater of 10% of the present value of the obligations or of the fair value of plan assets. The excess is allocated over the remaining working lives of active employees and recognised in income. The interest component of pension expenses is reported under net finance costs.

The Group also contributes to a number of defined contribution plans. Contributions to these defined contribution pension plans are recognised as staff costs when they are due. In 2007 employer contributions amounting to €175 million were paid in respect of these plans.

Pension plans for civil servant employees in Germany: In addition to the state pension system operated by the statutory pension insurance funds, to which contributions for hourly workers and salaried employees are remitted in the form of non-wage costs, Deutsche Post AG and Deutsche Postbank AG pay contributions to defined contribution plans in accordance with statutory provisions.

Until 2000, Deutsche Post AG and Deutsche Postbank AG each operated a separate pension fund for their active and former civil servant employees. These funds were merged with the pension fund of Deutsche Telekom AG to form the joint special pension fund Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT).

Under the provisions of the *Gesetz zur Neuordnung des Postwesens und der Telekommunikation* (PTNeuOG – German posts and telecommunications reorganisation act), Deutsche Post AG and Deutsche Postbank AG make benefit and assistance payments via a special pension fund to retired employees or their surviving dependants who are entitled to benefits on the basis of a civil service appointment. The amount of the payment obligations of Deutsche Post AG and Deutsche Postbank AG is governed by Section 16 of the *Postpersonalrechtsgesetz* (Deutsche Bundespost former employees act). Since 2000, both companies have been legally obliged to pay into this special pension fund an annual contribution of 33% of the pensionable gross compensation of active civil servants and the notional pensionable gross compensation of civil servants on leave of absence. In the year under review, Deutsche Post AG paid contributions of €560 million (previous year: €559 million) and Deutsche Postbank AG paid contributions of €111 million (previous year: €111 million) to Bundes-Pensions-Service für Post und Telekommunikation e.V.

Under the PTNeuOG, the federal government takes appropriate measures to make good the difference between the current payment obligations of the special pension fund on the one hand, and the current contributions of Deutsche Post AG and Deutsche Postbank AG, or the return on assets on the other, and guarantees that the special pension fund is able at all times to meet the obligations it has assumed in respect of its funding companies. Where the federal government makes payments to the special pension fund under the terms of this guarantee, it cannot claim reimbursement from Deutsche Post AG and Deutsche Postbank AG.

Pension plans for hourly workers and salaried employees: The benefit obligations for the Group's hourly workers and salaried employees relate primarily to pension obligations in Germany and significant funded obligations in the UK, the Netherlands, Switzerland and the USA. There are various commitments to individual groups of employees. The commitments usually depend on length of service and final salary. The provisions for defined benefit plans are measured using the projected unit credit method prescribed by IAS 19. Future obligations are determined using actuarial principles and actuarial assumptions. The expected benefits are built up over the entire length of service of the employees, taking into account changes in key parameters.

The majority of the defined benefit plans in Germany relate to Deutsche Post AG. In the UK, significant liabilities were acquired as part of the Exel plc acquisition in December 2005. The defined benefit liabilities of Deutsche Postbank Group are almost entirely related to pension plans in Germany. The pension liabilities of BHW Holding AG, which was acquired in 2006, are included as part of the Deutsche Postbank Group.

Other provisions

Other provisions are recognised for all legal or constructive obligations to third parties existing at the balance sheet date that have arisen as a result of past events, 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 risk and time until settlement of the obligation.

The unearned premiums and aggregate policy reserves for the Group's own insurance business included in the technical reserves (insurance) of the Deutsche Postbank Group are calculated on the basis of the effective start date for each individual insurance policy. Provisions for claims not yet processed and policy redemptions that are known at the balance sheet date are generally determined according to the details of the individual cases. For claims that only become known after the balance sheet date, a provision is recognised in the amount of the probable cost. The provisions for the home savings group insurance policies are compared with the level of payments made during the financial year in respect of claims relating to prior years. If the amount of the provision is significantly below the figures for the prior years, the resulting difference is reflected in an increase in the provision for claims not yet processed, because of the particular factors affecting this business.

For the home savings business, provisions are recognised, based on the different tariffs and conditions applicable to the contracts, for uncertain liabilities relating to reimbursements of arrangement fees and for retroactively payable interest rate bonuses where loans have not been taken up or there has been a change in the applicable interest rate or tariff of the contract. These provisions are calculated as a percentage of the total potential liability, based on the statistical data available relating to customer behaviour and taking into account the general environment likely to affect the business in the future.

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. Measurement is performed on a historical cost basis and any premiums or discounts are accrued or deferred over the term to maturity. The balance of issue costs and discounts on the Group's own bond issues is deferred over the bond term. Any discount not yet earned or not yet paid on money market securities is accrued or deferred over the term to maturity.

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

Deferred taxes
In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts in the IFRS financial statements and the tax accounts of the individual entities. Deferred tax assets also include tax reduction claims which arise from the expected future utilisation of existing tax loss carryforwards and which are likely to be realised. 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 and Deutsche Postbank AG where the differences arose after 1 January 1995. No deferred tax assets or liabilities can be recognised for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG and Deutsche Postbank AG as at 1 January 1995. Additional disclosures on deferred taxes from tax loss carryforwards can be found in Note 17.

In accordance with IAS 12, deferred tax assets and liabilities are calculated by using the tax rates applicable in the individual countries at the balance sheet date or announced for the time when the deferred tax assets and liabilities are realised. The tax rate of 29.8% applied to German Group companies comprises the corporation tax rate plus the solidarity surcharge, as well as a municipal trade tax rate which is calculated as the average of the different municipal trade tax rates. Foreign Group companies use their individual income tax rate to calculate deferred tax items. The income tax rates applied for foreign companies range from 15% to 48%.

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 (see also Note 49).

The 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. This applies to the following matters in particular:

- In the case of certain contracts, a decision must be made whether they should be accounted for as derivatives or as executory contracts.
- Financial assets are classified under four categories, namely, held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss.
- In measuring the provisions for pensions and other employee benefits, there are different options for recognising actuarial gains and losses. For this purpose, Deutsche Post World Net applies the "corridor method" in accordance with IAS 19.92 (10% corridor).
- With respect to non-current assets held for sale, it must be determined whether the assets are available for sale in their present condition and whether their sale is highly probable. If that is the case, the assets and the associated liabilities are reported and measured as non-current assets held for sale and liabilities associated with non-current assets held for sale.

Estimates and assessments made by management
The preparation of the consolidated financial statements in accordance with IFRSs requires assumptions and estimates to be made that 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.

Amongst other things, these assumptions relate to the recognition and measurement of provisions. When determining the provisions for pensions and other employee benefits, the discount rate used is an important factor that has to be estimated. An increase or reduction of one percentage point in the discount rate used would result in a reduction or increase of around €990 million in the pension obligations of our pension plans in Germany. A similar change in the discount rate used to measure the pension obligations of the Group companies in the UK would result in a reduction or increase of around €490 million. Since actuarial gains and losses are only recognised if they exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets, changes in the discount rate used for Deutsche Post World Net's benefit plans generally have little or no effect on the expense or the carrying amount of the provisions recognised in the following financial year.

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. 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 particular 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 the tax benefits achievable as a result of tax planning strategies are revised downwards, or in the event that 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, then in the majority of cases their measurement is 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 with respect to the future. The Group carries out these tests annually and also whenever there are indications that goodwill may have 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. The determination of value in use requires adjustments 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 could result in an impairment loss that could negatively affect the Group's net assets, financial position and results of operations.

The pending legal proceedings in which Deutsche Post World Net is involved are reported under Note 50. 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 any provision recognised for the associated risk is adequate.

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

At the date of preparation of the consolidated financial statements, there is no indication that any significant change in the assumptions and estimates made will be required, so that on the basis of the information currently available it is not expected that there will be any significant adjustments in financial year 2008 to the carrying amounts of the assets and liabilities recognised in the financial statements.

7 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and the subsidiaries, joint ventures and associates included in the consolidated financial statements, prepared in accordance with uniform accounting policies as at 31 December 2007 and audited by independent auditors.

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 incurred or assumed at the transaction date, plus any costs directly attributable to the acquisition.

Joint ventures are proportionately consolidated in accordance with IAS 31. Assets and liabilities, as well as income and expenses, of jointly controlled companies are included in the consolidated financial statements in proportion to the interest held in these companies. Proportionate acquisition accounting as well as recognition and measurement of goodwill use the same methods as applied to the consolidation of subsidiaries.

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 in associates.

Intra-Group revenue, other operating income and expenses as well as receivables, liabilities and provisions between consolidated companies are eliminated. Inter-company profits or losses from intra-Group deliveries and services not realised by sale to third parties are eliminated.

8 Segment reporting disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). The presentation of specific data from the consolidated financial statements is classified by divisions and regions, based on the Group's internal reporting and organisational structure. Segment reporting is designed to enable a transparent view of the earnings power, net assets and financial position of the individual components of the Group's activities and regions. For the segment reporting which forms part of the Notes, see page 126.

Prior-period amounts were restated due to the transfer of the German parcel business from the EXPRESS Division to the MAIL Division as at 1 January 2007 and the transfer of DHL Freight from the EXPRESS Division to the LOGISTICS Division and of the hubs and aviation services from the SERVICES segment to the EXPRESS Division as at 1 July 2006. In addition, some companies were transferred in the course of portfolio optimisation measures.

Reflecting the Group's predominant organisational structure, the primary reporting format is based on the divisions. Deutsche Post World Net distinguishes between the following divisions:

8.1 Segments by division

MAIL

In addition to the transport and delivery of written communications, the MAIL Division is positioning itself as an end-to-end service provider for the management of written communications. The division comprises the following business units: Mail Communication, Dialogue Marketing, Press Services, Parcel Germany, Global Mail and Corporate Information Solutions.

EXPRESS

The EXPRESS Division offers national and international courier, express and parcel services (DHL EXPRESS) under the DHL brand. Effective 1 July 2006, the European overland transport business – now the DHL Freight Business Unit – was transferred from the EXPRESS Division to the LOGISTICS Division. As part of the reorganisation of the global express network, hubs and global network aviation were removed from the SERVICES segment and transferred to the EXPRESS Division.

LOGISTICS

The LOGISTICS Division comprises the national and international logistics services of the DHL Global Forwarding and DHL Exel Supply Chain business units and, since 1 July 2006, the European overland transport business DHL Freight under the DHL brand.

FINANCIAL SERVICES

The FINANCIAL SERVICES Division consists of the Deutsche Postbank Group's activities. Deutsche Postbank Group offers a wide range of standardised banking services, including payments, deposits, retail and corporate banking, fund products and investment securities services. Effective 1 January 2006, Deutsche Postbank AG took over DP Retail GmbH, thus acquiring 850 retail outlets of Deutsche Post AG. The transfer of ownership led to a change of employer for around 9,600 employees. The retail outlets still owned by Deutsche Post AG are reported in the SERVICES segment. In addition, the FINANCIAL SERVICES segment includes the Pension Service.

The following table shows a breakdown of the FINANCIAL SERVICES Division's profit from operating activities (EBIT) by segment component:

FINANCIAL SERVICES EBIT

€m	2006				2007			
	Deutsche Postbank Group	Pension Service	Other	Total	Deutsche Postbank Group	Pension Service	Other	Total
EBIT	1,000	7	–3	**1,004**	1,069	7	0	**1,076**

SERVICES

The SERVICES segment contains the company's Global Business Services with the following areas: Legal, Insurance, Procurement, Finance Operations, IT Services, Real Estate, Fleet Management and Business Consulting. It also includes the Corporate Centre and those retail outlets still belonging to Deutsche Post AG. This segment also reports Deutsche Post AG income and expenses which cannot be allocated to an individual division. As part of the reorganisation of the global express network, hubs and global network aviation were removed from the SERVICES segment with effect from 1 July 2006 and transferred to the EXPRESS segment.

Consolidation

The amounts for the divisions are presented after consolidating intersegment transactions, which are eliminated in the consolidation column.

Reconciliation of segment amounts to consolidated amounts

The reconciliation column contains the effects of consolidation adjustments and the amounts from the differing definitions of segment items compared with the corresponding item for the Group.

Reconciliation

€m	Segments total		Reconciliation		Consolidated amount	
	2006	2007	2006	2007	2006	2007
External revenue	60,545	63,512	0	0	60,545	63,512
Internal revenue	4,407	4,368	–4,407	–4,368	0	0
Total revenue	64,952	67,880	–4,407	–4,368	60,545	63,512
Other operating income	4,766	4,219	–1,945	–1,633	2,821	2,586
Materials expense	–39,216	–41,265	4,867	4,390	–34,349	–36,875
Staff costs	–18,631	–18,491	15	20	–18,616	–18,471
Other operating expenses	–6,192	–6,784	1,434	1,591	–4,758	–5,193
Depreciation, amortisation and impairment losses	–1,771	–2,357	0	0	–1,771	–2,357
Profit from operating activities (EBIT)	3,908	3,202	–36	0	3,872	3,202
Net income from associates	4	3	0	0	4	3
Net other finance costs					–1,034	–1,013
Income taxes					–560	–307
Consolidated net profit					2,282	1,885
of which attributable to Deutsche Post AG shareholders					1,916	1,389
of which attributable to minorities					366	496
Assets	**214,440**	**229,385**	**3,258**	**6,081**	**217,698**	**235,466**
of which investments in associates	63	203	0	0	63	203
Liabilities	**181,374**	**200,973**	**22,372**	**20,634**	**203,746**	**221,607**
of which investments in associates	0	0	0	0	0	0

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 cause. That portion of the expenses which cannot be passed on to the divisions according to the arm's length principle continues to be included in the SERVICES segment. The additional costs resulting from Deutsche Post AG's postal universal 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 MAIL Division. The segment income and expense of the FINANCIAL SERVICES Division also include the Deutsche Postbank Group's interest, fee and commission income and expense because these are allocated to the business operations of this division. Segment assets are composed of non-current assets (excluding non-current financial assets) and current assets (excluding income tax receivables, cash and cash equivalents and current financial instruments). The receivables and other securities from financial services are reported under the FINANCIAL SERVICES segment. Purchased goodwill is allocated to the divisions.

€m	2006	2007
Total assets	217,698	235,466
Investment property	–122	–187
Non-current financial assets	–994	–1,060
Other non-current assets	–303	–413
Deferred tax assets	–542	–1,020
Income tax assets	–281	–312
Receivables and other assets	–200	–141
Financial instruments	–42	–72
Cash and cash equivalents	–2,391	–4,683
Reconciliation to segment assets	**212,823**	**227,578**

Segment liabilities relate to non-interest-bearing provisions and liabilities (excluding income tax liabilities) and to liabilities from financial services.

€m	2006	2007
Total assets	217,698	235,466
Equity	–13,952	–13,859
Non-current provisions	–12,340	–10,573
Non-current liabilities	–8,780	–8,986
Current provisions	–616	–693
Current liabilities	–2,048	–1,905
Reconciliation to segment liabilities	**179,962**	**199,450**

The segment investments relate to intangible assets (including purchased goodwill) and property, plant and equipment. Depreciation, amortisation and write-downs relate to the segment assets allocated to the individual divisions. Other non-cash expenses relate primarily to expenses from the recognition of provisions.

8.2 Segments by region

The allocation of external revenue is based on the location of the customers. Only revenue generated from non-Group third parties is disclosed. Segment assets are allocated according to the location of the assets. They are composed of the non-current assets (excluding non-current financial assets) and current assets (excluding income tax assets, cash and cash equivalents, and current financial instruments) of the individual regions. Segment assets also include receivables and other securities from financial services, as well as purchased goodwill, which are generally allocated on the basis of the domicile of the Group companies. Segment investments are also allocated on the basis of the location of the assets. They include investments in intangible assets (including purchased goodwill) and property, plant and equipment.

Income Statement Disclosures

9 Revenue and income from banking transactions

€m	2006	2007
Revenue	51,592	53,719
Income from banking transactions	8,953	9,793
Revenue and income from banking transactions	**60,545**	**63,512**

As in the prior-year period, there was no revenue or income from banking transactions in financial year 2007 that was generated on the basis of barter transactions.

The LOGISTICS Division in particular achieved a substantial increase in revenue primarily due to the 10-year contract with the British National Health Service (NHS). The revenue contribution from TSO, which was consolidated for the first time in the year under review, was €106 million (see Note 2).

The further classification of revenue by division and the allocation of revenue and income from banking transactions to geographical regions is presented in the segment reporting.

€m	2006	2007
Interest income		
Interest income from credit and money market transactions	5,058	5,409
Interest income from fixed-income securities and book-entry securities	2,068	2,491
Income from equities and other non-fixed-income securities	231	103
Interest income from trading operations	249	347
Net gains/losses from remeasurement of hedges	8	–1
	7,614	**8,349**
Commission income	1,075	1,154
Net trading income	264	290
Income from banking transactions	**8,953**	**9,793**

The method of reporting the net gains/losses from the fair value option was changed compared with the prior year. Changes in the fair value of the related financial instruments are now reported in net trading income, rather than in net interest income. The prior-year amounts have been restated accordingly. Interest relating to financial instruments covered by the fair value option and to the associated interest rate swaps is reported in net interest income as before.

10 Other operating income

€m	2006	2007
Net income from investment securities and insurance business (Deutsche Postbank Group)	234	294
Gains on disposal of non-current assets	274	275
Income from the reversal of provisions	294	272
Income from currency translation differences	207	262
Income from work performed and capitalised	197	190
Insurance income	164	176
Rental and lease income	91	95
Reversals of impairment losses on receivables and other assets	58	85
Commission income	75	78
Income from prior-period billings	86	76
Income from fees and reimbursements	59	73
Income from the sale of Vfw AG, Germany	0	59
Income from the derecognition of liabilities	91	54
Income from loss compensation	34	27
Income from payments received on bad debt	10	17
Subsidies	11	11
Income from non-hedging derivatives	46	7
Gains on disposal of Postbank shares due to conversion right from exchangeable bond	276	0
Income from arbitration proceedings against Deutsche Telekom AG	99	0
Income from the reversal of the provision for Bundes-Pensions-Service für Post und Telekommunikation e.V.	80	0
Income from the sale of Modra Pyramida	64	0
Income from cost transfers in connection with BAnstPT (Federal Posts and Telecommunications Agency)	55	0
Income from the sale of McPaper AG	10	0
Miscellaneous	306	535
Other operating income	**2,821**	**2,586**

Income from investment securities and insurance business (Deutsche Postbank Group) includes a number of non-recurring effects (see Note 3).

The decline in other operating income primarily reflects the non-recurring income in the previous year from the sale of the shares in Postbank and the positive outcome of the arbitration proceedings against Deutsche Telekom AG. Miscellaneous other operating income contains a number of individual items.

11 Materials expense and expenses from banking transactions

€m	2006	2007
Materials expense	28,641	30,488
Expenses from banking transactions	5,708	6,387
Materials expense and expenses from banking transactions	**34,349**	**36,875**

€m	2006	2007
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Fuel	669	934
Aircraft fuel	571	601
Packaging material	223	397
Goods purchased and held for resale	128	1,295
Office supplies	102	100
Spare parts and repair materials	69	90
Other expenses	100	112
	1,862	3,529
Cost of purchased services		
Transportation costs	19,757	18,450
Cost of temporary staff	1,690	2,469
Expenses from non-cancellable leases	1,297	1,709
Expenses from cancellable leases	497	508
Other lease expenses (incidental expenses)	346	173
Maintenance costs	953	1,130
IT services	916	896
Commissions paid	294	313
Other purchased services	1,029	1,311
	26,779	26,959
Materials expense	**28,641**	**30,488**

The increase in materials expense was a result of the expansion of the LOGISTICS and EXPRESS divisions' business activities, in particular in the Europe and Asia Pacific regions. The increase in the expense for goods purchased and held for resale relates to the procurement logistics for the NHS (see Note 9). An amount of €30 million of the expenses for materials related to TSO. Other purchased services include a number of individual items.

€m	2006	2007
Interest expense on liabilities	3,566	4,315
Interest expense on securitised liabilities	833	587
Interest expense on subordinated debt	253	280
Commission expense	214	244
Other interest expenses	842	961
Expenses from banking transactions	**5,708**	**6,387**

12 Staff costs/employees

€m	2006	2007
Wages, salaries and compensation	15,281	15,200
of which expenses for options under the stock option plans	29	14
of which expenses for SARs under the stock option plans	2	2
of which expenses from SAR Plan 2006/LTIP	14	21
Social security contributions	2,198	2,252
Retirement benefit expenses	1,137	1,019
Staff costs	**18,616**	**18,471**

Staff costs include an amount of €29 million relating to the acquisition of TSO.

Retirement benefit expenses include €560 million (previous year: €559 million) relating to contributions by Deutsche Post AG and €111 million (previous year: €111 million) relating to contributions by Deutsche Postbank AG to Bundes-Pensions-Service für Post und Telekommunikation e.V. Further details can be found in Note 6.

Staff costs relate mainly to wages, salaries and compensation, as well as all other benefits paid to employees of the Group for their services in the year under review. Social security contributions relate in particular to statutory social security contributions paid by employers.

Retirement benefit expenses relate to current and former employees or their surviving dependants. These expenses consist of additions to pension provisions, employer contributions to supplementary occupational pension plans and retirement benefit payments by employers for their employees.

The average number of employees of Deutsche Post World Net in the year under review, classified by employee group, was as follows:

	2006	2007
Hourly workers and salaried employees	440,203	459,162
Civil servants	62,560	61,172
Trainees	4,878	4,469
Employees	**507,641**	**524,803**

The number of full-time equivalents as at 31 December 2007 was 475,100 employees (31 December 2006: 463,350 employees). The employees of companies acquired or disposed of during the year under review were included ratably. The employees of the joint venture companies have been included proportionately.

13 Depreciation, amortisation and impairment losses

€m	2006	2007
Amortisation of intangible assets, excluding the impairment of goodwill	479	587
Depreciation of property, plant and equipment		
Land and buildings	285	508
Technical equipment and machinery	343	499
Other equipment, operating and office equipment, vehicle fleet	558	629
Aircraft	106	126
Advance payments	0	6
	1,292	1,768
Depreciation/amortisation of other non-current assets	0	2
	1,771	2,357
Impairment of goodwill	0	0
Depreciation, amortisation and impairment losses	**1,771**	**2,357**

Depreciation, amortisation and impairment losses include €612 million (previous year: €44 million) in respect of impairment write-downs. Of that amount, €97 million relates to intangible assets (previous year: €27 million) and €253 million to land and buildings (previous year: €17 million), whilst €262 million relates to the remaining property, plant and equipment. At segment level, the amounts of impairment write-downs were as follows:

Impairment 2007

€m	
MAIL	3
EXPRESS	596
LOGISTICS	13

In the EXPRESS Americas Division, intangible assets (excluding goodwill) were written down fully in an amount of €90 million whilst items of property, plant and equipment were written down in an amount of €504 million to their fair value less costs to sell.

14 Other operating expenses

€m	2006	2007
Public relations expenses	594	586
Travel and training costs	479	524
Legal, consulting and audit costs	498	516
Other business taxes	300	384
Warranty expenses, refunds and compensation payments	306	363
Allowance for losses on loans and advances from financial services (Deutsche Postbank Group)	337	338
Telecommunication costs	312	328
Cost of purchased cleaning, transportation and security services	254	305
Expenses from currency translation differences	272	266
Office supplies	239	257
Write-downs of current assets	253	227
Entertainment and corporate hospitality expenses	159	181
Cost of asset disposal	142	167
Insurance costs	128	139
Commissions paid	64	136
Voluntary social benefits	110	129
Services provided by the Federal Posts and Telecommunications Agency	79	76
Contributions and fees	41	50
Other property-related expenses	56	35
Monetary transaction costs	29	34
Prior-period other operating expenses	18	32
Donations	13	17
Expenses from non-hedging derivatives	30	4
Expenses from arbitration proceedings against Deutsche Telekom AG	10	0
Miscellaneous	35	99
Other operating expenses	**4,758**	**5,193**

The allowance for losses on loans and advances from financial services (Deutsche Postbank Group) includes a number of non-recurring effects (see Note 3).

Other operating expenses amounting to €26 million relate to TSO, which was consolidated for the first time in 2007. Miscellaneous other operating expenses include a number of individual items.

Taxes other than income taxes are either recognised under the related expense item or, if no specific allocation is possible, under other operating expenses. The rise in other business taxes was attributable to an increase in additions to provisions recognised by Deutsche Post AG.

15 Net income from associates

Investments in companies on which a significant influence can be exercised and which are accounted for using the equity method contributed €3 million (previous year: €4 million) to net financial income.

16 Net other finance costs

€m	2006	2007
Financial income		
Interest income	63	69
Income from other equity investments and financial instruments	13	21
Income from currency translation differences	81	438
Other financial income	41	470
	198	**998**
Finance costs		
Interest expenses	–1,040	–1,055
of which interest cost on discounted provisions for pensions and other provisions	–704	–723
Cost of loss absorption	0	–1
Write-downs on financial instruments	–11	–2
Expenses from currency translation differences	–95	–576
Other finance costs	–86	–377
	–1,232	**–2,011**
Net other finance costs	**–1,034**	**–1,013**

Income and expenses from the Deutsche Postbank Group's banking transactions are not recognised under net other finance costs. Whilst income – in particular in the form of interest, fee and commission income as well as income from equities and securities – is recognised under revenue and income from banking transactions (see Note 9), expenses – in particular interest, fee and commission expenses – are carried under materials expense and expenses from banking transactions (see Note 11). The increases in income and expenses from currency translation differences and in other financial income and other finance costs were primarily due to changes in the hedging procedures for foreign currencies.

17 Income taxes

€m	2006	2007
Current income tax expense	–338	–453
Current recoverable income tax	62	10
	–276	**–443**
Deferred tax income (previous year: tax expense) from temporary differences	–221	183
Deferred tax expense from the reduction in deferred tax assets from tax loss carryforwards	–63	–47
	–284	**136**
Income tax expense	**–560**	**–307**

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 to effective income tax expense

€m	2006	2007
Consolidated net profit before income taxes	2,842	2,192
Expected income tax expense	1,134	875
Deferred tax assets from temporary differences not recognised for		
Initial differences	–483	–735
Restructuring provisions	–70	0
Deferred tax assets of German Group companies not recognised for tax loss carryforwards	139	376
Deferred tax assets of foreign Group companies not recognised for tax loss carryforwards	440	98
Changes in tax rates at German Group companies	0	–188
Effect of current taxes from previous years	–31	68
Tax-exempt income and non-deductible expenses, effects from Section 8b KStG (German corporate income tax act)	–503	–83
Differences in tax rates at foreign companies	–50	–103
Other	–16	–1
Effective income tax expense	**560**	**307**

The difference between the expected and the effective income tax expense is due in particular to temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG resulting from initial differences in the opening tax accounts as at 1 January 1995. In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognise any deferred tax assets on these temporary differences, which relate mainly to property, plant and equipment as well as to provisions for pensions and other employee benefits.

The remaining temporary differences between the carrying amounts in the IFRS financial statements and in the opening tax accounts amount to €3.4 billion as at 31 December 2007 (previous year: €5.2 billion). The effects from deferred tax assets not recognised on tax loss carryforwards relate primarily to Deutsche Post AG and members of its consolidated tax group. Effects from deferred tax assets not recognised on tax loss carryforwards in respect of foreign companies relate primarily to the Americas region.

Effects from deferred tax assets not recognised amounting to €122 million (previous year: €–40 million) were due to the reversal of a write-down of deferred tax assets recognised in a prior period. The income tax expense was reduced by an amount of €51 million (previous year: €44 million) as a result of the utilisation of tax losses not previously reflected in the financial statements.

The change in the tax rate applying to German Group companies relates to the effects of the 2008 corporate tax reform. As the amount of deferred tax liabilities reported by German Group companies is considerably higher than the amount of deferred tax assets reported, remeasurement in financial year 2007 resulted in a tax benefit of around €188 million. The change in the tax rate in some foreign tax jurisdictions did not lead to any significant effects. The effects from Section 8b *Körperschaftssteuergesetz* (KStG – German corporate income tax act) relate primarily to the special funds, shares and equity investments of the Deutsche Postbank Group.

18 Consolidated net profit for the period

In financial year 2007, Deutsche Post World Net generated a consolidated net profit for the period of €1,885 million (previous year: €2,282 million). Of this amount, €1,389 million (previous year: €1,916 million) is attributable to Deutsche Post AG shareholders.

19 Minorities

The net profit of €496 million attributable to minorities increased by €130 million year-on-year.

20 Earnings per share

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share) by dividing consolidated net profit by the average number of shares. Basic earnings per share for financial year 2007 were €1.15 (previous year: €1.60).

	2006	2007
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	1,916	1,389
Weighted average number of shares outstanding	1,196,244,814	1,205,101,455
Basic earnings per share (€)	1.60	1.15

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of all potentially dilutive shares. There were 13,184,482 stock options for executives as at the reporting date (previous year: 21,823,394), of which 2,489,720 were dilutive (previous year: 3,395,362).

	2006	2007
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	1,916	1,389
Weighted average number of shares outstanding	1,196,244,814	1,205,101,455
Potentially dilutive shares	3,395,362	2,489,720
Weighted average number of shares for diluted net income	1,199,640,176	1,207,591,175
Diluted earnings per share (€)	1.60	1.15

21 Dividend per share

A dividend per share of €0.90 is being proposed for financial year 2007. Based on the 1,207,470,598 shares recorded in the commercial register as at 31 December 2007, this corresponds to a dividend distribution of €1,087 million. Further details on the dividend distribution can be found in Note 38.

Balance Sheet Disclosures

22 Intangible assets

22.1 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 2006	1,020	540	576	1,490	11,060	273	14,959
Additions to consolidated group	29	345	485	70	1,031	52	2,012
Additions	137	0	0	387	98	150	772
Reclassifications	130	0	0	267	0	–259	138
Disposals	–120	0	0	–352	–159	–84	–715
Reclassification to current assets	0	0	0	–1	0	0	–1
Currency translation differences	–11	13	–21	–33	–287	–2	–341
Balance at 31 December 2006/ 1 January 2007	**1,185**	**898**	**1,040**	**1,828**	**11,743**	**130**	**16,824**
Additions to consolidated group	0	11	78	5	296	0	390
Additions	136	0	0	114	121	101	472
Reclassifications	16	0	0	13	0	–39	–10
Disposals	–27	0	–70	–147	–1	–36	–281
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	–12	–51	–62	–40	–389	–3	–557
Balance at 31 December 2007	**1,298**	**858**	**986**	**1,773**	**11,770**	**153**	**16,838**
Amortisation and impairment losses/ reversals							
Balance at 1 January 2006	533	0	0	866	440	94	1,933
Additions to consolidated group	1	0	0	7	0	0	8
Amortisation	106	0	89	257	0	0	452
Impairment losses	27	0	0	0	0	0	27
Reclassifications	18	0	0	–16	0	0	2
Disposals	–97	0	0	–56	0	–75	–228
Currency translation differences	–6	0	–1	–14	0	–1	–22
Balance at 31 December 2006/ 1 January 2007	**582**	**0**	**88**	**1,044**	**440**	**18**	**2,172**
Additions to consolidated group	0	0	0	2	0	0	2
Amortisation	146	0	83	261	0	0	490
Impairment losses	54	0	0	30	0	13	97
Reclassifications	–8	0	0	8	0	0	0
Disposals	–10	0	0	–105	0	0	–115
Currency translation differences	–5	0	7	–35	0	–1	–34
Balance at 31 December 2007	**759**	**0**	**178**	**1,205**	**440**	**30**	**2,612**
Carrying amount at 31 December 2007	**539**	**858**	**808**	**568**	**11,330**	**123**	**14,226**
Carrying amount at 31 December 2006	603	898	952	784	11,303	112	14,652

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.

Purchased customer lists of €402 million relate to Exel (previous year: €494 million), €188 million to Williams Lea (previous year: €220 million) and €156 million to BHW (previous year: €238 million). The brand names relate primarily to Exel (€504 million; previous year: €552 million), Williams Lea (€24 million; previous year: €27 million) and BHW (€319 million, unchanged from previous year).

The increase in goodwill (at the date of acquisition) related to TSO in the MAIL Division in an amount of €139 million, and to Astar in the EXPRESS Division in an amount of €78 million. The decline in the carrying amount of goodwill in the LOGISTICS Division is mainly the result of currency translation differences.

22.2 Allocation of goodwill to cash-generating units

Cash-generating units (CGUs)

€m

Total goodwill: 11,330[1]
(previous year: 11,303)

	MAIL	EXPRESS	LOGISTICS	FINANCIAL SERVICES
Segment level/group of CGUs	MAIL	EXPRESS 3,912 (previous year: 3,823)	LOGISTICS 461 (previous year: 461)	FINANCIAL SERVICES
CGU level	MAIL National 30 (previous year: 30)		DHL Global Forwarding 3,063 (previous year: 3,134)	FINANCIAL SERVICES 639 (previous year: 634)
	MAIL International 1,137 (previous year: 1,011)		DHL Exel Supply Chain 1,949 (previous year: 2,071)	
			DHL Freight Europe 253 (previous year: 253)	

1) Goodwill from reconciliation amounts to €–114 million (previous year: €–114 million).

For the purposes of the impairment test carried out annually 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 flow that are first 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 management's adopted detailed budgets for EBIT and capital expenditure with a three-year planning horizon. The perpetual annuity is determined using a long-term growth rate of up to 3%. The growth rate used reflects expectations regarding industry growth for the CGUs, but does not exceed the estimated long-term growth rate for the countries with the highest contribution to earnings in the relevant CGUs. The cash flow forecasts are based on both historical amounts and the anticipated future general market trend. In addition, the forecasts take into account growth in the respective national business operations and in international trade, and the ongoing trend towards outsourcing logistics activities. Cost estimates for the transportation network and services also have an impact on value in use.

The pre-tax cost of capital is based on the weighted average cost of capital. The following table shows the discount rates used for the individual CGUs:

Discount rates

%	2006	2007
LOGISTICS		
DHL Exel Supply Chain	9.0	10.4
Freight Europe	n/a	11.1
DHL Global Forwarding	9.7	10.8
MAIL		
International	10.4	10.9
National	9.9	11.5
EXPRESS	9.6	9.9

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 of the CGUs exceeded their carrying amounts in every case. No impairment write-downs were therefore necessary.

The recoverable amount of the DHL Exel Supply Chain CGU exceeds its carrying amount by around 1%. If the discount rate were increased by 5% or the sustainable EBIT margin reduced by 5% to 3.9%, an impairment write-down of around €300 million would have to be recognised in each case.

23 Property, plant and equipment

23.1 Overview

€m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Aircraft	Vehicle fleet and transport equipment	Advance payments, assets under development	Total
Cost							
Balance at 1 January 2006	7,889	4,249	3,182	1,211	1,916	112	18,559
Additions to consolidated group	227	36	143	0	25	4	435
Additions	319	119	285	41	306	187	1,257
Reclassifications	–109	–195	174	67	50	–60	–73
Disposals	–672	–215	–423	–13	–284	–59	–1,666
Reclassification to current assets	–8	0	0	0	0	0	–8
Currency translation differences	–67	–93	–55	–24	–7	–2	–248
Balance at 31 December 2006/ 1 January 2007	**7,579**	**3,901**	**3,306**	**1,282**	**2,006**	**182**	**18,256**
Additions to consolidated group	42	31	38	56	9	2	178
Additions	358	346	412	117	277	349	1,859
Reclassifications	–75	60	34	–7	14	–137	–111
Disposals	–521	–170	–291	–55	–219	–84	–1,340
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	–115	–92	–68	–26	–41	–7	–349
Balance at 31 December 2007	**7,268**	**4,076**	**3,431**	**1,367**	**2,046**	**305**	**18,493**
Depreciation and impairment losses							
Balance at 1 January 2006	2,215	2,756	2,341	292	1,047	0	8,651
Additions to consolidated group	21	22	37	0	28	1	109
Depreciation	268	343	365	106	193	0	1,275
Impairment losses	17	0	0	0	0	0	17
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	175	–297	93	0	36	–9	–2
Disposals	–320	–191	–318	–11	–233	0	–1,073
Reclassification to current assets	–1	0	0	0	0	0	–1
Currency translation differences	–19	–41	–40	–3	–5	0	–108
Balance at 31 December 2006/ 1 January 2007	**2,356**	**2,592**	**2,478**	**384**	**1,066**	**–8**	**8,868**
Additions to consolidated group	19	22	26	15	4	0	86
Depreciation	255	309	362	126	201	0	1,253
Impairment losses	253	190	47	0	19	6	515
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	–57	33	–5	–7	–2	–1	–39
Disposals	–206	–126	–254	–25	–167	0	–778
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	–37	–47	–50	–10	–22	0	–166
Balance at 31 December 2007	**2,583**	**2,973**	**2,604**	**483**	**1,099**	**–3**	**9,739**
Carrying amount at 31 December 2007	**4,685**	**1,103**	**827**	**884**	**947**	**308**	**8,754**
Carrying amount at 31 December 2006	5,223	1,309	828	898	940	190	9,388

Advance payments relate only to advance payments on items of property, plant and equipment where Deutsche Post World Net has paid advances in connection with uncompleted transactions. Assets under development relate to items of property, plant and equipment in progress at the balance sheet date for whose production internal or third-party costs have already been incurred. Items of property, plant and equipment pledged as collateral amount to less than €1 million (previous year: €5 million).

23.2 Finance leases

The following assets are carried as non-current assets resulting from finance leases:

€m	2006	2007
Intangible assets	4	2
Land and buildings	52	52
Technical equipment and machinery	45	35
Other equipment, operating and office equipment	61	122
Aircraft	633	491
Vehicle fleet and transport equipment	13	7
Finance leases	**808**	**709**

The corresponding liabilities from finance leases are included under financial liabilities (see Note 42).

24 Investment property

€m	2006	2007
Cost		
Balance at 1 January	143	157
Additions to consolidated group	0	0
Additions	0	20
Reclassifications	19	122
Disposals	–5	–37
Reclassification to current assets	0	0
Currency translation differences	0	–2
Balance at 31 December	**157**	**260**
Impairment losses		
Balance at 1 January	36	35
Additions to consolidated group	0	0
Impairment losses	1	2
Changes in fair value	0	0
Reclassifications	0	39
Disposals	–2	–3
Reclassification to current assets	0	0
Currency translation differences	0	0
Balance at 31 December	**35**	**73**
Carrying amount at 31 December	**122**	**187**

€99 million (previous year: €31 million) of investment property relates to Deutsche Post AG and €73 million (previous year: €72 million) to the Deutsche Postbank Group. Rental income for this property amounted to €9 million (previous year: €2 million), whilst the related expenses were also €9 million (previous year: €3 million). The fair value amounted to €187 million.

25 Non-current financial assets

€m	2006	2007
Investments in associates	63	203
Other non-current financial assets		
Available for sale	805	743
Loans	126	114
Non-current financial assets	**994**	**1,060**

Write-downs amounting to €4 million (previous year: €8 million) were included in the income statement.

Compared with the market rates of interest prevailing at 31 December 2007 for comparable 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 €19 million (previous year: €17 million). The principal amount of these loans totals €27 million (previous year: €25 million). As in the previous year, investments in associates and other investees were not subject to restraints on disposal.

26 Other non-current assets

€m	2006	2007
Pension assets	196	247
Derivatives	35	27
Sureties provided	13	33
Miscellaneous	132	190
Other non-current assets	**376**	**497**

The derivatives – interest rate swaps/fair value hedges – relate to bonds issued by Deutsche Post Finance, the Netherlands, and were entered into with external banks. Further information on pension assets can be found in Note 40.

27 Deferred taxes

€m	2006	2007
Deferred tax assets for tax loss carryforwards	270	227
Deferred tax assets for temporary differences	272	793
	542	**1,020**
Deferred tax liabilities for temporary differences	1,426	1,569

No deferred tax assets were recognised for tax loss carryforwards of around €11.7 billion (previous year: €10.3 billion) and for temporary differences of around €1.2 billion (previous year: €1.9 billion), as it can be assumed that the Group will not be able to use these tax loss carryforwards and temporary differences within the framework of tax planning. It will be possible to utilise these tax loss carryforwards for an indefinite period of time. Most of the loss carryforwards are attributable to Deutsche Post AG. Deferred taxes have not been recognised for temporary differences of €468 million (previous year: €380 million) relating to earnings of German and foreign subsidiaries because it is probable that these temporary differences will not reverse in the foreseeable future.

Deferred tax assets for tax loss carryforwards

€m	2006	2007
Deferred taxes for German tax loss carryforwards		
Corporation tax and solidarity surcharge	111	80
Trade tax	95	70
Deferred taxes for foreign tax loss carryforwards	64	77
	270	**227**

Maturity structure of deferred tax assets for tax loss carryforwards

€m	2006	2007
Less than 1 year	48	10
1 to 2 years	42	9
2 to 3 years	111	86
3 to 4 years	15	84
4 to 5 years	18	4
More than 5 years	36	34
	270	**227**

Maturity structure of deferred tax assets and liabilities for temporary differences

€m	2006		2007	
	Assets	Liabilities	Assets	Liabilities
Less than 1 year	61	141	220	12
1 to 2 years	35	18	67	18
2 to 3 years	26	4	38	7
3 to 4 years	12	90	20	417
4 to 5 years	19	903	285	542
More than 5 years	119	270	163	573
	272	**1,426**	**793**	**1,569**

The following deferred tax assets and liabilities for temporary differences result from differences in the carrying amounts of individual balance sheet items:

Deferred taxes for temporary differences

€m	2006		2007	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	58	727	72	701
Property, plant and equipment	24	71	17	75
Non-current financial assets	0	1	26	0
Other non-current assets	3	117	14	37
Current assets				
Receivables and other securities from financial services	139	1,965	394	2,205
Other current assets	203	49	143	10
Provisions	367	27	434	131
Financial liabilities	25	0	4	0
Liabilities from financial services	1,154	83	1,653	97
Other liabilities	20	107	31	313
	1,993	**3,147**	**2,788**	**3,569**
Balance of deferred tax assets and liabilities				
of which for tax loss carryforwards	0	0	0	–5
of which for temporary differences	–1,721	–1,721	–1,995	–1,995
Carrying amount	**272**	**1,426**	**793**	**1,569**

28 Inventories

Standard costs for inventories of postage stamps and spare parts in freight centres amounted to €12 million (previous year: €14 million). There was no requirement to charge significant valuation allowances on these inventories.

€m	2006	2007
Finished goods and goods purchased and held for resale	120	59
Spare parts for aircraft	2	6
Raw materials and supplies	117	164
Work in progress	28	18
Advance payments	1	1
Inventories	**268**	**248**

29 Income tax assets and liabilities

All income tax assets are current and have maturities of less than one year.

€m	2006	2007
Income tax assets	281	312
Income tax liabilities	101	139

30 Receivables and other assets

€m	2006	2007
Trade receivables	6,395	6,377
Prepaid expenses	990	1,038
Deferred revenue	403	558
Current tax receivables	389	461
Receivables from sales of assets	5	196
Income from cost absorption	47	83
Creditors with debit balances	51	63
Receivables from Group companies	80	53
Current derivatives	57	52
Receivables from insurance business	13	32
Receivables from employees	52	30
Land rights	15	22
Receivables from loss compensation (recourse claims)	10	19
Receivables from cash-on-delivery	28	18
Rent receivables	16	17
Receivables from residential housing construction pools	14	14
Receivables from BAnstPT (Federal Posts and Telecommunications Agency)	4	0
Receivables from private postal agencies	2	7
Miscellaneous other assets	735	766
Receivables and other assets[1]	**9,306**	**9,806**

1) Prior period amount restated, see Note 4.

€317 million of the tax receivables (previous year: €262 million) relates to VAT, €60 million (previous year: €36 million) to customs and duties, and €84 million (previous year: €91 million) to other tax receivables. Miscellaneous other assets include a large number of individual items. Further information on derivatives can be found in Note 48.2 ff.

31 Receivables and other securities from financial services

€m	2006	2007
Loans and advances to other banks		
Loans and advances to other banks (loans and receivables)	16,350	24,581
of which fair value hedges: 1,516 (previous year: 2,136)		
Loans and advances to customers		
of which secured by mortgage charges: 50,372 (previous year: 45,565)		
Loans and advances to customers (loans and receivables)	80,425	84,133
of which fair value hedges: 1,356 (previous year: 1,500)		
Loans and advances to customers (held to maturity)	518	456
Loans and advances to customers (fair value option)	6,181	7,110
	87,124	**91,699**
Allowance for losses on loans and advances		
Loans and advances to other banks	0	0
Loans and advances to customers	–1,155	–1,154
	–1,155	**–1,154**
Trading assets		
Bonds and other fixed-income securities	9,755	4,139
Held-for-trading building loans held for sale	208	209
Equities and other non-fixed-income securities	28	161
Positive fair value of trading derivatives	2,942	5,155
Positive fair value of banking book derivatives	276	131
Positive fair value of derivatives in connection with underlyings relating to the fair value option	71	141
	13,280	**9,936**
Hedging derivatives (positive fair values)		
Assets	300	265
Liabilities	185	156
	485	**421**
Investment securities		
Bonds and other fixed-income securities		
Investment securities (loans and receivables)	19,031	26,600
of which fair value hedges: 5,447 (previous year: 5,369)		
Held to maturity	4,956	730
Available for sale	33,379	38,755
of which fair value hedges: 14,633 (previous year: 15,770)		
	57,366	**66,085**
Equities and other non-fixed-income securities		
Available for sale	5,830	2,418
	63,196	**68,503**
Receivables and other securities from financial services	**179,280**	**193,986**

Receivables and other securities from financial services relate exclusively to the Deutsche Postbank Group. Of the loans and advances to customers, €3,546 million is attributable to public-sector loans (previous year: €5,444 million), and €64,781 million to private building finance (previous year: €59,148 million). The allowance for losses on loans and advances covers all identifiable credit risks. Portfolio-based valuation allowances were recognised for the potential credit risk. €31 million (previous year: €27 million) of nonperforming loans and advances was written off directly and charged to income in the year under review. Recoveries on loans previously written off amounted to €11 million (previous year: €14 million).

Trading assets relate to trading in bonds and other fixed-income securities, equities and other non-fixed-income securities, foreign currencies, as well as derivatives that do not satisfy the IAS 39 criteria for hedge accounting. €4,109 million (previous year: €9,720 million) of the bonds and other fixed-income securities and €161 million (previous year: €28 million) of the equities and other non-fixed-income securities relate to securities listed on a stock exchange.

€65,649 million (previous year: €59,951 million) of the investment securities relates to listed securities. Changes in the fair value of unhedged available-for-sale securities were charged to the revaluation reserve in the amount of €–515 million (previous year: €–125 million). €24 million (previous year: €177 million) reported in the revaluation reserve was reversed to income in the period under review as a result of the disposal of investment securities and the recognition of impairment losses.

Postbank issued letters of pledge to the European Central Bank for securities with a lending value of €23 billion (previous year: €15 billion) for open market operations. Open market operations at the balance sheet date amounted to €15 billion (previous year: €10 billion). The securities deposited as collateral continue to be reported as non-current financial assets.

Impairment losses of €130 million (previous year: €128 million) were recognised in financial year 2007 to reflect developments in the values of financial instruments (see Note 3). Of this amount, €112 million relates to structured credit products and €18 million to write-downs in respect of retail funds.

31.1 Maturity structure

€m	Payable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	More than 5 years	Total
2007									
Loans and advances to other banks	1,601	14,071	2,038	1,624	772	679	1,846	1,950	24,581
Loans and advances to customers	2,931	10,413	8,586	7,177	5,852	6,627	7,085	43,028	91,699
Trading assets	1	1,002	1,568	1,691	456	346	301	4,571	9,936
Hedging derivatives	1	44	5	18	15	7	23	308	421
Investment securities	0	2,100	4,926	7,469	6,545	5,133	7,094	35,236	68,503
	4,534	**27,630**	**17,123**	**17,979**	**13,640**	**12,792**	**16,349**	**85,093**	**195,140**
2006									
Loans and advances to other banks	1,906	5,470	1,733	934	1,254	858	846	3,349	16,350
Loans and advances to customers	2,193	5,719	8,340	8,429	8,976	7,129	10,050	36,288	87,124
Trading assets	0	643	827	6,817	1,365	568	708	2,352	13,280
Hedging derivatives	0	63	15	11	22	31	21	322	485
Investment securities	46	1,845	5,714	4,484	5,127	4,594	5,540	35,846	63,196
	4,145	**13,740**	**16,629**	**20,675**	**16,744**	**13,180**	**17,165**	**78,157**	**180,435**

31.2 Allowance for losses on loans and advances

€m	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**
Balance at 1 January	732	1,090	44	65	776	1,155
Reclassification due to IFRS 7	0	–30	0	0	0	–30
Changes in consolidated group	267	0	2	0	269	0
Additions	384	415	19	19	403	434
Utilisation	–161	–236	0	0	–161	–236
Reversal	–100	–130	0	–1	–100	–131
Unwinding	–29	–34	0	0	–29	–34
Currency translation differences	–3	–4	0	0	–3	–4
Balance at 31 December	**1,090**	**1,071**	**65**	**83**	**1,155**	**1,154**

31.3 Hedging derivatives

Hedges with positive fair values that qualify for hedge accounting under IAS 39 are composed of the following items:

€m	Fair value hedges 2006	Fair value hedges 2007
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	8	11
Hedging derivatives on loans to customers		
Loans and receivables	11	13
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	281	241
	300	**265**
Liabilities		
Deposits from other banks	35	17
Amounts due to customers	41	14
Securitised liabilities	101	98
Subordinated debt	8	27
	185	**156**
Hedging derivatives	**485**	**421**

32 Financial instruments

Current financial instruments rose by €30 million year-on-year to €72 million primarily as a result of loans granted.

33 Cash and cash equivalents

€m	2006	2007
Cash	453	508
Money in transit	475	920
Bank balances	1,123	3,061
Cash equivalents	122	46
Other cash and cash equivalents	218	148
Cash and cash equivalents	**2,391**	**4,683**

34 Non-current assets held for sale and liabilities associated with non-current assets held for sale

The amounts reported under these items relate mainly to Deutsche Postbank AG's planned sale of the credit card and sales financing business of BHW Bank AG to Landesbank Berlin.

€m	Assets		Liabilities	
	2006	2007	2006	2007
Deutsche Postbank Group – BHW Bank's credit card and sales financing business	0	565	0	44
DHL Express (France) SAS – land/buildings	0	26	0	0
Deutsche Post AG – real estate	0	18	0	0
Other	0	6	0	0
Vfw AG, Germany	39	0	17	0
SCM Supply Chain Management Inc., Canada – land	16	0	0	0
DHL Express Denmark A/S, Denmark – buildings	1	0	0	0
Non-current assets held for sale and liabilities associated with non-current assets held for sale	**56**	**615**	**17**	**44**

The sale of the credit card and sales financing business of BHW Bank AG relates to the items receivables and other securities from financial services – of which loans and advances to customers accounted for €595 million and the allowance for losses on loans and advances for €–30 million – and liabilities from financial services (amounts due to customers).

35 Issued capital

35.1 Share capital

On 8 January 2007, 99.58% of the exchangeable bond on Deutsche Post AG shares issued by KfW in December 2003 was converted. The bond was issued in the amount of €1.15 billion and with a maturity date of 8 January 2007. The exchange placed approximately 55.8 million of the shares held by KfW Bankengruppe (KfW) – formerly Kreditanstalt für Wiederaufbau – onto the market. The conversion price per share was €20.54. The transaction reduced the number of Deutsche Post AG shares held by KfW to approximately 368.3 million shares. This figure equates to 30.5% of Deutsche Post AG's share capital. The transaction also increased the percentage of free-floating shares to 69.5%.

Number of shares	2006	2007
KfW	410,522,634	368,277,358
Free float	791,797,226	839,193,240
Share capital as at 31 December	**1,202,319,860**	**1,207,470,598**

35.2 Issued capital

The issued capital increased by €5.1 million in financial year 2007 from €1,202.3 million to €1,207.4 million. It is now composed of 1,207,470,598 no-par value registered shares (ordinary shares), with each individual share having a notional interest of €1 in the share capital. The increase in issued capital is attributable to the servicing of stock options from the Stock Option Plans 2000 and 2003.

€	2006	2007
As at 1 January	1,192,633,739,00	1,202,319,860,00
Exercise of options from 2002, 2003 and 2004 SOP tranches – contingent capital	9,686,121,00	5,150,738,00
As at 31 December	**1,202,319,860,00**	**1,207,470,598,00**

Capital as at 31 December 2007	Amount (€)	Purpose
2005 authorised capital	174,796,228.00	To increase share capital against non-cash contributions (until 17 May 2010)
Contingent Capital II	13,184,482.00	Executive Stock Option Plan 2003 (until 31 July 2005)
Contingent Capital III	56,000,000.00	Exercise of option/ conversion rights (until 5 May 2012)

In accordance with the resolution by the Annual General Meeting on 8 May 2007, the company's share capital has been contingently increased by up to a further €56 million through the issue of up to 56,000,000 new, no-par value registered shares (Contingent Capital III). This resolution supersedes the contingent capital resolution of 6 May 2004. Contingent Capital III was entered in the commercial register on 22 May 2007 (adjusted on 29 May 2007). Its purpose is to service warrant or conversion rights and obligations from bonds with warrants or convertible bonds and income bonds or a combination of these instruments, which may be issued or guaranteed by the company up to 5 May 2012. The aggregate principal amount of the instruments is €1 billion.

35.3 Authorisation to acquire own shares

By way of a resolution adopted by the Annual General Meeting on 8 May 2007, the company is authorised to acquire, until 31 October 2008, own shares amounting to up to a total of 10% of the share capital existing at the date the resolution is adopted. The authorisation permits the Board of Management to exercise it for every purpose authorised by law, particularly to pursue the goals mentioned in the resolution of the Annual General Meeting. Deutsche Post AG did not hold any own shares on 31 December 2007.

35.4 Disclosures on corporate capital (Postbank at equity)

The equity ratio stood at 31.4% in financial year 2007 (previous year: 31.6%). Corporate capital is controlled by the net gearing ratio which is defined as net debt divided by the total of equity and net debt. The ratio in 2007 was 20.3% (previous year: 21.4%). All ratios are based on Postbank being carried at equity.

€m	2006	2007
Aggregate financial liabilities	5,443	4,978
Less financial instruments	–42	–74
Less cash and cash equivalents	–1,761	–1,339
Less long-term deposits	–372	–456
Less financial liabilities to minority shareholders of Williams Lea	–185	–251
Net debt	3,083	2,858
Plus total equity	11,348	11,204
Total equity plus net debt	**14,431**	**14,062**
Net gearing ratio (%)	21.4	20.3

35.5 Share-based remuneration system for executives (Stock Option Plans 2000 and 2003)

In the 2000 Stock Option Plan (SOP), eligible participants were granted stock options in two annual tranches. Certain employees (Group management levels one to three and some specialists) were granted stock options for the first time on 15 March 2001 (Tranche 2001). The second tranche was issued on 1 July 2002 (Tranche 2002). On the basis of the SOP 2003 resolved by the Annual General Meeting on 5 June 2003, no further options will be granted under the previous plan. Options were granted under the new SOP for the first time on 1 August 2003 (Tranche 2003). The second tranche (Tranche 2004) was granted to executives on 1 July 2004. The third – and last – tranche under this plan (Tranche 2005) was granted on 1 July 2005.

In comparison with the SOP 2000, the SOP 2003 allows for a larger number of eligible participants and a change in the percentage distributions of the stock options amongst the different groups of eligible participants, in addition to an increase in the total stock options to be issued. The grant of stock options to members of the Board of Management and executives in Group management level two still requires eligible participants to invest in shares of Deutsche Post AG. Eligible participants in Group management levels three and four receive stock options without any requirement to buy shares.

Share-based remuneration system

Number	Stock options	Stock appreciation rights (SARs)[1]
Tranche 2001		
Board of Management	466,908	0
Other senior executives	5,070,576	345,432
Tranche 2002		
Board of Management	1,223,418	0
Other senior executives	9,082,620	446,934
Tranche 2003		
Board of Management	1,096,236	0
Other senior executives	11,953,356	731,736
Tranche 2004		
Board of Management	841,350	0
Other senior executives	8,486,946	1,116,374
Tranche 2005		
Board of Management	829,362	0
Other senior executives	9,233,310	1,216,320

1) Due to legal restrictions SARs were granted in some countries instead of stock options. The provision amounts to €5 million (previous year: €6 million).

The stock options issued under both stock option plans can only be exercised within a two-year period following the expiration of a lock-up period of three years after the relevant grant date. The options can only be exercised if the absolute or the relative performance targets have been satisfied at the end of the lock-up period. Unexercised options lapse after the end of the exercise period.

The average price or average index performance during two periods (reference period = exercise price; performance period = final price) is compared to establish whether and to what extent the performance targets have been satisfied. The reference period is the 20 consecutive trading days prior to the grant date. The performance period is the last 60 trading days before the end of the lock-up period. The average price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system.

The absolute performance target depends on the performance of Deutsche Post shares and is deemed to have been satisfied if the increase in the Deutsche Post share price exceeds 10, 15, 20, or 25% or more (expressed as the final price divided by the exercise price). The relative performance target is tied to the performance of the shares versus the performance of the Dow Jones EURO STOXX Total Return Index. The relative performance target is satisfied if the performance of Deutsche Post shares during the above-mentioned performance period matches the performance of the Index or outperforms it by at least 10%.

For every six options, a maximum of four may be earned on the basis of the absolute performance target, and a maximum of two on the basis of the relative performance target. The respective stock options of the tranche concerned lapse without compensation if the absolute or the relative performance targets are not satisfied by the end of the lock-up period.

Each option entitles the holder either to purchase one share in the company or to receive a cash settlement in the amount of the difference between the exercise price and the average price of Deutsche Post shares during the last five trading days prior to the exercise date, at the Board of Management's discretion.

Information on the individual tranches is presented in the following tables:

Stock options

	SOP 2000		SOP 2003		
	Tranche 2001	Tranche 2002	Tranche 2003	Tranche 2004	Tranche 2005
Grant date	15 March 2001	1 July 2002	1 August 2003	1 July 2004	1 July 2005
Stock options granted	5,537,484	10,306,038	13,049,592	9,328,296	10,062,672
SARs granted	345,432	446,934	731,736	1,116,374	1,216,320
Exercise price	€23.05	€14.10	€12.40	€17.00	€19.33
Lock-up expires	14 March 2004	30 June 2005	31 July 2006	30 June 2007	30 June 2008
Dividend yield Deutsche Post AG	–	–	2.55%	3.05%	3.22%
Dividend yield Dow Jones EURO STOXX Index	–	–	1.4%	1.7%	2.06%
Yield volatility of Deutsche Post AG share	–	–	39.3%	28.9%	17.07%
Yield volatility of Dow Jones EURO STOXX Index	–	–	32.1%	14.8%	10.10%
Number					
Outstanding stock options as at 1 January 2007	0	537,474	3,959,426	7,921,776	9,404,718
Outstanding SARs as at 1 January 2007	0	120,060	217,798	595,190	760,026
Options exercised	–	492,664	2,731,894	1,926,180	–
SARs exercised	–	120,060	100,674	117,964	–
Options lapsed	–	44,810	29,994	2,824,656	588,714
of which lapsed before end of the lock-up period	–	–	–	266,226	588,714
of which lapsed because performance targets not met	–	–	–	2,558,430	–
of which lapsed after end of lock-up period	–	44,810	29,994	–	–
SARs lapsed	–	0	0	209,246	64,950
of which lapsed before end of the lock-up period	–	–	–	16,284	64,950
of which lapsed because performance targets not met	–	–	–	192,962	–
of which lapsed after end of lock-up period	–	–	–	–	–
Outstanding stock options as at 31 December 2007	–	–	–	–	8,816,004
Outstanding SARs as at 31 December 2007	–	–	–	–	695,076
Exercisable stock options as at 31 December 2007	0	0	1,197,538	3,170,940	–
Exercisable SARs as at 31 December 2007	0	0	117,124	267,980	–

Unexercised options from Tranche 2001 lapsed without compensation following the expiration of the exercise period on 15 March 2006, those from Tranche 2002 on 1 July 2007.

Stock options outstanding on 31 December 2007 have an average remaining maturity of 2.08 years. The weighted average exercise price of the stock options from Tranches 2002, 2003 and 2004 exercised in the financial year is €14.28 (previous year: €12.86). These options were settled at the weighted average share price of €23.33 (previous year: €20.87).

Starting in financial year 2002, the SOP has been measured using investment techniques by applying option pricing models (fair value measurement). The expense of €16 million attributable to financial year 2007 (previous year: €31 million), comprising €14 million for the stock options (previous year: €29 million) and €2 million for the SARs (previous year: €2 million), was reported under staff costs.

35.6 2006 SAR Plan and Long-Term Incentive Plan for the Board of Management

The 2006 SAR Plan supersedes the 2003 SOP described above, under which options could last be issued in 2005. As at 3 July 2006, selected executives received stock appreciation rights (SARs) under the new plan. This gives executives the chance to receive a cash payment within a defined period in the amount of the difference between the respective closing price of Deutsche Post shares on the previous day and the fixed issue price, if demanding performance targets are met.

A successor plan was also launched for members of the Board of Management: Under the new Long-Term Incentive Plan (2006 LTIP), members were granted SARs for the first time as at 1 July 2006. The new plan is largely identical in nature to the previous stock option plan. The main difference is that it is paid out in cash and therefore no longer leads to dilution to the detriment of the shareholders. As previously, members of the Board of Management must invest in Deutsche Post shares to receive SARs. As with the former stock option plan, SARs may only be paid out under the 2006 LTIP at the earliest after the three-year lock-up period, and only if the demanding performance targets agreed have been met. Further details can be found in the Corporate Governance Report. The remuneration report contained in the Corporate Governance Report also forms part of the Notes.

The fair value of the 2006 SAR Plan and the 2006 LTIP was determined using a stochastic simulation model. This led to an expense of €20.8 million in financial year 2007 (previous year: €14 million), which was recorded in provisions. €2.5 million of this (previous year: €1.0 million) is attributable to the SARs granted to the Board of Management.

36 Other reserves

€m	2006	2007
Capital reserve	2,037	2,119
Revaluation reserve in accordance with IAS 39	36	–251
Hedging reserve in accordance with IAS 39	–94	–96
Currency translation reserve	–451	–897
Other reserves	**1,528**	**875**

36.1 Capital reserves

€m	2006	2007
Capital reserves as at 1 January	1,893	2,037
Additions		
of which exercise of stock options plans	115	68
of which issue of stock option plans	29	14
Capital reserves as at 31 December	**2,037**	**2,119**

The measurement of the 2000 and 2003 Stock Option Plans resulted in staff costs for the stock options in the amount of €14 million in financial year 2007 (previous year: €29 million); this amount was charged to capital reserves. Further details of the stock option plans can be found in Note 35.

36.2 Revaluation reserve in accordance with IAS 39

The revaluation reserve contains gains and losses from changes in the fair values of available-for-sale financial instruments that have been taken directly to equity. This reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value of the assets falls permanently below their cost.

€m	2006	2007
As at 1 January	220	36
Additions (+) / disposals (–)	–114	–439
Transfer to minority interest	–52	0
Deferred taxes recognised directly in equity	65	88
Changes in consolidated group	0	3
Reversed to income	–83	61
Revaluation reserve as at 31 December	**36**	**–251**

In financial year 2007, on the one hand available-for-sale financial instruments in the amount of €61 million (previous year: €–83 million) were reversed to income; on the other the reserve was reduced by €439 million (previous year: €114 million) as a result of the remeasurement of available-for-sale financial instruments. Further details can be found in Note 31. The revaluation reserve relates almost entirely to gains or losses on the fair value remeasurement of financial instruments of the Deutsche Postbank Group.

36.3 Hedging reserve

The hedging reserve is adjusted by the effective portion of a cash flow hedge. The hedging reserve is released to income when the hedged item is settled.

€m	2006	2007
As at 1 January	–51	–94
Additions	–40	–42
Disposals	–3	40
Hedging reserve as at 31 December	**–94**	**–96**

The change in the hedging reserve is mainly the result of the increase in unrealised losses and of hedging future operating foreign currency transactions. In the financial year, unrealised losses of €38 million were taken from the hedging reserve and recognised in operating profit; €2 million were transferred from the hedging reserve to net finance cost/financial income.

36.4 Currency translation reserve

The change is due to the decrease in exchange rates for major foreign currencies.

€m	2006	2007
As at 1 January	–41	–451
Changes not recognised in income	–410	–446
Currency translation reserve as at 31 December	**–451**	**–897**

37 Retained earnings

Retained earnings contain the undistributed consolidated profits generated in prior periods. Changes in the reserves during the year under review are also presented in the statement of changes in equity.

€m	2006	2007
As at 1 January	7,410	8,490
Dividend payment	–836	–903
Consolidated net profit	1,916	1,389
Retained earnings as at 31 December	**8,490**	**8,976**

38 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in financial year 2007 amounted to €11,058 million (previous year: €11,220 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the unappropriated surplus of €1,338 million (previous year: €1,262 million) reported in the annual financial statements of Deutsche Post AG prepared in accordance with the German Commercial Code. The amount of €251 million remaining after deduction of the planned total dividend of €1,087 million will be transferred to the retained earnings of Deutsche Post AG. €903 million were distributed for financial year 2006 and €359 million were transferred to retained earnings. The dividend is tax-exempt for shareholders resident in Germany. No capital gains tax (investment income tax) will be withheld on the distribution.

39 Minority interest

Minority interest includes adjustments for the interests of non-Group shareholders in the consolidated equity from acquisition accounting, as well as their interests in profit and loss. The interests relate primarily to the following companies:

€m	2006	2007
Deutsche Postbank Group	2,604	2,656
DHL Sinotrans	63	60
Other companies	65	85
Minority interest	**2,732**	**2,801**

40 Provisions for pensions and other employee benefits

The following information on pension obligations is broken down into the following areas: Germany (excluding Postbank), UK (excluding Postbank), Other (excluding Postbank) and the Deutsche Postbank Group.

40.1 Provisions for pensions and other employee benefits by area

€m	Germany	UK	Other	Deutsche Postbank Group	Total
31 December 2007					
Provisions for pensions and other employee benefits	4,383	267	196	1,143	5,989
Pension assets	0	–127	–120	0	–247
Net pension provisions	**4,383**	**140**	**76**	**1,143**	**5,742**
31 December 2006					
Provisions for pensions and other employee benefits	4,524	296	199	1,115	6,134
Pension assets	0	–122	–74	0	–196
Net pension provisions	**4,524**	**174**	**125**	**1,115**	**5,938**

40.2 Actuarial assumptions

The majority of the Group's defined benefit obligations relate to plans in Germany and the UK. In addition, significant pension plans are provided in other euro zone countries, Switzerland and the US. The actuarial measurement of the main benefit plans was based on the following assumptions:

%	Germany	UK	Other euro zone	Switzerland	US
2007					
Discount rate	5.50	5.75	5.50	3.25	6.00
Future salary increase	2.50	3.00–4.75	2.00–4.00	3.00	3.75
Future inflation rate	2.00	3.25	2.00	1.50	2.50
2006					
Discount rate	4.50	5.00	4.50	3.00	5.75
Future salary increase	2.50–3.00	3.75–4.50	2.00–4.00	3.00	4.00
Future inflation rate	2.00	3.00	2.00	1.50	2.75

For the German Group companies, longevity was calculated using the mortality tables Richttafeln 2005 G published by Klaus Heubeck. For the British benefit plans longevity was based on the mortality rates used in the last funding valuation. These are based on mortality analyses specific to the plan and include a premium for an expected increase in future life expectancy. Other countries used their own mortality tables.

40.3 Computation of expenses for the period

The following average expected return on plan assets was used to compute the expenses for the period:

%	Germany	UK	Other euro zone	Switzerland	US
31 December 2007					
Average expected return on plan assets	3.25–4.25	4.50–7.25	5.00–7.00	4.25	7.50
31 December 2006					
Average expected return on plan assets	3.00–4.25	6.50–7.00	4.25–6.50	4.25	8.00–8.50

The expected return on plan assets was determined by taking into account current long-term rates of return on bonds (government and corporate) and then applying to these rates a suitable risk premium for other asset classes based on historical market returns and current market expectations.

40.4 Reconciliation of the present value of the obligations, the fair value of plan assets and the pension provision

€m	Germany	UK	Other	Deutsche Postbank Group	Total
2007					
Present value of defined benefit obligations at 31 December for wholly or partly funded benefits	3,686	3,743	1,250	698	9,377
Present value of defined benefit obligations at 31 December for unfunded benefits	3,237	9	177	729	4,152
Present value of total defined benefit obligations at 31 December	6,923	3,752	1,427	1,427	13,529
Fair value of plan assets at 31 December	–1,914	–4,048	–1,418	–392	–7,772
Unrecognised net gains (+)/losses (–)	–622	435	26	108	–53
Unrecognised past service cost	–4	0	0	0	–4
Asset adjustment for asset limit	0	1	41	0	42
Net pension provisions at 31 December	4,383	140	76	1,143	5,742
Pension assets at 31 December	0	–127	–120	0	–247
Provisions for pensions and other employee benefits at 31 December	**4,383**	**267**	**196**	**1,143**	**5,989**
2006					
Present value of defined benefit obligations at 31 December for wholly or partly funded benefits	4,150	4,198	1,340	773	10,461
Present value of defined benefit obligations at 31 December for unfunded benefits	3,749	0	171	824	4,744
Present value of total defined benefit obligations at 31 December	7,899	4,198	1,511	1,597	15,205
Fair value of plan assets at 31 December	–1,852	–4,177	–1,374	–381	–7,784
Unrecognised net gains (+)/losses (–)	–1,518	152	–48	–101	–1,515
Unrecognised past service cost	–5	0	0	0	–5
Asset adjustment for asset limit	0	1	36	0	37
Net pension provisions at 31 December	4,524	174	125	1,115	5,938
Pension assets at 31 December	0	–122	–74	0	–196
Provisions for pensions and other employee benefits at 31 December	**4,524**	**296**	**199**	**1,115**	**6,134**

The most significant changes to pension obligations during 2007 relate to the acquisition of TSO (net pension provisions of €11 million, defined benefit obligations of €37 million, fair value of plan assets of €26 million).

40.5 Changes in the present value of the defined benefit obligations

€m	Germany	UK	Other	Deutsche Postbank Group	Total
2007					
Present value of total defined benefit obligations at 1 January	7,899	4,198	1,511	1,597	15,205
Current service cost, excluding employee contributions	105	102	58	34	299
Employee contributions	0	22	13	0	35
Interest cost	339	206	59	72	676
Benefit payments	–490	–194	–69	–71	–824
Past service cost	–40	1	4	–14	–49
Curtailments	–26	0	–43	0	–69
Settlements	0	0	–19	0	–19
Transfers	5	0	23	4	32
Acquisitions	2	37	6	16	61
Actuarial gains (–)/losses (+)	–871	–257	–76	–210	–1,414
Currency translation effects	0	–363	–40	–1	–404
Present value of total defined benefit obligations at 31 December	**6,923**	**3,752**	**1,427**	**1,427**	**13,529**
2006					
Present value of total defined benefit obligations at 1 January	8,051	4,096	1,520	834	14,501
Current service cost, excluding employee contributions	110	110	84	38	342
Employee contributions	0	24	15	0	39
Interest cost	326	197	58	68	649
Benefit payments	–499	–189	–63	–69	–820
Past service cost	22	–31	–5	1	–13
Curtailments	–20	–10	–16	0	–46
Settlements	0	0	–6	0	–6
Transfers	–52	0	–5	79	22
Acquisitions	0	19	0	726	745
Actuarial gains (–)/losses (+)	–39	–112	–31	–80	–262
Currency translation effects	0	94	–40	0	54
Present value of total defined benefit obligations at 31 December	**7,899**	**4,198**	**1,511**	**1,597**	**15,205**

40.6 Changes in the fair value of plan assets

€m	Germany	UK	Other	Deutsche Postbank Group	Total
2007					
Fair value of plan assets at 1 January	1,852	4,177	1,374	381	7,784
Employer contributions	200	67	45	16	328
Employee contributions	0	22	13	0	35
Expected return on plan assets	71	272	79	17	439
Gains (+) / losses (–) on plan assets	–10	62	–11	–7	34
Benefit payments	–199	–193	–53	–26	–471
Transfers	0	0	17	1	18
Acquisitions	0	26	0	11	37
Settlements	0	0	–12	0	–12
Currency translation effects	0	–385	–34	–1	–420
Fair value of plan assets at 31 December	**1,914**	**4,048**	**1,418**	**392**	**7,772**
2006					
Fair value of plan assets at 1 January	1,791	3,869	1,330	59	7,049
Employer contributions	217	40	60	16	333
Employee contributions	0	24	15	0	39
Expected return on plan assets	53	245	77	16	391
Gains (+) / losses (–) on plan assets	–1	80	–21	–1	57
Benefit payments	–208	–189	–47	–25	–469
Transfers	0	0	0	–2	–2
Acquisitions	0	17	0	316	333
Settlements	0	0	–5	0	–5
Currency translation effects	0	91	–35	2	58
Fair value of plan assets at 31 December	**1,852**	**4,177**	**1,374**	**381**	**7,784**

The plan assets are composed of fixed-income securities (32%; previous year: 29%), equities and investment funds (36%; previous year: 42%), real estate (16%; previous year: 16%), cash and cash equivalents (9%; previous year: 8%), insurance contracts (5%; previous year: 4%) and other assets (2%; previous year: 1%).

81% (previous year: 83%) of the real estate, which has a fair value of €1,040 million (previous year: €1,029 million), is owner-occupied by Deutsche Post AG.

40.7 Funded status

€m	2005	2006	2007
Present value of defined benefit obligations at 31 December	14,501	15,205	13,529
Fair value of plan assets at 31 December	–7,049	–7,784	–7,772
Funded status	**7,452**	**7,421**	**5,757**

40.8 Gains and losses

€m	2005	2006	2007
Actual return on plan assets	187	448	473
Expected return on plan assets	129	391	439
Experience gains (+) / losses (–) on plan assets	**58**	**57**	**34**

€m	2005	2006	2007
Experience gains (+) / losses (–) on defined benefit obligations	12	–226	116
Gains (+) / losses (–) in defined benefit obligations arising from changes in assumptions	–1,080	488	1,298
Total actuarial gains (+) / losses (–) on defined benefit obligations	**–1,068**	**262**	**1,414**

40.9 Changes in net pension provisions

€m	Germany	UK	Other	Deutsche Postbank Group	Total
2007					
Net pension provisions at 1 January	4,524	174	125	1,115	5,938
Pension expense	343	39	–1	81	462
Benefit payments	–291	–1	–16	–45	–353
Contributions to funds	–200	–67	–45	–16	–328
Acquisitions	2	11	6	5	24
Transfers	5	0	6	3	14
Currency translation effects	0	–16	1	0	–15
Net pension provisions at 31 December	**4,383**	**140**	**76**	**1,143**	**5,742**
2006					
Net pension provisions at 1 January	4,654	183	145	585	5,567
Pension expense	430	24	59	101	614
Benefit payments	–291	0	–16	–44	–351
Contributions to funds	–217	–40	–60	–16	–333
Acquisitions	0	2	0	410	412
Transfers	–52	0	–5	81	24
Currency translation effects	0	5	2	–2	5
Net pension provisions at 31 December	**4,524**	**174**	**125**	**1,115**	**5,938**

Payments amounting to €663 million are expected with regard to net pension provisions in 2008 (€353 million of this relates to the Group's expected direct benefit payments and €310 million to expected payments to pension funds).

40.10 Pension expense

€m	Germany	UK	Other	Deutsche Postbank Group	Total
2007					
Current service cost, excluding employee contributions	105	102	58	34	299
Interest cost	339	206	59	72	676
Expected return on plan assets	–71	–272	–79	–17	–439
Recognised past service cost	–39	1	4	–14	–48
Recognised actuarial gains (–) / losses (+)	42	2	–2	5	47
Effects of curtailments	–33	0	–39	0	–72
Effects of settlements	0	0	–8	1	–7
Effects of asset limit	0	0	6	0	6
Pension expense	**343**	**39**	**–1**	**81**	**462**
2006					
Current service cost, excluding employee contributions	110	110	84	38	342
Interest cost	326	197	58	68	649
Expected return on plan assets	–53	–245	–77	–16	–391
Recognised past service cost	23	–31	–5	1	–12
Recognised actuarial gains (–) / losses (+)	44	2	6	10	62
Effects of curtailments	–20	–10	–16	0	–46
Effects of settlements	0	0	0	0	0
Effects of asset limit	0	1	9	0	10
Pension expense	**430**	**24**	**59**	**101**	**614**

In accordance with IAS 19.92 actuarial gains and losses are recognised only to the extent that they exceed the greater of 10% of the present value of the obligations or of the fair value of plan assets. The excess amount is spread over the expected remaining working lives of the active employees and recognised in the income statement.

41 Other provisions

€m	2006	2007
Other non-current provisions	4,780	3,015
Other current provisions	1,656	1,703
Other provisions	**6,436[1)]**	**4,718**

1) Prior-period amount restated, see Note 4.

41.1 Changes in other provisions

€m	Other employee benefits	Technical reserves (insurance)	Postage stamps	Miscellaneous provisions	Total
As at 1 January 2007	1,694	2,059	500	2,183	6,436
Changes in consolidated group	53	–1,800	0	12	–1,735
Utilisation	–657	–241	–500	–904	–2,302
Currency translation differences	–15	–29	0	–33	–77
Reversal	–122	0	0	–104	–226
Interest cost added back	41	1	0	5	47
Reclassification	8	0	0	–3	5
Additions	652	499	500	919	2,570
As at 31 December 2007	**1,654**	**489**	**500**	**2,075**	**4,718**

Of the additions to provisions for other employee benefits amounting to €652 million, €136 million is attributable to Deutsche Post AG and €10 million to the Deutsche Postbank Group. This provision primarily covers workforce reduction expenses (severance payments, transitional benefits, partial retirement, etc.).

Technical reserves (insurance) mainly include unearned premiums and aggregate policy reserves for the insurance business of BHW Lebensversicherung AG, PB Lebensversicherung AG and PB Versicherung AG. The provisions were reduced to €489 million due to Deutsche Postbank Group selling the insurance companies.

The provision for postage stamps covers outstanding obligations to customers for mail and parcel deliveries from postage stamps sold but still unused by customers, and is based on studies by market research companies. It is measured at the nominal value of the stamps issued.

41.2 Miscellaneous provisions

€m	2006	2007
Provisions for the home savings business	727	710
Tax provisions	223	256
STAR restructuring provision	277	175
Risks from business activities	162	141
Postal Civil Service Health Insurance Fund	97	97
Litigation costs	68	84
Welfare benefits for civil servants	33	29
Staff-related provisions	27	25
Other provisions	569	558
Miscellaneous provisions	**2,183**	**2,075**

Provisions for BHW Bausparkasse AG's home savings business were recognised for the reimbursement of arrangement fees and for interest rate bonuses to be paid retroactively.

Of the tax provisions, €133 million (previous year: €61 million) are accounted for by VAT, €27 million (previous year: €52 million) by customs and duties and €96 million (previous year: €110 million) by other tax provisions.

The provisions for restructuring measures, which relate primarily to termination benefit obligations to employees (partial retirement programmes, transitional benefits) and expenses from the closure of terminals, were recognised as part of the Group-wide STAR value creation and integration programme.

Risks from business activities comprise obligations such as expected losses and warranty obligations.

Miscellaneous other provisions include a large number of individual items, none of which exceeds €30 million.

41.3 Maturity structure

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
2007							
Other employee benefits	377	349	191	187	135	415	1,654
Technical reserves (insurance)	144	81	19	17	16	212	489
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	682	554	221	149	115	354	2,075
	1,703	**984**	**431**	**353**	**266**	**981**	**4,718**
2006							
Other employee benefits	303	394	201	187	181	428	1,694
Technical reserves (insurance)	152	106	69	10	2	1,720	2,059
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	701	576	234	210	210	252	2,183
	1,656	**1,076**	**504**	**407**	**393**	**2,400**	**6,436**

42 Financial liabilities

Financial liabilities represent all interest-bearing obligations of Deutsche Post World Net not classified as liabilities from financial services.

€m	2006	2007
Non-current financial liabilities		
Bonds	1,794	1,950
Due to banks	455	616
Finance lease liabilities	711	551
Liabilities to Group companies	30	42
Other financial liabilities[1]	5,553	5,466
	8,543	**8,625**
Current financial liabilities		
Bonds	634	2
Due to banks	351	362
Finance lease liabilities	24	74
Liabilities to Group companies	28	23
Other financial liabilities	908	1,095
	1,945	**1,556**
Financial liabilities[1]	**10,488**	**10,181**

1) Prior-period amount restated, see Note 4.

The decline in current liabilities is caused by the fact that on 4 October 2007 the five-year, fixed-income bond issued in 2002 by Deutsche Post Finance B.V. was repaid from operating cash flows in a principal amount of €636 million.

42.1 Bonds

The following table contains further details on the company's bonds totalling €1,952 million (previous year: €2,428 million). The bonds issued by Deutsche Post Finance B.V. are fully guaranteed by Deutsche Post AG.

	Nominal coupon	Issue volume	Issuer	2006 Carrying amount €m	2006 Fair value €m	2007 Carrying amount €m	2007 Fair value €m
Bond 2002/2007	4.25%	€636 million	Deutsche Post Finance B.V.	634	637	0	0
Bond 2002/2012	5.125%	€679 million	Deutsche Post Finance B.V.	692	706	677	686
Bond 2003/2014	4.875%	€926 million	Deutsche Post Finance B.V.	960	948	952	916
Bond 2003	1.15%	US$230 million	DHL Holdings Inc., USA, via Kenton County Airport Board	142	142	129	129
Bond 2007	variable	US$270 million	Wilmington Airpark LLC, USA, via Dayton-Montgomery County Port	0	0	194	194
				2,428	**2,433**	**1,952**	**1,925**

In April 2007 an interest-subsidised municipal bond of US$270 million was issued by the Dayton-Montgomery County Port Authority to finance the Wilmington Airpark LLC hub in Ohio, USA. The bond is tax exempt with a term of 30 years.

42.2 Due to banks

The following table contains the terms and conditions of significant individual contracts reported under amounts due to banks (€978 million; previous year: €806 million):

Terms and conditions

	Interest rate	Term	2006 Carrying amount €m	2007 Carrying amount €m
Deutsche Post International B.V., Netherlands	4.923	Dec. 2011	125	112
Deutsche Post International B.V., Netherlands	3-month floater	June 2011	72	57
Deutsche Post International B.V., Netherlands	5.81	Feb. 2011	51	34
Deutsche Post AG, Germany	4.565	Dec. 2010	0	200
			248	**403**

The above-mentioned liabilities due to banks are fully guaranteed by Deutsche Post AG.

42.3 Liabilities from finance leases

Finance lease liabilities of €625 million (previous year: €735 million) mainly relate to the following items:

€m	Leasing partner	Interest rate	Maturity	Asset	2006	2007
DHL Operations B.V., Netherlands	Barclays Mercantile Business Financing Limited, London	3.745%	2027/2028	16 aircraft	419	382
Deutsche Post AG, Germany	T-Systems Enterprise Services GmbH, Deutschland	–	2011	IT equipment	46	33
DHL Networks Operations Corp., USA	Abx Air Inc., USA	7.55%	2010	59 aircraft	26	18

The leased assets are recognised in property, plant and equipment at carrying amounts of €709 million (previous year: €808 million). The difference between the carrying amounts and the liabilities results from longer economic useful lives of the assets compared with a shorter repayment period for the rental. The notional amount of the minimum lease payments totals €1,084 million.

€m	Present value	Notional amount
Less than 1 year	74	56
1 to 2 years	49	55
2 to 3 years	32	72
3 to 4 years	30	42
4 to 5 years	26	35
More than 5 years	414	824
Maturity structure of minimum lease payments in 2007	**625**	**1,084**

42.4 Other financial liabilities

€m		2006	2007
Subordinated debt	Deutsche Postbank Group	5,048	5,603
Loan from Deutsche-Post-Betriebsrenten-Service e.V.	Deutsche Post AG	0	347
Loan notes due to Exel's existing shareholders	Deutsche Post AG	164	126
Loan from Bundes-Pensions-Service für Post und Telekommunikation	Deutsche Post AG	800	42
Miscellaneous financial liabilities	Other Group companies	449	443
Other financial liabilities[1]		**6,461**	**6,561**

1) Prior-period amount restated, see Note 4.

Subordinated debt of Deutsche Postbank Group relates to subordinated liabilities, hybrid capital instruments, profit participation certificates outstanding and contributions by typical silent partners. Due to the current residual maturity structure, only €3,521 million (previous year: €3,354 million) of these items represents liable capital as defined by the Basel Capital Accord. A total of €2,006 million (previous year: €1,668 million) of the subordinated debt is hedged against changes in fair value. €4.1 billion (previous year: €4.2 billion) of the subordinated debt bears fixed interest rates, whilst €1.6 billion (previous year: €0.8 billion) bears floating rates of interest.

43 Other liabilities

€m	2006	2007
Other non-current liabilities[1]	237	361
Other current liabilities	4,938	5,101
Other liabilities[1]	**5,175**	**5,462**

1) Prior-period amount restated, see Note 4.

43.1 Breakdown of other liabilities

€m	2006	2007
Tax liabilities	774	841
Payable to employees and members of executive bodies	530	486
Deferred income	481	453
Compensated absences	406	420
Incentive bonuses	350	391
Wages, salaries, severance	288	312
Liabilities from the sale of residential building loans, of which non-current: 106 (previous year: 104)	251	234
Social security liabilities	171	223
Derivatives, of which long-term 97 (previous year: 67)	165	157
Overtime claims	89	98
COD liabilities	67	78
Debtors with credit balances	65	71
Liabilities to Group companies	69	69
Other compensated absences	61	65
Accrued interest	74	59
Liabilities from commissions and premiums	43	43
Insurance liabilities	34	41
Settlement offered to BHW minority shareholders	0	39
Accrued rentals	31	25
Liabilities for damages	14	18
Accrued insurance premiums for damages and similar liabilities	17	17
Early termination fees	15	15
Liabilities from cheques issued	19	8
Liabilities from defined contribution pension plans	6	5
Other liabilities to customers	23	5
Liabilities to Bundes-Pensions-Service für Post und Telekommunikation e.V.	9	4
Miscellaneous other liabilities	1,123	1,285
Other liabilities[1]	**5,175**	**5,462**

1) Prior-period amount restated, see Note 4.

Of the tax liabilities, €341 million (previous year: €316 million) are accounted for by VAT, €181 million (previous year: €209 million) by customs and duties and €319 million (previous year: €249 million) by 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.

Other liabilities include a large number of individual items. Further details on the derivatives can be found in Note 48.2.

43.2 Maturity structure

€m	2006	2007
Less than 1 year	4,938	5,101
1 to 2 years	49	128
2 to 3 years	24	20
3 to 4 years	20	30
4 to 5 years	28	36
More than 5 years	116	147
Maturity structure of other liabilities[1)]	**5,175**	**5,462**

1) Prior-period amount restated, see Note 4.

Short maturities or marking-to-market means that there are no significant differences between the carrying amounts and fair value of primary financial instruments. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

44 Income tax provisions

Income tax provisions, which relate mainly to Deutsche Post AG in the amount of €51 million (previous year: €51 million), whilst €121 million (previous year: €82 million) relates to the Deutsche Postbank Group, developed as follows:

€m	2006	2007
As at 1 January	394	237
Changes in consolidated group	42	–8
Utilisation	–250	–318
Reclassification	–25	2
Reversal	–24	–13
Currency translation differences	–6	–6
Additions	106	440
As at 31 December	**237**	**334**

45 Trade payables

€930 million of the trade payables amounting to €5,384 million (previous year: €5,069 million) relate to Deutsche Post AG (previous year: €937 million). Trade payables primarily have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

46 Liabilities from financial services

€m	2006	2007
Deposits from other banks		
of which payable on demand: 3,292 (previous year: 2,719)		
of which fair value hedges: 783 (previous year: 2,802)	**47,319**	**61,146**
Due to customers		
of which fair value hedges: 4,542 (previous year: 4,761)		
Savings deposits	36,034	34,996
Home savings deposits	16,981	16,915
Other current liabilities		
of which payable on demand: 26,589 (previous year: 23,525)	47,867	58,705
	100,882	**110,616**
Securitised liabilities		
of which fair value hedges: 5,797 (previous year: 8,012)		
Mortgage bonds	53	11
Public-sector mortgage bonds *(Pfandbriefe)*	81	59
Other debt instruments	15,752	9,488
	15,886	**9,558**
Trading liabilities		
Negative fair values of trading derivatives	2,864	4,955
Negative fair values of banking book hedging derivatives	351	330
Negative fair values of derivatives in connection with underlyings relating to the fair value option	401	308
Delivery obligations for short sales of securities	2	1
	3,618	**5,594**
Hedging derivatives (negative fair values)	**958**	**873**
Liabilities from financial services	**168,663**	**187,787**

46.1 Hedging derivatives

Fair value hedges with negative fair values that satisfy the requirements of IAS 39 for hedge accounting are composed of the following items:

€m	2006	2007
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	66	34
Purchased loans (available for sale)	0	0
	66	**34**
Hedging derivatives on loans to customers		
Loans and receivables	50	31
Purchased loans (available for sale)	0	0
	50	**31**
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	344	267
Equities and other non-fixed-income securities	0	0
	344	**267**
	460	**332**
Liabilities		
Deposits from other banks	63	6
Due to customers	78	51
Securitised liabilities	237	311
Subordinated liabilities	120	173
	498	**541**
Hedging derivatives	**958**	**873**

46.2 Maturity structure

€m	Payable on demand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
2007									
Deposits from other banks	3,293	41,068	5,332	2,515	830	898	1,299	5,911	61,146
Due to customers	26,509	45,538	6,312	1,755	1,811	3,451	5,439	19,801	110,616
Securitised liabilities	0	992	1,173	3,913	1,206	258	248	1,768	9,558
Trading liabilities	0	508	211	233	201	193	336	3,912	5,594
Hedging derivatives	0	138	39	131	67	29	69	400	873
	29,802	**88,244**	**13,067**	**8,547**	**4,115**	**4,829**	**7,391**	**31,792**	**187,787**
2006									
Deposits from other banks	2,719	30,719	4,645	1,614	2,224	508	488	4,402	47,319
Due to customers	21,436	47,945	2,539	793	982	453	2,406	24,328	100,882
Securitised liabilities	0	5,227	2,600	1,818	3,552	1,210	116	1,363	15,886
Trading liabilities	0	749	116	151	272	193	170	1,967	3,618
Hedging derivatives	0	123	27	65	148	129	50	416	958
	24,155	**84,763**	**9,927**	**4,441**	**7,178**	**2,493**	**3,230**	**32,476**	**168,663**

Cash Flow Disclosures

47 Cash flow disclosures

The consolidated cash flow statement is prepared in accordance with IAS 7 (Cash Flow Statements) and discloses the cash flows in order to present the source and application of cash and cash equivalents. It distinguishes between cash flows from operating, investing and financing activities. Cash and cash equivalents are composed of cash, cheques and bank balances with a maturity of not more than three months, and correspond to the cash and cash equivalents reported on the balance sheet. The effects of currency translation and changes in the consolidated group are adjusted when calculating cash and cash equivalents.

To enhance the clarity of the cash flow statement, changes in other assets and liabilities were added to the cash flows from operating activities before changes in working capital. These reflect changes in non-current assets and liabilities which are not part of the working capital. The previous year's amounts were adjusted accordingly.

47.1 Net cash from operating activities

Cash flows from operating activities are calculated by adjusting net profit before taxes for net financial income/net finance costs and non-cash factors, as well as taxes paid, changes in provisions and in other assets and liabilities (net profit before changes in working capital). Adjustments for changes in working capital (excluding financial liabilities) result in net cash from or used in operating activities. Net cash from operating activities can be broken down into net cash from operating activities before changes in working capital and net inflows from changes in working capital.

Net cash from operating activities before changes in working capital amounts to €4,424 million, thus being largely on the previous year's level (€4,409 million). EBIT was reduced amongst other things by the non-cash write-down for the Americas region, which was added back in the depreciation/amortisation of non-current assets account. Other than in the previous year, EBIT includes fewer gains on the disposal of non-current assets. Resulting cash flows are transferred to cash flows from investing activities. The increase in cash payments for other assets and liabilities reduced liquidity. At €340 million, tax payments are roughly on a level with the previous year (€343 million). €62 million of this amount relates to Deutsche Postbank Group and €278 million to other Group companies.

Whereas the previous year saw an outflow of working capital, cash from changes in working capital was received in the amount of €727 million in 2007. The main reason for this change are receivables and/or liabilities from financial services which reflected a cash outflow in the previous year in the amount of €–368 million, whereas cash in the amount of €707 million was provided from this account in the year under review.

Overall, net cash from operating activities increased year-on-year by an aggregate of €1,229 million to €5,151 million.

€m	2006	2007
Expense from remeasurement of assets	96	54
Income from remeasurement of liabilities	–10	–26
Staff costs relating to stock option plan	30	14
Non-cash income and expense of Deutsche Postbank Group	337	338
Other	0	5
Other non-cash income and expense	**453**	**385**

47.2 Net cash used in investing activities

Cash flows from investing activities mainly result from cash received from disposals of non-current assets and cash paid for investments in non-current assets. Net cash in the amount of €753 million was used in investing activities in the year under review, thus falling by €1,944 million below the previous year's amount (previous year: €2,697 million).

The disposal of non-current assets generated cash and cash equivalents in the amount of €1,381 million (previous year: €1,274 million). Divestitures of operations brought cash inflows of €622 million, mainly from the sale of the insurance equity investments of Deutsche Postbank Group (€550 million) and from the sale of Vfw AG (€75 million). €759 million of cash was received from the sale of other non-current assets.

Cash paid to acquire non-current assets totalled €2,656 million compared with €4,066 million in the previous year. Of this amount, €347 million was attributable to the acquisition of companies, such as the acquisition of TSO (€156 million), Astar (€68 million), Polar Air Cargo (€73 million), and to an increase in the share in Lemuir India (€34 million). The total cash and cash equivalents acquired with these acquisitions amounted to €23 million (previous year: €127 million).

The following assets and liabilities were acquired on the acquisition of companies (see also Note 2):

€m	2006	2007
Non-current assets	905	98
Receivables and other securities from financial services	40,385	26
Current assets (excluding cash and cash equivalents)	958	212
Provisions	–3,018	–70
Liabilities from financial services	–36,863	0
Other liabilities	–1,220	–214

Net cash used for the acquisition of other non-current assets amounted to €2,309 million, a year-on-year increase of €337 million. This increase relates to capital expenditure (€2,210 million compared with €1,931 million in the previous year) and to cash paid for other non-current financial assets (€99 million compared with €41 million in the previous year). In addition, interest received increased cash flows from investing activities by €520 million (previous year: €100 million). This increase is mainly accounted for by the fact that financial derivatives have been presented in gross amounts since the beginning of the year. No data were available to determine the previous year's amounts.

Free cash flows are a combination of net cash provided by operating activities and net cash used in investing activities. Free cash flows are deemed an indicator to show how much cash is available to the company for dividend payments or the repayment of debt. Free cash flows amounted to €4,398 million in the year under review and improved by €3,173 million year-on-year.

47.3 Net cash used in financing activities

Cash flows from financing activities result from the issue and repayment of financial liabilities and from distributions. In addition, interest paid in the amount of €659 million (previous year: €393 million) is included in net cash used in financing activities, which increased mainly due to the change in the gross recognition of financial derivatives since the beginning of the year.

Net cash used in financing activities rose from €865 million in the previous year to €2,087 million in the year under review. This increase, in addition to the gross recognition of interest payments mentioned above, mainly reflects a reduction in financial liabilities. The changes in financial liabilities resulted in cash inflows amounting to €345 million in the previous year, whereas the year under review saw cash outflows of €439 million, reflecting the repayment of current and non-current liabilities. Amongst other items, the Group repaid a fixed-income bond in the principal amount of €636 million in October and issued a municipal bond amounting to US$270 million in April. In addition, increased dividends paid to shareholders of Deutsche Post AG (€903 million) and minority shareholders (€159 million) resulted in a cash outflow from financing activities.

47.4 Cash and cash equivalents

The cash inflows and outflows described above produced cash and cash equivalents of €4,683 million (see Note 33). This is a year-on-year increase of €2,292 million. Currency translation differences reduced cash and cash equivalents by €46 million, changes in the consolidated group, by contrast, brought an increase of €27 million.

Other Disclosures

48 Financial instruments

Financial instruments are contractual obligations to receive or deliver cash and cash equivalents. In accordance with IAS 32 and IAS 39, these include both primary and derivative financial instruments. Primary financial instruments include in particular bank balances, all receivables, liabilities, securities, loans and accrued interest. Examples of derivatives include options, swaps and futures.

The Deutsche Postbank Group accounts for most of the financial instruments in Deutsche Post World Net. The risks and derivatives of the Deutsche Postbank Group's financial instruments are therefore presented separately below.

48.1 Risks and financial instruments of the Deutsche Postbank Group

Taking risks in order to generate earnings is the core function of the Deutsche Postbank Group's business activities. One of the Deutsche Postbank Group's core competencies is to assume normal banking risks within a strictly defined framework, whilst at the same time maximising the potential return arising from them. In the process, each of the relevant risks is thoroughly identified, continuously measured and monitored as well as regularly reported. To this end, the Deutsche Postbank Group has established a risk management organisation as the basis for risk- and earnings-based overall bank management.

In accordance with the requirements of MaRisk (Minimum Requirements for Risk Management), the risk strategy is consistent with the business strategy and takes into account all significant areas of business and types of risk. In addition to an overarching, group-wide risk strategy, Postbank's Management Board has resolved specific risk strategies for market, credit, liquidity and operational risk.

The nature and extent of the risks taken, as well as the strategy for managing such risks, depends on the individual business units, whose actions are prescribed by the business strategy. The Deutsche Postbank Group is active in the Retail Banking, Corporate Banking, Transaction Banking and Financial Markets areas.

Operational responsibility for risk management is spread across several units in the Deutsche Postbank Group, primarily the Financial Markets board department, Domestic/Foreign Credit Management and the credit functions of the private customer business and, at a decentralised level, the subsidiaries BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A. and PB Capital Corp, as well as the London branch.

Risk Controlling, part of the Finance board department, is the independent, group-wide risk monitoring unit. Risk Controlling is authorised to make decisions regarding the methods and models applied in risk identification, measurement and limitation. In co-operation with the risk control units at the BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A. and PB Capital Corp. subsidiaries and the London branch, the department is responsible for operational risk control and reporting at group level.

The Internal Audit unit is a key element of the Deutsche Postbank Group's business and process-independent monitoring system. In terms of the Bank's organisational structure, it is assigned to the Chairman of the Management Board and reports independently to the Group Management Board. The Postbank Group Management Board is responsible for risk strategy, the appropriate organisation of risk management, monitoring the risk content of all transactions and risk control. In conjunction with the Risk Committees, the Group Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the group.

Definition of risk types

The Deutsche Postbank Group distinguishes between the following risk types:

- Market risk: Potential losses from financial transactions liable to incur from changes in interest rates, spreads, volatility, foreign exchange rates and equity prices.
- Credit risk: Potential losses that may be caused by changes in the creditworthiness of or default by a counterparty (for example as a result of insolvency). Four types of credit risk are distinguished:
- Default risk (credit risk): Risk of potential losses caused by a deterioration in the credit rating of or default by a counterparty.
- Settlement risk: Risk of possible losses during the settlement or netting of transactions.
- Counterparty risk: The risk of possible losses arising from potential default by a counterparty, and hence the risk to unrealised profits on executory contracts (replacement risk).
- Country risk: The risk of possible losses arising from political or social upheaval, nationalisation and expropriation, a government's non-recognition of foreign debts, currency controls and devaluation or depreciation of a national currency (transfer risk).
- Liquidity risk: The risk that current and future payment obligations cannot be met, either in the full amount or as they fall due. Liquidity maturity transformation risk describes the risk of a loss occurring due to a change in the Bank's own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period for a certain confidence level.
- Operational risk: The risk of losses resulting from inadequate or failed internal processes and systems, people or external events. The definition also encompasses legal risks.
- Investment risk: Investment risk comprises possible losses arising from fluctuations in the fair value of equity investments, unless they are already included in other risk types.
- Real estate risk: Real estate risk relates to the real estate owned by Deutsche Postbank Group and comprises the risk of losses of rental income, write-downs to the going-concern value and losses on sale.
- Collective risk: Specific business risk arising from BHW Bausparkasse AG's home savings business. This is defined as the negative impact of (non-interest-related) deviations in the actual behaviour of home savings customers from their forecast behaviour.
- Business risks: The risk of declining earnings arising from unexpected changes in the business volume and/or margins and corresponding costs. This notion also comprises model risks arising from modelling customer products with unknown capital and interest commitments (in particular savings and current account products) as well as strategic and the reputational risk.

Presentation of risk position

The importance of risk control has further increased against the background of continuously volatile capital markets due to the crisis on the financial markets, low interest rates as against previous years and continued intense competition in the markets for deposits and loans, with consequent pressure on interest margins. An additional factor is the insolvency trend in the economy as a whole. In financial year 2007, the Deutsche Postbank Group further sophisticated the structures, instruments and processes for risk management and controlling for the relevant risk types and has state-of-the-art tools for overall bank management. BHW, which was acquired in 2006, has now also been fully integrated in the risk control processes. As a result, the Deutsche Postbank Group is in a position to meet the challenges it faces in the market, and to manage and limit all types of risk across all business units in a way that minimises risk whilst maximising earnings. The methods and procedures employed meet the current statutory and regulatory requirements.

The risks arising from the structured credit portfolio of Deutsche Postbank Group are systematically and intensively analysed and closely monitored within the scope of an internal project structure. Where impairment testing resulted in impairments likely to be permanent, the appropriate impairment losses were recognised.

With respect to other risk not related to structured loans, Postbank maintained the relatively low risk profile of its credit business during 2007, having comparatively low risk costs. Amongst other things, the increasing credit risks in the retail segment in Germany were countered by a restrictive scoring-based lending policy as well as by more efficient and faster workout processes for loans in default. The additions to the allowance for losses on loans and advances mainly result from the planned expansion of the retail business in financial year 2007. In return, the allowance recognised in previous periods could be reversed due to the positive economic environment. The net addition was therefore significantly reduced. The Deutsche Postbank Group will continue to pursue its risk-sensitive business policy in the future.

With regard to the allocation of risk capital, the Postbank Group has been, and continues to be able to allow the business units sufficient scope to achieve business growth in line with its strategy. Should the turbulences triggered by the US real estate market intensify notably and spill over into the real economy, an additional financial burden cannot be excluded. No risks that could impair the Deutsche Postbank Group's development or even jeopardise its continued existence have been identified amongst the above-mentioned risk types.

Derivative financial instruments

The Deutsche Postbank Group uses derivatives for hedging purposes as part of its asset/liability management policy. Derivatives are also used for trading. Foreign currency derivatives are mainly used in the form of currency forwards, currency swaps, cross-currency swaps and currency options. Interest rate derivatives mainly consist of interest rate swaps, forward rate agreements, interest futures and interest options; in isolated cases, forward transactions in fixed-interest securities were conducted. Equity derivative contracts are signed in particular in the form of stock options and equity/index futures. Only a few credit derivatives (credit default swaps) were entered into. Credit derivatives (credit default swaps) are basically the result of derivatives separated from synthetic CDOs. The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognisable receivables or liabilities. The fair values of the individual contracts were calculated using recognised valuation models and do not reflect any netting agreements. The derivatives portfolio is classified by economic purpose as follows:

Derivative financial instruments

€m	Notional amounts		Positive fair values		Negative fair values	
	2006	2007	2006	2007	2006	2007
Trading derivatives	438,244	518,853	3,289	5,427	3,616	5,593
Hedging derivatives	43,568	34,052	485	421	958	873
Total	**481,812**	**552,905**	**3,774**	**5,848**	**4,574**	**6,466**

The following table presents the open interest rate and foreign currency forward transactions and option contracts of the Deutsche Postbank Group at the balance sheet date.

Forward transactions and option contracts of Deutsche Postbank Group

€m	2006 Fair value			2007 Fair value		
	Notional amount	Positive fair values	Negative fair values	Notional amount	Positive fair values	Negative fair values
Trading derivatives						
Currency derivatives						
OTC products						
Currency forwards	4,115	36	22	2,273	35	50
Currency swaps	17,767	152	129	22,518	202	270
Total portfolio of currency derivatives	**21,882**	**188**	**151**	**24,791**	**237**	**320**
Interest rate derivatives						
OTC products						
Interest rate swaps	398,821	3,068	3,436	469,220	5,142	5,046
Cross-currency swaps	55	2	–	146	4	5
FRAs	2,632	9	1	5,723	–	2
OTC interest rate options	645	–	1	673	1	1
Other interest-related contracts	479	1	1	871	3	2
Exchange-traded products						
Interest-rate futures	4,131	–	–	9,893	–	–
Interest-rate options	7,996	1	–	490	1	–
Total portfolio of interest-rate derivatives	**414,759**	**3,081**	**3,439**	**487,016**	**5,151**	**5,056**
Equity/index derivatives						
OTC products						
Equity options (long/short)	165	13	19	453	10	66
Exchange-traded products						
Equity/index futures	8	–	2	117	–	–
Equity/index options	83	1	1	259	2	1
Total portfolio of equity/index derivatives	**256**	**14**	**22**	**829**	**12**	**67**
Credit derivatives						
Credit default swaps	1,347	6	4	6,217	27	150
Total portfolio of credit derivatives	**1,347**	**6**	**4**	**6,217**	**27**	**150**
Total portfolio of derivatives held for trading	**438,244**	**3,289**	**3,616**	**518,853**	**5,427**	**5,593**
of which banking book derivatives	22,214	276	351	15,416	131	330
of which derivatives in connection with underlyings relating to the fair value option	8,097	71	401	12,767	141	308
Hedging derivatives						
Fair value hedges						
Interest rate swaps	41,423	482	733	32,560	410	621
Cross-currency swaps	1,796	3	222	1,338	10	252
Credit default swaps	349	–	3	154	1	–
Total portfolio of hedging derivatives	**43,568**	**485**	**958**	**34,052**	**421**	**873**
Total portfolio of derivatives	**481,812**	**3,774**	**4,574**	**552,905**	**5,848**	**6,466**

The following table provides an overview of the recognised derivative assets and liabilities, structured by remaining maturity:

Remaining maturities

€m	Hedging derivatives				Trading and banking book derivatives			
	2006		2007		2006		2007	
	Positive fair values	Negative fair values	Positive fair values	Negative fair values	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Less than 3 months	63	123	45	138	471	749	316	508
3 months to 1 year	15	27	5	39	105	116	144	211
1 to 2 years	11	65	18	131	120	151	147	233
2 to 3 years	22	148	15	67	182	272	205	201
3 to 4 years	31	129	7	29	226	193	197	193
4 to 5 years	21	50	23	69	144	170	270	336
More than 5 years	322	416	308	400	2,041	1,965	4,148	3,911
	485	**958**	**421**	**873**	**3,289**	**3,616**	**5,427**	**5,593**

Derivatives – classification by counterparties

The following table presents the positive and negative fair values of derivatives by counterparty.

Classification by counterparty

€m	2006		2007	
	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Banks in OECD countries	3,699	4,457	5,720	6,132
Public institutions in OECD countries	17	26	–	–
Other counterparties in OECD countries	58	91	117	250
Counterparties outside the OECD	–	–	11	84
	3,774	**4,574**	**5,848**	**6,466**

Fair values of financial instruments carried at amortised cost or at the hedged fair value

Fair values of financial instruments which are carried at amortised cost or at the hedged fair value are compared with the carrying amounts in the following table.

Carrying amounts/fair values

€m	2006		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash reserve	1,015	1,015	3,352	3,352
Loans and advances to other banks (loans and receivables)	16,350	16,357	24,581	24,510
Loans and advances to customers (loans and receivables)	80,483	82,496	85,159	85,414
Loans and advances to customers (held to maturity)	518	518	456	456
Allowance for losses on loans and advances	–1,155	–1,155	–1,184	–1,184
Investment securities (loans and receivables)	19,031	18,838	26,600	25,922
Investment securities (held to maturity)	4,956	5,025	730	731
Liabilities				
Deposits from other banks	47,319	47,366	61,146	60,935
Due to customers	101,316	101,439	110,740	110,335
Securitised liabilities and subordinated debt	20,934	21,019	15,161	14,753

A fair value is generally determined for all financial instruments. Exceptions are transactions due on demand and savings deposits with an agreed withdrawal notice of less than one year. If there is an active market for a financial instrument (e.g. stock exchange), the fair value is expressed by the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined by an established valuation technique. The valuation techniques used incorporate the major factors establishing a fair value for the financial instruments using valuation parameters which are the result of the market conditions at the balance sheet date. The cash flows used under the present value method are based on the contractual data of the financial instruments.

48.2 Risks and financial instruments of other Deutsche Post World Net companies

48.2.1 Risk management system

Deutsche Post World Net's operating activities result in financial risks that may arise from changes in exchange risks, commodity prices and interest rates. The Group uses both primary and derivative financial instruments to manage these risks. The use of derivatives is limited to the management of primary risks. Any use for speculative purposes is not permitted under Deutsche Post World Net's internal guidelines.

The fair values of the derivatives used may be subject to substantial fluctuations depending on future changes in exchange rates, interest rates or commodity prices. These fluctuations in fair values are not to be viewed in isolation from the underlying transactions to be hedged. Derivatives and hedged transactions form a unity with regard to their offsetting value development.

Internal guidelines govern the universe of actions, responsibilities and controls necessary for using derivatives. Suitable risk management software is used to record, assess and process hedging transactions. It is also used to regularly assess the effectiveness of the hedging relationships. Deutsche Post World Net only enters into hedging transactions with prime-rated banks. Each bank is assigned a counterparty limit, the use of which is regularly monitored.

The Group's Board of Management receives regular internal information on the existing financial risks and the hedging instruments deployed to limit them. The financial instruments used are accounted for in accordance with IAS 39.

Liquidity management

Deutsche Post World Net ensures a sufficient supply of cash for Group companies at all times via a largely centralised liquidity management system. Along with bilateral credit lines committed by banks in the amount of €4.2 billion (previous year: €4.2 billion), the Group issued a commercial paper programme in December 2007 in the amount of €1 billion as another liquidity reserve. Thus, Deutsche Post World Net continues to have sufficient funds to finance necessary investments.

The maturity structure of primary financial liabilities to be applied within the scope of IFRS 7 based on cash flows is as follows:

Maturity structure – remaining maturities

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2007						
Financial liabilities	–189	–371	–448	–319	–851	–2,275
Other liabilities	0	–106	–10	–14	–9	–85
Non-current liabilities	**–189**	**–477**	**–458**	**–333**	**–860**	**–2,360**
Financial liabilities	–928	0	0	0	0	0
Trade payables	–5,210	0	0	0	0	0
Other liabilities	–355	0	0	0	0	0
Current liabilities	**–6,493**	**0**	**0**	**0**	**0**	**0**
As at 31 December 2006						
Financial liabilities	–313	–264	–239	–214	–171	–2,990
Other liabilities	–2	–9	–8	–8	–7	–71
Non-current liabilities	**–315**	**–273**	**–247**	**–222**	**–178**	**–3,061**
Financial liabilities	–1,988	0	0	0	0	0
Trade payables	–4,930	0	0	0	0	0
Other liabilities	–338	0	0	0	0	0
Current liabilities	**–7,256**	**0**	**0**	**0**	**0**	**0**

Cash flows which do not fall under the scope of IFRS 7 were not included in the table.

Derivative financial instruments entail both rights and obligations. The contractual arrangement defines whether these rights and obligations can be offset against each other, thus leading to a net settlement, or whether both parties to the contract will have to fully fulfil their obligations (gross settlement). The maturity structure of payments under derivative financial instruments is as follows:

Maturity structure – remaining maturities

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2007						
Derivative receivables - gross settlement						
Cash outflows	–1,685	–16	–15	–15	–16	–160
Cash inflows	1,730	16	16	16	16	191
Net settlement						
Cash inflows	7	2	0	0	0	0
Derivative liabilities - gross settlement						
Cash outflows	–1,810	–116	–185	–113	–91	–212
Cash inflows	1,739	97	166	94	77	180
Net settlement						
Cash outflows	–6	–7	0	0	0	0
As at 31 December 2006						
Derivative receivables - gross settlement						
Cash outflows	–2,280	–204	–48	–47	–47	–223
Cash inflows	2,337	203	51	50	50	241
Net settlement						
Cash inflows	3	0	0	0	0	0
Derivative liabilities - gross settlement						
Cash outflows	–2,874	–125	–74	–72	–69	–64
Cash inflows	2,801	111	60	59	57	55
Net settlement						
Cash outflows	–33	0	0	0	0	0

Currency risk and currency management

The Group's global activities expose it to currency risks from planned and completed transactions in foreign currencies. Corporate Treasury is responsible for the central recognition and management of these risks. The Group companies report their foreign-currency risks to Corporate Treasury, which calculates a net position per currency on the basis of these figures and hedges this position externally, where applicable. Currency forwards, currency swaps and currency options are used for this purpose. The notional amount of outstanding currency forwards and swaps was €3,745 million as at the reporting date (previous year: €5,499 million). The corresponding fair value was €–31 million (previous year: €–37 million). These transactions were used to hedge planned and recorded operational risks and to hedge internal and external finance and investments. For reasons of simplification, fair value hedge accounting in accordance with IAS 39 was not used for currency forwards and swaps.

In addition, currency options with a nominal value of €460 million (previous year: €162 million) and a fair value of €–11 million (previous year: €3 million) were used to hedge operational currency risks and risks arising from investing activities. The Group also held cross-currency swaps with a nominal value of €299 million (previous year: €328 million) and a fair value of €–12 million (previous year €–19 million) to hedge long-term foreign currency financing.

Currency risks resulting from translating assets and liabilities of foreign operations into the Group's currency (translation risk) were not hedged as at 31 December 2007. The net investment hedge recognised as at 31 December 2006 ceased to be accounted for in 2007. The fair value of currency forwards was measured on the basis of current market prices, taking forward premiums and discounts into account. The currency options were measured using the Black & Scholes option pricing model. Of the unrealised losses from currency derivatives that were recognised in equity as at 31 December 2007 in accordance with IAS 39, a loss of €–17 million (previous year: €–8 million) is expected to be recognised in income in the course of 2008.

IFRS 7 requires a company to disclose a sensitivity analysis, showing how profit or loss and equity are affected by hypothetical changes in exchange rates at the reporting date. In this process, the hypothetical changes in exchange rates are analysed in relation to the portfolio of financial instruments not denominated in their functional currency and being of a monetary nature. It is assumed that the portfolio as at the reporting date is representative for the whole year.

Effects of hypothetical changes in exchange rates on the translation risk do not fall within the scope of IFRS 7. The following assumptions are taken as a basis for the sensitivity analysis:

Primary monetary financial instruments used by Group companies are either denominated directly in the functional currency or the currency risk was transferred to Deutsche Post AG at the exchange rates Deutsche Post AG has guaranteed. Exchange-rate-induced changes have therefore no effect on the profit or loss and equity of the Group companies.

Some isolated Group companies are legally not entitled to participate in inhouse banking. These companies hedge their currency risks from primary monetary financial instruments linked with Deutsche Post AG by using derivatives. The internal derivatives are consolidated in the Group. The risk remaining at Group level is taken into account when computing the net position.

Hypothetical changes in exchange rates affect the fair values of the external derivatives used by Deutsche Post AG with changes in fair value reported in profit or loss; they also affect the currency results from the measurement at closing date of the inhouse bank balances denominated in foreign currency, the balances of external bank accounts as well as internal and external loans of Deutsche Post AG.

In addition, hypothetical changes in exchange rates affect equity and the fair values of those derivatives used to hedge firm off-balance sheet obligations and highly probable future currency transactions – designated as cash flow hedges.

A 10% appreciation of the euro against all currencies as at 31 December 2007 would have reduced profit by €–8 million (previous year: €–13 million). These hypothetical effects on profit or loss are mainly the result of a sensitivity to changes in the euro against US$ (€–18 million; previous year: €–8 million), GBP (€2 million; previous year: €–5 million), BHD (€5 million; previous year: €0.1 million) and CNY (€4 million; previous year: €2 million). A devaluation of the euro would lead to exactly the opposite sensitivities.

A 10% appreciation of the euro would have changed the hedging reserve accounted for in equity by €–25 million (previous year: €40 million). The hypothetical change in equity is mainly the result of the euro's sensitivity to the US$ (€–76 million; previous year: €–29 million) and the GBP (€14 million; previous year: €49 million). A devaluation of the euro would mainly have had the opposite effect on equity .

Commodity risk

Most of the risks arising from the purchase of fuels and fuel oil are passed on to customers via surcharges and contract clauses. There was no additional hedging using derivatives at the reporting date (nominal amount in the previous year: €374 million/fair value: €–31 million).

A hypothetical increase in fuel prices by 10% would have changed the hedging reserve recognised in equity by €0 million (previous year: €19 million); a fair-value decline by 10% would have led to a change by €0 million (previous year: €–21 million).

Interest rate risk and interest rate management

The Group's primary debt currency is the euro. Euro funds are transformed into foreign currencies using derivative financial instruments, to cover the liquidity needs of the respective operations. Taking into account these transactions, the euro's portion in the Group's net debt was 60% (previous year: 40%), the portion of the US dollar stood at 28% (previous year: 27%). The increase in the euro's share is mainly accounted for by adjusting the foreign-currency loan portfolio.

The fair value of interest rate hedging instruments was calculated on the basis of the discounted expected future cash flows, using the Group's treasury risk management system.

At 31 December 2007, Deutsche Post World Net had entered into interest rate swaps with a notional volume of €1,209 million (previous year: €1,764 million). The fair value of this interest rate swap position was €–24 million (previous year: €11 million). The Group had not engaged in interest-rate options as at the reporting date (notional amount in the previous year: €150 million).

Deutsche Post World Net moderately increased the proportion of instruments with long-term interest-rate lock-in in the first half of 2007. To take appropriate account of the unsteadiness in the financial markets in the second half of 2007, the proportion between instruments with short-term and with long-term interest-rate lock-ins was well balanced. Forecasts for 2008 are difficult to make, given the very volatile capital markets at the beginning of the year; Deutsche Post World Net anticipates slightly falling interest rates in the euro zone, in particular for instruments with shorter maturities. The effect of interest rate changes on the Group's financial position continues to be immaterial.

To present the interest-rate risks in accordance with IFRS 7, a sensitivity analysis is performed. This method is used to determine the effects hypothetical changes in market interest rates have on interest income, interest expense and on equity at the reporting date. The following assumptions are taken as a basis for the sensitivity analysis:

Primary variable-interest financial instruments are subject to interest rate risks and will therefore have to be included in the sensitivity analysis. Primary variable-interest financial instruments which were transformed into fixed-income financial instruments in a cash-flow hedge are not included. Changes in market interest rates in derivative financial instruments used as a cash flow hedge affect equity by a change in fair values and must therefore be included in the sensitivity analysis.

Fixed-interest financial instruments measured at amortised cost are not subject to interest rate risk.

Designated fair value hedges of interest rate exposures are not included in the sensitivity analysis because the interest-related changes in the fair-value of the hedged item and the hedging transaction almost fully offset each other in the profit or loss for the period. Only the variable portion of the hedging instrument affects net finance costs or financial income and is to be included in the sensitivity analysis.

Interest-rate derivatives outside the scope of a hedging relationship which would affect net finance costs or net financial income due to changes in market rates were not to be recognised as at 31 December 2007. There were such interest rate derivatives as at 31 December 2006 which were to be accounted for in the 2006 analysis.

If the interest rate level on the market as at 31 December 2007 had been higher by 100 basis points, profit would have decreased by €13 million (previous year: €15 million). A lowering of the market rate level by 100 basis points would have had the opposite effect. A change of the market interest rate level by 100 basis points would affect the fair values of the interest rate derivatives recognised in equity. A rise in interest rates would have resulted in unrecognised gains in equity of €16 million (previous year: €1 million); a reduction would have had the opposite effect.

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. 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 €6,377 million (previous year: €6,395 million) are due within one year. The following table provides an overview of past-due receivables:

€m	Carrying amount before impairment loss	Neither impaired nor due at reporting date	Past due at reporting date and not impaired						
			Less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	> 180 days
As at 31 December 2007									
Trade receivables	6,595	4,373	1,168	361	152	80	43	28	65
As at 31 December 2006									
Trade receivables	6,651	4,167	1,227	371	184	101	64	46	88

Trade receivables developed as follows:

€m	2006	2007
Gross receivable		
As at 1 January	6,371	6,651
Changes	280	–56
As at 31 December	6,651	6,595
Valuation allowances		
As at 1 January	–221	–256
Changes	–35	38
As at 31 December	–256	–218
Carrying amount as at 31 December	**6,395**	**6,377**

All other financial assets are neither past due nor impaired. These assets are expected to be collectible at any time.

48.2.2 Derivatives

The following table gives an overview of the derivatives used within Deutsche Post World Net (excluding Deutsche Postbank Group) and their fair values. Derivatives with amortising notional volumes are reported in the full amount at maturity:

Derivate financial instruments

€m	2006		2007				Fair values 2007 according to maturity											
							Assets						Liabilities					
	Notional amount	Fair value	Notional amount	Fair value of assets	Fair value of liabilities	Total fair value	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	> 5 years	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	> 5 years
Interest rate products																		
Interest rate swaps	1,764	11	1,209	2	–26	–24	0	0	0	0	0	2	0	0	0	0	–2	–24
of which cash flow hedges	186	6	367	2	–15	–13	0	0	0	0	0	2	0	0	0	0	0	–15
of which fair value hedges	1,478	9	842	0	–11	–11	0	0	0	0	0	0	0	0	0	0	–2	–9
of which held for trading	100	–4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FRAs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest rate options	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which held for trading	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1,914	**11**	**1,209**	**2**	**–26**	**–24**	**0**	**0**	**0**	**0**	**0**	**2**	**0**	**0**	**0**	**0**	**–2**	**–24**
Currency derivatives																		
Currency forwards	1,603	–63	1,768	23	–63	–40	23	0	0	0	0	0	–35	–8	–8	–7	–4	–1
of which cash flow hedges	557	–38	1,063	18	–59	–41	18	0	0	0	0	0	–31	–8	–8	–7	–4	–1
of which net investment hedges	315	–16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which held for trading	731	–9	705	5	–4	1	5	0	0	0	0	0	–4	0	0	0	0	0
Currency options	162	3	460	1	–12	–11	0	1	0	0	0	0	–5	–7	0	0	0	0
of which cash flow hedges	162	3	460	1	–12	–11	0	1	0	0	0	0	–5	–7	0	0	0	0
Currency swaps	3,896	26	1,977	28	–19	9	28	0	0	0	0	0	–19	0	0	0	0	0
of which cash flow hedges	62	–1	311	8	–7	1	8	0	0	0	0	0	–7	0	0	0	0	0
of which held for trading	3,834	27	1,666	20	–12	8	20	0	0	0	0	0	–12	0	0	0	0	0
Cross-currency swaps	328	–19	299	24	–36	–12	0	0	0	0	0	24	0	0	0	–7	–29	0
of which cash flow hedges	214	7	203	24	–7	17	0	0	0	0	0	24	0	0	0	–7	0	0
of which fair value hedges	114	–26	95	0	–29	–29	0	0	0	0	0	0	0	0	0	0	–29	0
of which held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	5,989	**–53**	**4,505**	**76**	**–130**	**–54**	**51**	**1**	**0**	**0**	**0**	**24**	**–59**	**–15**	**–8**	**–14**	**–33**	**–1**
Transactions based on commodity prices																		
Fuel hedging programme	374	–31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which cash flow hedges	374	–31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Fair value hedges

Interest rate swaps were used to hedge the fair value risk of fixed-interest euro-denominated liabilities. The fair values of these interest rate swaps amount to €–11 million (previous year: €9 million). The sharp reduction in fair value in 2007 is due to interest rate movements. As at 31 December 2007, there was also a €35 million (previous year: €40 million) adjustment to the carrying amount of the underlying arising from an interest rate swap unwound in the past. The adjustment to the carrying amount is amortised over the remaining term of the liability using the effective interest method, and reduces future interest expense.

In addition, cross-currency swaps were used to hedge liabilities in foreign currency against negative changes in the market, with the liability being transformed into a variable interest euro-denominated liability. This hedged the fair value risk of the interest and currency component. The fair value of these cross-currency swaps as at 31 December 2007 is €–29 million (previous year: €–26 million).

The following table provides an overview of the gains and losses arising from the hedged items and the respective hedging transactions:

Ineffective portion of fair value hedges

€m	2006	2007
Gains (–)/losses (+) on hedged items	–57	–20
Gains (–)/losses (+) on hedging transactions	57	19
Balance (ineffective portion)	**0**	**–1**

Cash flow hedges

The Group uses currency forwards and currency swaps to hedge the future cash flow risks from foreign currency revenue and expenses relating to the Group's operating business. The fair values of the currency forwards and swaps amount to €–2 million (previous year: €–4 million). There were no currency options used to hedge operating risks at the reporting date (fair value in the previous year: €3 million). The underlyings will be recognised in the income statement in 2008.

Currency forwards with a fair value of €–37 million (previous year: €–35 million) as at the reporting date were entered into to hedge the currency risk of future lease payments and annuities denominated in foreign currencies. The payments for the underlyings are made in instalments, with the final payment due in 2013.

Cash flow risks arise for the Group from contracted aircraft purchases in connection with future payments in US dollars. These risks were hedged in 2007 using forwards and options. The fair value of these cash flow hedges as at 31 December 2007 amounted to €–11 million for currency options and €–1 million for currency forwards. The aircraft will be added in 2009 and 2010. Gains or losses on hedges are offset against cost and recognised in profit or loss upon the amortisation of the asset.

Risks arising from fixed-interest foreign currency investments were hedged using synthetic cross-currency swaps, with the investments being transformed into fixed-interest euro investments. These synthetic cross-currency swaps hedge the currency risk, and their fair values at the balance sheet date amounted to €26 million (previous year: €13 million). The investments relate to internal Group loans which mature in 2014.

The Group is exposed to cash flow risks arising from variable-interest liabilities. These risks were hedged using interest rate swaps which offset the interest rate risk in the underlying. The respective cash flow hedges had a fair value of €–15 million as at 31 December 2007 (previous year: €–1 million). The hedged currency liabilities are due in 2020 and/or in 2037. In addition, a fixed-interest currency liability was transformed into a fixed-interest euro-denominated liability using a cross-currency swap. The fair value of the derivative was €–7 million (previous year: €–6 million) at the reporting date.

Aircraft kerosene ceased to be hedged in 2007. Negative fair values amounting to €–31 million were recognised in the accounts as at 31 December 2006.

Net investment hedges

Foreign currency investments in foreign subsidiaries may result in risks to the Group's equity. These risks ceased to be hedged at the reporting date (fair value in the previous year: €–16 million).

48.3 Additional disclosures on the financial instruments used by Deutsche Post World Net

Deutsche Post World Net classifies financial instruments in relation to the respective balance sheet accounts. The following table reconciles the balance sheet accounts to the categories given in IAS 39 and the respective fair values:

Reconciliation of carrying amounts in the balance sheet as at 31 December 2007

€m

	Carrying amount	Carrying amount measured					
		Financial assets recognised at fair value through profit and loss		Available-for-sale financial assets		Loans and receivables	Held-to-maturity financial assets
		Trading	Fair value option				
		Fair value	Fair value	Fair value	Amortised cost	Amortised cost	Amortised cost
ASSETS							
Non-current financial assets	1,060			431	301	115	10
Other non-current assets	497		66				
Receivables and other assets	9,806	25				6,679	
Receivables and other securities from financial services	193,986	9,936	7,109	41,174		134,160	1,186
Financial instruments	72			19		52	1
Cash and cash equivalents	4,683					4,683	
Assets held for sale	615					565	
Total assets	**210,719**	**9,961**	**7,175**	**41,624**	**301**	**146,254**	**1,197**
EQUITY AND LIABILITIES							
Non-current financial liabilities[1]	–8,625						
Other non-current liabilities	–361						
Current financial liabilities	–1,556						
Trade payables	–5,384						
Liabilities from financial services	–187,787						
Other current liabilities	–5,101						
Total equity and liabilities	**–208,814**						

1) Some of the bonds included in financial liabilities were designated as a hedged item in a fair value hedge thus being subject to a basis adjustment. Accounting is therefore neither fully at fair value nor at amortised cost.

	pursuant to IAS 39				Carrying amount pursuant to IAS 17	Outside IFRS 7	Fair value of financial instruments under IFRS 7
	Financial liabilities recognised at fair value through profit and loss		Miscellaneous financial liabilities	Derivatives designated as hedging instruments	Finance lease liabilities		
	Trading	Fair value option					
	Fair value	Fair value	Amortised cost	Fair value	Amortised cost		
						203	857
				28		403	94
				26		3,076	6,730
				421			193,493
							72
							4,683
						50	565
				475		**3,732**	
			–7,823		–551	–251	–8,403
			–224	–97		–40	–337
			–1,482		–74	0	–1,556
			–5,384				–5,384
	–5,594		–181,320	–873			–186,763
	–16		–510	–44		–4,531	–570
	–5,610		**–196,743**	**–1,014**	**–625**	**–4,822**	

Reconciliation of carrying amounts in the balance sheet as at 31 December 2006

€m

	Carrying amount	Carrying amount measured					
		Financial assets recognised at fair value through profit and loss		Available-for-sale financial assets		Loans and receivables	Held-to-maturity financial assets
		Trading	Fair value option				
		Fair value	Fair value	Fair value	Amortised cost	Amortised cost	Amortised cost
ASSETS							
Non-current financial assets	994			459	336	126	10
Other non-current assets	376		41			50	
Receivables and other assets	9,306	50				6,854	
Receivables and other securities from financial services	179,280	13,280	6,180	39,210		114,650	5,475
Financial instruments	42			10		32	
Cash and cash equivalents	2,391					2,391	
Total assets	**192,389**	**13,330**	**6,221**	**39,679**	**336**	**124,103**	**5,485**
EQUITY AND LIABILITIES							
Non-current financial liabilities[1]	–8,543						
Other non-current liabilities	–237						
Current financial liabilities	–1,945						
Trade payables	–5,069						
Liabilities from financial services	–168,663						
Other current liabilities	–4,938						
Total equity and liabilities	**–189,395**						

1) Some of the bonds included in financial liabilities were designated as a hedged item in a fair value hedge thus being subject to a basis adjustment. Accounting is therefore neither fully at fair value nor at amortised cost.

pursuant to IAS 39				Carrying amount pursuant to IAS 17	Outside IFRS 7	Fair value of financial instruments under IFRS 7
Financial liabilities recognised at fair value through profit and loss		Miscellaneous financial liabilities	Derivatives designated as hedging instruments	Finance lease liabilities		
Trading	Fair value option					
Fair value	Fair value	Amortised cost	Fair value	Amortised cost		
					63	931
			36		249	127
			7		2,395	6,911
			485			181,176
						42
						2,391
			528		**2,707**	
		–7,482		–711	–350	–8,171
		–106	–68		–63	–174
		–1,921		–24		–1,945
		–5,069				–5,069
–3,619		–164,086	–958			–168,918
–36		–464	–61		–4,377	–561
–3,655		**–179,128**	**–1,087**	**–735**	**–4,790**	

If there is an active market for a financial instrument (e.g. stock exchange), the fair value is expressed by the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined by an established valuation technique (e.g. present-value method, option pricing models). The valuation techniques used incorporate the major factors establishing a fair value for the financial instruments using valuation parameters which are derived from the market conditions at the balance sheet date. The cash flows used under the present value method are based on the contractual data of the financial instruments. The fair values of other non-current receivables and financial investments held to maturity with remaining maturities of more than one year equal the present values of the payments related to the assets, taking into account the current interest rate parameters which reflect market- and partner-related changes in the conditions and expectations.

Most of cash and cash equivalents, trade receivables and other receivables have short remaining maturities. Thus, their carrying amounts at the reporting date are largely equivalent to their fair values. Trade payables and other liabilities generally have short remaining maturities; the amounts carried in the balance sheet are similar to their fair values.

The financial assets classified as available for sale include shares in partnerships and corporations in the amount of €301 million (previous year €336 million) for which a fair value cannot be determined reliably. The shares in these companies are not quoted on an active market; they are therefore recognised at cost. There are no plans to sell a material number of shares in the near future. Shares measured at cost in the amount of €68 million (previous year: €83 million) were sold, however, in the financial year at a disposal loss of €3 million (previous year: €14 million).

The Group is allowed only to reclassify financial instruments out of the category "available for sale" into the category "held to maturity". No assets were reclassified in financial years 2007 and 2006.

The net gains and losses from financial instruments classified in accordance with the measurement categories of IAS 39 and the total interest income and expense of financial instruments not included in profit or loss at fair value are composed as follows:

Net gains and losses of the measurement categories

€m	2006	2007
Loans and receivables	93	175
Held-to-maturity financial assets	0	0
Financial liabilities recognised at fair value through profit and loss		
Trading	–217	–375
Fair value option	–19	–20
Other financial liabilities	–102	–110

The net gains and losses mainly account for the effects of fair-value measurement, valuation allowances and disposals (disposal gains/losses). No dividends or interest are taken into account in the financial instruments recognised in profit or loss at fair value. Details of net gains or losses on the financial assets available for sale can be found in Note 36.

Income and expense 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.

49 Contingent liabilities

The Group's contingent liabilities total €2,058 million (previous year: €2,840 million). €1,552 million of this relates to guarantee obligations and €204 million to liabilities from litigation risks. In addition to these contingent liabilities, the Deutsche Postbank Group has irrevocable loan commitments amounting to €23,480 million (previous year: €21,369 million).

50 Litigation

Due to our market-leading position, a large number of Deutsche Post AG services are subject to sectoral regulation in accordance with the *Postgesetz* (German postal act). The regulatory authority approves or reviews prices in particular, formulates the terms of downstream access and conducts general checks for market abuse. Any resulting proceedings may lead to a drop in revenue and earnings.

Legal risks arise from, amongst other things, appeals pending before the administrative courts against the regulatory authority's July 2002 ruling concerning the conditions for the price-cap procedure, from two appeals each against price approvals granted under the price-cap procedure for the years 2003, 2004 and 2005, and from appeals against other price approval decisions handed down by the regulatory authority.

European Commission competition proceedings were initiated on the basis of allegations about excessive mail prices made by the *Deutscher Verband für Post und Telekommunikation* (German association for posts and telecommunications). In these proceedings, Deutsche Post AG has presented detailed evidence to support its argument that the prices are reasonable.

Conditions determined by the regulator oblige Deutsche Post AG to allow customers and competitors downstream access to its network. Proceedings are pending before German administrative and civil courts and the European courts against the relevant rulings by the regulatory authority, the *Bundeskartellamt* (German federal antitrust authority) and the European Commission. Deutsche Post AG believes that the postal act (including the exclusive licence up to its expiry on 31 December 2007) is in compliance with EU and anti-trust law, and more specifically with the EU Postal Directive and the anti-trust rules stipulated by the EC Treaty. Depending on the outcome of the proceedings, Deutsche Post AG could be faced with further losses of revenue and earnings.

In response to a complaint from a third party, the European Commission made requests for information to the German government concerning an allegation by the *Monopolkommission* (German monopoly commission). The allegation is that Deutsche Post AG contravenes the prohibition on state aid under the EC Treaty by allowing Deutsche Postbank AG to use Deutsche Post outlets at below-market rates. In the opinion of Deutsche Post AG and Deutsche Postbank AG, this allegation is incorrect and the fee paid by Deutsche Postbank AG complies with the provisions on competition and state aid stipulated in European law. The European Commission is also asking the Federal Republic of Germany to comment on the sale of its entire interest in Deutsche Postbank AG to Deutsche Post AG in 1999. However, the Commission has already investigated the acquisition of Postbank as part of the state aid proceedings that were concluded with the ruling dated 19 June 2002. At the time, it explicitly concluded that the acquisition of Postbank involved "no grant of state aid".

The German government has already argued before the European Commission that the allegations are in its opinion unfounded. Nevertheless, with regard to the two allegations relating to the requests for information, no assurance can be given that the Commission will not find that the facts of the case constitute state aid.

On 12 September 2007, the European Commission initiated a formal investigation against Germany concerning possible subsidies to Deutsche Post. The investigation will focus on whether Germany, using state resources, overcompensated Deutsche Post AG or its legal predecessor Deutsche Bundespost POSTDIENST for the cost of providing universal services between 1989 and 2007 and whether the company was thereby granted state aid incompatible with EU law. According to the decision opening the investigation, the Commission intends to examine all public transfers, public guarantees, statutorily granted exclusive rights, the price regulation of letter services and the public funding of civil servants' pensions during the period in question. Also to be investigated is the cost allocation within Deutsche Post AG and its predecessor between the regulated letter service, the universal service and competitive services. This also relates to co-operation agreements between Deutsche Post AG and Postbank as well as between Deutsche Post AG and the business parcel service marketed by DHL Vertriebs GmbH.

Deutsche Post AG and Deutsche Postbank AG hold that the new investigation lacks any factual basis. All public transfers associated with the privatisation of Deutsche Bundespost, the public guarantees and the funding of pension obligations formed part of the subject matter of the state aid procedure closed by the decision of 19 June 2002. That decision did not identify the measures concerned as incompatible state aid. Deutsche Post AG and Deutsche Postbank AG are further of the opinion that the statutorily granted exclusive rights and the regulated letter prices do not fulfil the legal criteria to be considered a form of state aid in the first place. Deutsche Post AG also considers the internal allocation of costs with its subsidiaries to be consistent with EU state aid rules and the case law of the European Court of Justice. Nonetheless, based on an overall appraisal the possibility of the Commission finding a case of incompatible state aid cannot be ruled out.

On 22 November 2006, the European Commission opened formal proceedings with regard to possible state aid in connection with the construction of the DHL European air hub at Leipzig/Halle airport. The Commission notably has doubts that the financing of the new southern runway by the German state of Saxony, financial guarantees endorsed by Saxony and certain operational undertakings on the part of the airport operator are compatible with European law on state aid. In the opinion of Deutsche Post AG and DHL, the arrangements entered into with the state of Saxony and the airport comply with the law relating to state aid. It cannot be ruled out, however, that the Commission will deem specific features of these arrangements to be unlawful. This could result in additional costs for DHL in operating the air hub.

In October 2007 DHL Global Forwarding, along with all other major players in the freight forwarding industry, received a request for information from the Competition Directorate of the European Commission, a subpoena from the United States Department of Justice's Antitrust Division, and information requests from competition authorities in other jurisdictions, in connection with a formal investigation into the setting of surcharges and fees in the international freight forwarding industry.

In January 2008, an anti-trust class action law suit was initiated in the New York district court on behalf of purchasers of freight forwarder services in which Deutsche Post AG and DHL are named as defendants. This civil law suit appears to be based on the fact that anti-trust investigations are on-going, but not on any known outcome or quantified loss.

Deutsche Post World Net is not able to predict or comment on the outcome of the investigations or the merits of the class action law suit, but believes its financial exposure in relation to both is limited and has not, therefore, taken any provision in its accounts.

51 Other financial obligations

In addition to provisions, liabilities and contingent liabilities, there are other financial obligations amounting to €7,041 million (previous year: €6,414 million) from non-cancellable operating leases as defined by IAS 17.

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

€m	2006	2007
Land and buildings	5,637	6,310
Technical equipment and machinery	214	470
Other equipment, operating and office equipment	324	96
Aircraft	222	165
Other	17	0
Leases	**6,414**	**7,041**

€m	2006	2007
Year 1 after reporting date	1,160	1,285
Year 2 after reporting date	958	1,069
Year 3 after reporting date	779	871
Year 4 after reporting date	611	700
Year 5 after reporting date	468	561
Year 6 after reporting date and thereafter	2,438	2,555
Maturity structure of minimum lease payments	**6,414**	**7,041**

The present value of discounted minimum lease payments is €5,326 million (previous year: €4,975 million), based on a discount factor of 5.75% (previous year: 5.00%) Overall, rental and lease payments of €2,390 million (previous year: €2,140 million) arose in 2007, of which €1,709 million (previous year: €1,297 million) relates to non-cancellable leases. Future lease obligations from non-cancellable leases relate primarily to the following companies:

€m	2006	2007
Deutsche Post AG/ Deutsche Post Immobilien GmbH	2,306	2,468
Express and logistics companies	3,392	4,182
Other Group companies (including Deutsche Postbank Group)	716	391
Future lease obligations	**6,414**	**7,041**

The purchase obligation for investments in non-current assets amounted to €332 million.

52 Related-party disclosures

52.1 Related-party disclosures (companies and Federal Republic of Germany)

All companies classified as related parties that are controlled by Deutsche Post World Net or on which the Group can exercise significant influence are recorded in the list of shareholdings together with information on the equity interest held, their equity and their net profit or loss for the period, broken down by division. The list of shareholdings is filed with the commercial register of the Bonn Local Court.

Deutsche Post AG and Deutsche Postbank AG have a variety of relationships with the Federal Republic of Germany and other companies controlled by the Federal Republic of Germany.

The federal government is a customer of Deutsche Post AG and as such uses the company's services. Deutsche Post AG's business relationships are entered into with the individual public authorities and other government agencies as independent individual customers. The services provided to the respective individual customers are immaterial to the overall revenue of Deutsche Post AG.

Relationships with the *Bundesanstalt für Post und Telekommunikation* (BAnstPT)

The Federal Republic of Germany manages its interest in Deutsche Post AG and exercises its shareholder rights via the *Bundesanstalt für Post und Telekommunikation* ("Bundesanstalt") which has legal capacity and falls under the supervision of the German Federal Ministry of Finance. The *Gesetz über die Errichtung einer Bundesanstalt für Post und Telekommunikation* or *Bundesanstalt Post Gesetz* (BAnstG – German act to establish a Deutsche Bundespost Federal Posts and Telecommunications Agency) transferred specific legal rights and duties to the Bundesanstalt that relate to matters jointly affecting Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG. In addition, the Bundesanstalt manages the Postal Civil Service Health Insurance Fund, the recreation programme, the Versorgungsanstalt der Deutsche Bundespost ("VAP") and the welfare service for Deutsche Post AG, Deutsche Postbank AG, Deutsche Telekom AG and the Bundesanstalt. The co-ordination and administration tasks are performed on the basis of agency agreements. In 2007, Deutsche Post AG was invoiced for €65 million (previous year: €68 million) in instalment payments relating to services provided by the Bundesanstalt, and Deutsche Postbank AG was invoiced for €4 million (previous year: €5 million).

Relationships with the German Federal Ministry of Finance

In financial year 2001, the *Bundesministerium der Finanzen* (BMF – 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. In financial year 2007 Deutsche Post AG paid to the federal government the aggregate amount of approximately €1.3 million for financial year 2006 and around €1 million in monthly instalments relating to financial year 2007. As agreed, the final settlement for financial year 2007 will be made by 1 July 2008.

Deutsche Post AG also entered into an agreement with the BMF 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 government by paying a flat fee. In 2007, this initiative resulted in 33 permanent transfers (previous year: 37) and two secondments with the aim of a permanent transfer (previous year: 22).

Relationships with Deutsche Telekom AG and its subsidiaries

In financial year 2007, Deutsche Post World Net provided goods and services for Deutsche Telekom AG amounting to €0.4 billion (previous year: €0.6 billion). These were mainly transportation services for letters and parcels. In the same period, Deutsche Post World Net purchased goods and services (including IT products and services) worth €0.4 billion (previous year: €0.3 billion) from Deutsche Telekom. Deutsche Telekom AG and Deutsche Postbank AG have also entered into a master loan agreement for €0.6 billion (previous year: €0.6 billion). In addition, there are links between Deutsche Post AG and Deutsche Telekom AG in terms of personnel. For example, the chairman of the Board of Management of Deutsche Post AG, Dr Klaus Zumwinkel, is also chairman of the Supervisory Board of Deutsche Telekom AG.

Bundes-Pensions-Service für Post und Telekommunikation e.V.

Information on the Bundes-Pensions-Service für Post- und Telekommunikation e.V. can be found in Note 6.

Deutsche Post Pensions-Fonds GmbH & Co. KG

The real estate, with a fair value of €1,040 million, of which Deutsche Post Betriebsrenten Service e.V. (DPRS) and/or Deutsche Post Pensionsfonds GmbH & Co. KG are the legal or beneficial owners, is exclusively let to Deutsche Post Immobilien GmbH. Rental expense for Deutsche Post Immobilien GmbH amounts to €56.4 million in 2007 (previous year: €34.7 million). The rent was always paid on time. Therefore no expense was incurred for bad debt losses in 2007 and is not expected to be incurred in future years. There were no sales relationships between external authorities and a Group company of Deutsche Post AG in 2007.

Relationships with unconsolidated companies and associates

In addition to the consolidated subsidiaries, Deutsche Post World Net has direct and indirect relationships with a large number of unconsolidated subsidiaries and associates deemed to be related parties to the Group, in the course of its ordinary business activities. In the course 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 made in financial year 2007 with major related parties, resulting in the following items in the financial statements of Deutsche Post World Net:

€m	2006	2007
Receivables	73	43
Loans	18	17
Receivables from inhouse banking	14	6
Financial liabilities	–32	–45
Liabilities	–61	–57
Liabilities from inhouse banking	–13	–15

52.2 Related-party disclosures (individuals)

In accordance with IAS 24, Deutsche Post World Net also reports on transactions between Deutsche Post World Net and related parties or the members of their families. Related parties are defined as the Board of Management, Supervisory Board, heads of corporate departments or business departments (second-level executives) and the members of their families.

There were no reportable transactions between members of the Board of Management and their families and Deutsche Post World Net in financial year 2007. In some cases, members of the Supervisory Board were involved in legal transactions with Deutsche Post AG. These mainly related to services rendered and loans granted by Deutsche Postbank AG. The volume of these transactions was approximately €2 million. In two cases, second-level executives indicated to have concluded agreements with Deutsche Post. The transactions mainly consisted of rendering consulting and other services for Deutsche Post World Net; the transactions had a total volume of €0.5 million. Deutsche Postbank AG granted loans to the second-level executives in the total amount of €2.6 million. The terms to maturity vary between five and 15 years. Unless a variable interest rate had been agreed, the rate is between 3.20% and 4.79%. The amount of the loans was €2.3 million as at 31 December 2007. All transactions were conducted at conditions customary in the market and within the scope of global authorisations adopted in relation to loans to managers by Deutsche Postbank AG in accordance with Section 15 of the *Kreditwesengesetz* (German banking act).

The remuneration of key management personnel of the Group requiring disclosure under IAS 24 comprises the remuneration of the active Board of Management and Supervisory Board members. The active members of the Board of Management and the Supervisory Board were remunerated as follows:

T €	2006	2007
Short-term employee benefits (less share-based remuneration)	19,555	16,599
Post-employment benefits	4,227	4,066
Termination benefits	0	8,363
Share-based remuneration	3,620	3,571
Total	**27,402**	**32,599**

The post-employment benefits are recognised as the service cost resulting from the pension provisions for active members of the Board of Management.

The share-based remuneration amount relates to the share-based remuneration expense recognised in 2007.

The share-based remuneration expense for financial year 2007 is shown in the table below:

€	Stock options	SARs	Total
Dr Klaus Zumwinkel, Chairman	241,616	646,850	888,466
John Allan	0	34,833	34,833
Dr Frank Appel	161,076	431,233	592,309
Prof. Dr Edgar Ernst (Member of the Board of Management until 30 September 2007)	139,366	288,592	427,958
Jürgen Gerdes (Member of the Board of Management since 1 July 2007)	11,366	104,672	116,038
Dr Wolfgang Klein (Member of the Board of Management since 1 July 2007)	0	0	0
John P. Mullen	106,270	431,233	537,503
Dr Hans-Dieter Petram (Member of the Board of Management until 30 June 2007)	117,656	145,950	263,606
Walter Scheurle	161,076	431,233	592,309
Prof. Dr Wulf von Schimmelmann (Member of the Board of Management until 30 June 2007)	117,656	0	117,656
Share-based remuneration	**1,056,082**	**2,514,596**	**3,570,678**

Further details on the remuneration of, and the shares held by, the Board of Management and the Supervisory Board can be found in the Corporate Governance Report. The remuneration report contained in the Corporate Governance Report also forms part of the Notes.

Reportable transactions

For 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* (German securities trading act), please refer to the company website at www.dpwn.com.

53 Significant subsidiaries, joint ventures and associates

	Country	Equity interest and share of voting rights %		Revenue[1] €m	
		31 Dec. 2006	31 Dec. 2007	2006	2007
Significant subsidiaries					
MAIL					
DHL Vertriebs GmbH & Co. OHG	Germany	100.00	100.00	1,576	1,597
Global Mail Inc.	USA	100.00	100.00	647	556
Williams Lea Limited	UK	66.15	66.15	336	484
Williams Lea Inc.	USA	66.15	66.15	182	249
DHL Global Mail (UK) Ltd.	UK	–	100.00	–	172[2]
Koba SA	France	100.00	100.00	41	113
The Stationery Office Limited	UK	–	66.15	–	106[3]
Williams Lea Inhouse Solutions GmbH	Germany	100.00	100.00	71	81
Interlanden B.V.	Netherlands	100.00	100.00	71	73
Deutsche Post Customer Service Center GmbH	Germany	100.00	100.00	69	69
Deutsche Post Selekt Mail Nederland C.V.	Netherlands	51.49	51.49	64	65
EXPRESS/LOGISTICS					
Exel Europe Ltd.	UK	100.00	100.00	2,303	3,283
DHL Express (USA) Inc.	USA	100.00	100.00	3,359	3,127
Air Express International USA Inc.	USA	100.00	100.00	1,574	1,848
Exel Inc.	USA	100.00	100.00	1,420	1,508
DHL Freight GmbH	Germany	100.00	100.00	1,307	1,434
DHL Express (France) SAS	France	100.00	100.00	988	999
DHL Global Forwarding GmbH	Germany	100.00	100.00	625	964
DHL Express (Sweden) AB	Sweden	100.00	100.00	901	957
DHL Express (Italy) S.r.L.	Italy	100.00	100.00	851	891
Danzas Z.F. Freight Agency Co. Ltd.	China	100.00	100.00	444	719
DHL Express (UK) Ltd.	UK	100.00	100.00	526	714
Exel UK Ltd.	UK	100.00	100.00	795	708
DHL Global Forwarding (UK) Ltd.	UK	100.00	100.00	426	687
DHL Express (Netherlands) B.V.	Netherlands	100.00	100.00	390	682
DHL Global Forwarding (HK) Ltd.	China	100.00	100.00	451	628
DHL Solutions GmbH	Germany	100.00	100.00	612	623
DHL International (UK) Ltd.	UK	100.00	100.00	582	607
DHL Express Germany GmbH	Germany	100.00	100.00	557	581
DHL Express Iberia S.L. (Group)	Spain	100.00	100.00	549	533
Exel Transportation Services Inc.	USA	100.00	100.00	570	490
DHL Global Forwarding (Italy) S.p.A.	Italy	100.00	100.00	469	479
DHL Danzas Air & Ocean (France) SAS	France	100.00	100.00	423	477
DHL Sinotrans International Air Courier Ltd.	China	51.68	51.68	416	458
DHL Exel Supply Chain (Spain) S.L.	Spain	100.00	100.00	359	420
DHL Global Forwarding (Sweden) AB	Sweden	100.00	100.00	211	411
DHL Logistics (Schweiz) AG	Switzerland	100.00	100.00	233	400
FINANCIAL SERVICES					
Deutsche Postbank AG (Group)	Germany	50.00 + 1 share	50.00 + 1 share	9,525	10,344
SERVICES[4]					
Significant joint ventures[5]					
Exel-Sinotrans Freight Forwarding Co. Ltd.	China	50.00	50.00	316	211
Express Couriers Ltd.	New Zealand	50.00	50.00	72	84
AeroLogic GmbH	Germany	–	50.00	–	–[6]
Significant associates					
Polar Air Cargo Worldwide Inc.	USA	–	49.00/25.00		[7]
Air Hong Kong Ltd.	China	40.00	40.00		

1) IAS amounts reported in single-entity financial statements.
2) Transfer of operations of several companies to DHL Global Mail (UK) Ltd. after merger.
3) Acquired on 10 January 2007.
4) Almost exclusively internal revenue.
5) Proportionate amounts.
6) Established on 26 September 2007. Start of aircraft movement operations planned for April 2009.
7) Acquired on 25 June 2007.

54 Making use of Section 264 (3) HGB

For financial year 2007, Deutsche Post AG has exercised the simplification options allowed by Section 264(3) of the *Handelsgesetzbuch* (HGB – German commercial code) and applicable to Subpart One (annual financial statements of the corporation and management report) and Subpart Four (publication) for the following companies:

- Deutsche Post Beteiligungen Holding GmbH
- Danzas Deutschland Holding GmbH
- InterServ Gesellschaft für Personal- und Beraterdienstleistungen mbH
- Deutsche Post Ventures GmbH
- DHL Global Management GmbH
- DHL Express Germany GmbH
- Deutsche Post Immobilien GmbH
- Deutsche Post Shop Essen GmbH
- Deutsche Post Shop Hannover GmbH
- Deutsche Post Shop München GmbH
- DHL International GmbH
- Deutsche Post Fleet GmbH
- Deutsche Post Customer Service Center GmbH
- DHL Verwaltungs GmbH
- Deutsche Post Direkt GmbH
- Deutsche Post Technischer Service GmbH
- DHL Airways GmbH
- European Air Transport Leipzig GmbH
- DHL Hub Leipzig GmbH
- Williams Lea Deutschland GmbH
- Williams Lea Inhouse Solutions GmbH
- Williams Lea Direct Marketing Solutions GmbH
- Williams Lea Document Solutions GmbH
- Williams Lea Print Solutions GmbH

55 Declaration of Conformity with the German Corporate Governance Code

On 13 December 2007, the Board of Management and the Supervisory Board of Deutsche Post AG together published the Declaration of Conformity with the German Corporate Governance Code for financial year 2007 required by Section 161 of the *Aktiengesetz* (AktG – German stock corporation act).

The Board of Management and the Supervisory Board of Deutsche Postbank AG, whose financial statements are included in the consolidated financial statement of Deutsche Post AG, made the Declaration of Conformity on 30 November 2007. The Declarations of Conformity can be accessed on the Internet at www.corporate-governance-code.de and on the homepage at www.dpwn.com. and/or www.postbank.com.

56 Significant events after the balance sheet date

Deutsche Postbank Group intends to sell the credit card and sales financing business of BHW Bank AG to Landesbank Berlin (Note 34) in January 2008.

Deutsche Post World Net and Hewlett-Packard Services (HP) signed a letter of intent in January 2008 with the aim of delegating responsibility for parts of the world-wide IT activities of Deutsche Post World Net to HP Services. Pursuant to the planned agreement Deutsche Post World Net expects to save costs of at least €1 billion over a period of seven years. This cost reduction is to be achieved on the one hand by reducing general IT costs. On the other hand, IT resources required to manage own business and to render customer services are intended to be used more efficiently. The parties are confident that a binding agreement will be signed by the middle of 2008. HP would then take over the approximately 2,500 employees who are currently providing services for the IT centres of Deutsche Post World Net – including information and data management, infrastructure and networking management as well as application management. The IT locations affected are Prague (Czech Republic), Scottsdale (Arizona, USA), Cyberjaya (Malaysia) and locations in some European countries.

Dr Klaus Zumwinkel informed the Executive Committee of the Supervisory Board on 15 February 2008 of his decision to resign from his offices as chairman of the Board of Management of Deutsche Post AG and chairman of the Supervisory Board of Deutsche Postbank AG at the next meeting of the Supervisory Board.

57 Auditors' fees

The following fees for services rendered by the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, in financial year 2007 and in the preceding financial year, were recognised as expense:

€m	2006	2007
Audits of the financial statements	14.2	13.7
Other assurance or valuation services	3.5	5.9
Tax advisory services	0.4	0.3
Other services	7.6	4.6
Auditors' fees	**25.7**	**24.5**

58 Miscellaneous

DHL Exel Supply Chain Hong Kong intends to acquire the remaining 50% interest in its joint venture Exel-Sinotrans Freight Forwarding from Sinotrans Air Transportation Development in financial year 2008.

59 Additional information: Consolidated financial statements including the Deutsche Postbank Group at equity

In addition to the consolidated financial statements with their full inclusion of Deutsche Postbank Group, consolidated financial statements were prepared including the Deutsche Postbank Group at equity, since the activities of the Deutsche Postbank Group differ substantially from the ordinary activities of the other companies in Deutsche Post World Net. Deutsche Postbank Group was excluded from full consolidation in the following consolidated financial statements as at 31 December 2007. The Deutsche Postbank Group is accounted for in these supplemental financial statements only as a financial investment carried at equity. The accounting treatment in these financial statements differs from the standards required by the IFRSs to the extent that the Deutsche Postbank Group was not fully consolidated, as required by IAS 27, but was accounted for at equity.

The following tables show the reconciliation of the financial statements of Deutsche Post World Net to those of Deutsche Post World Net including Postbank at equity. Transactions between the Deutsche Postbank Group and the other Group companies are generally included in the financial statements.

Explanations to the reconciliation of the income statement

As the starting point of the reconciliation of the income statement, column 1 contains the data for Deutsche Post World Net including the fully consolidated Deutsche Postbank Group.

Column 2 contains the IFRS income statement of the Deutsche Postbank Group that has been excluded from the overall financial statements here. The income statement of the Deutsche Postbank Group shown here in the standard commercial and industrial format includes all transactions for the provision of goods and services entered into with the rest of Deutsche Post World Net.

The intra-Group relationships recognised in the income statement between the Deutsche Postbank Group and the rest of Deutsche Post World Net that were eliminated during the transition to the overall Group are reincluded in column 3. In particular, these relate to the counter services provided by Deutsche Post AG for the Deutsche Postbank Group.

Column 4 contains the interest of Deutsche Post AG in the net profit for the period of the Deutsche Postbank Group. Column 5 contains the data for Deutsche Post World Net including Postbank at equity.

Explanations to the reconciliation of the balance sheet

As the starting point of the reconciliation of the balance sheet, column 1 contains the data for Deutsche Post World Net including the fully consolidated Deutsche Postbank Group.

Column 2 contains the IFRS balance sheet of the Deutsche Postbank Group that is excluded from the overall financial statements here. The balance sheet of the Deutsche Postbank Group shown here in the standard commercial and industrial format includes all transactions for the provision of goods and services entered into with the rest of Deutsche Post World Net.

The intra-Group relationships between the Deutsche Postbank Group and the rest of Deutsche Post World Net that were eliminated during the transition to the overall Group are reincluded in column 3.

Column 4 contains the investments in the Deutsche Postbank Group reported under non-current financial assets and measured at equity. Column 5 contains the data for Deutsche Post World Net including Postbank at equity.

Cash flow disclosures

The cash flow statement including Postbank at equity is based on the consolidated financial statements including Postbank at equity. This means that the cash flows of Deutsche Postbank Group are eliminated, but the cash flows between Deutsche Post World Net and Deutsche Postbank Group are reincluded. In addition, net income from the measurement of Deutsche Postbank Group at equity is included as non-cash income in net cash from operating activities. The dividend paid by Deutsche Postbank AG to Deutsche Post AG is included in cash flows from investing activities. All other items are treated in the same way as in the consolidated cash flow statement. Further disclosures relating to the cash flow statement can be found in Note 47.

59.1 Additional information: Reconciliation of the income statement (Postbank at equity)

€m	(1)	(2)	(3)	(4)	(5)	
	Deutsche Post World Net	Deutsche Postbank Group	Consolidation of income and expense and inter-company balances	Other	Deutsche Post World Net (Postbank at equity)	Deutsche Post World Net (Postbank at equity)
	2007	**2007**	**2007**	**2007**	**2007**	**2006**
Revenue	63,512	–10,344	875	0	54,043	51,939
Other operating income	2,586	–477	234	0	2,343	2,295
Total operating income	**66,098**	**–10,821**	**1,109**	**0**	**56,386**	**54,234**
Materials expense	–36,875	7,061	–889	0	–30,703	–28,928
Staff costs	–18,471	1,311	–9	0	–17,169	–17,301
Depreciation, amortisation and impairment losses	–2,357	161	0	0	–2,196	–1,601
Other operating expenses	–5,193	1,219	–211	0	–4,185	–3,805
Total operating expenses	**–62,896**	**9,752**	**–1,109**	**0**	**–54,253**	**–51,635**
Profit or loss from operating activities (EBIT)	**3,202**	**–1,069**	**0**	**0**	**2,133**	**2,599**
Net income from associates	3	0	0	0	3	4
Net income from measurement of Deutsche Postbank Group at equity	0	0	0	435	435	663
Other financial income	998	–7	104	–103	992	189
Other finance costs	–2,011	72	–1	0	–1,940	–1,159
Net other finance costs	–1,013	65	103	–103	–948	–970
Net finance costs	**–1,010**	**65**	**103**	**332**	**–510**	**–303**
Profit before income taxes	**2,192**	**–1,004**	**103**	**332**	**1,623**	**2,296**
Income tax expense	–307	134	0	0	–173	–315
Consolidated net profit for the period	**1,885**	**–870**	**103**	**332**	**1,450**	**1,981**
attributable to						
Deutsche Post AG shareholders	1,389	–869	103	766	1,389	1,916
Minorities	496	–1	0	–434	61	65

59.2 Additional information: Reconciliation of the balance sheet (Postbank at equity)

€m	(1) Deutsche Post World Net	(2) Deutsche Postbank Group	(3) Consolidation of inter-company balances	(4) Other	(5) Deutsche Post World Net (Postbank at equity)	Deutsche Post World Net (Postbank at equity)
	31 Dec. 2007	**31 Dec. 2007**	**31 Dec. 2007**	**31 Dec. 2007**	**31 Dec. 2007**	**31 Dec. 2006**
ASSETS						
Intangible assets	14,226	–2,425	0	991	12,792	13,138
Property, plant and equipment	8,754	–928	0	0	7,826	8,446
Investment property	187	–72	0	0	115	50
Investments in associates	203	0	0	0	203	63
Investments in Deutsche Postbank Group	0	0	0	1,662	1,662	1,611
Other non-current financial assets	857	–103	0	0	754	829
Non-current financial assets	1,060	–103	0	1,662	2,619	2,503
Other non-current assets	497	0	0	0	497	376
Deferred tax assets	1,020	–483	0	0	537	298
Non-current assets	**25,744**	**–4,011**	**0**	**2,653**	**24,386**	**24,811**
Inventories	248	0	0	0	248	268
Income tax assets	312	–117	0	0	195	195
Receivables and other assets	9,806	–961	532	0	9,377	8,808
Receivables and other securities from financial services	193,986	–193,986	0	0	0	0
Financial instruments	72	2	0	0	74	42
Cash and cash equivalents	4,683	–3,352	8	0	1,339	1,761
Non-current assets held for sale	615	–565	0	0	50	56
Current assets	**209,722**	**–198,979**	**540**	**0**	**11,283**	**11,130**
Total assets	**235,466**	**–202,990**	**540**	**2,653**	**35,669**	**35,941**
EQUITY AND LIABILITIES						
Issued capital	1,207	–410	0	410	1,207	1,202
Other reserves	875	–485	0	485	875	1,528
Retained earnings	8,976	–4,412	0	4,412	8,976	8,490
Equity attributable to Deutsche Post AG shareholders	11,058	–5,307	0	5,307	11,058	11,220
Minority interest	2,801	–2	0	–2,653	146	128
Equity	**13,859**	**–5,309**	**0**	**2,654**	**11,204**	**11,348**
Provisions for pensions and other employee benefits	5,989	–1,143	0	0	4,846	5,019
Deferred tax liabilities	1,569	–1,102	0	0	467	452
Other non-current provisions	3,015	–942	0	0	2,073	2,243
Non-current provisions	**10,573**	**–3,187**	**0**	**0**	**7,386**	**7,714**
Non-current financial liabilities	8,625	–4,963	160	0	3,822	3,495
Other non-current liabilities	361	0	4	0	365	242
Non-current liabilities	**8,986**	**–4,963**	**164**	**0**	**4,187**	**3,737**
Non-current provisions and liabilities	**19,559**	**–8,150**	**164**	**0**	**11,573**	**11,451**
Income tax provisions	334	–121	0	0	213	155
Other current provisions	1,703	–23	0	0	1,680	1,616
Current provisions	**2,037**	**–144**	**0**	**0**	**1,893**	**1,771**
Current financial liabilities	1,556	–642	242	0	1,156	1,948
Trade payables	5,384	–173	0	0	5,211	4,930
Liabilities from financial services	187,787	–187,787	0	0	0	0
Income tax liabilities	139	0	0	0	139	101
Other current liabilities	5,101	–741	134	–1	4,493	4,375
Liabilities associated with non-current assets held for sale	44	–44	0	0	0	17
Current liabilities	**200,011**	**–189,387**	**376**	**–1**	**10,999**	**11,371**
Current provisions and liabilities	**202,048**	**–189,531**	**376**	**–1**	**12,892**	**13,142**
Total equity and liabilities	**235,466**	**–202,990**	**540**	**2,653**	**35,669**	**35,941**

59.3 Additional information: Cash flow statement (Postbank at equity)

€m	2006 restated[1]	2007
Net profit before taxes	**2,296**	**1,623**
Net finance cost excluding net income from measurement at equity	966	945
Net income from measurement at equity	–663	–435
Profit from operating activities (EBIT)	**2,599**	**2,133**
Depreciation/amortisation of non-current assets	1,601	2,196
Net income from disposal of non-current assets	–174	–226
Non-cash income and expense	115	47
Change in provisions	–1,055	–877
Change in other assets and liabilities	–19	–146
Taxes paid	–251	–278
Net cash from operating activities before changes in working capital	**2,816**	**2,849**
Changes in working capital		
Inventories	–54	10
Receivables and other assets	–824	–657
Liabilities and other items	240	606
Net cash from operating activities	**2,178**	**2,808**
Proceeds from disposal of non-current assets		
Divestitures	239	62
Other non-current assets	925	756
	1,164	**818**
Cash paid to acquire non-current assets		
Investments in companies	–440	–334
Other non-current assets	–1,813	–2,009
	–2,253	**–2,343**
Interest received	86	514
Postbank dividend	137	103
Current financial instruments	–5	0
Net cash used in investing activities	**–871**	**–908**
Change in financial liabilities	272	–757
Dividend paid to Deutsche Post AG shareholders	–836	–903
Dividend paid to other shareholders	–37	–56
Issuance of shares under stock option plan	124	73
Interest paid	–399	–660
Net cash used in financing activities	**–876**	**–2,303**
Net change in cash and cash equivalents	431	–403
Effect of changes in exchange rates on cash and cash equivalents	–38	–46
Change in cash and cash equivalents due to changes in consolidated group	–16	27
Cash and cash equivalents at 1 January	1,384	1,761
Cash and cash equivalents at 31 December	**1,761**	**1,339**

1) Prior-period amounts restated in accordance with the consolidated financial statements.

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, 15 February 2008

The Board of Management

Dr Klaus Zumwinkel

Dr Frank Appel   John Allan   Jürgen Gerdes

Dr Wolfgang Klein   John P. Mullen   Walter Scheurle

Auditor’s Report

We have audited the consolidated financial statements prepared by the Deutsche Post AG, Bonn, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Düsseldorf, 15 February 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Brebeck	Klaus-Dieter Ruske
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

3PL
Third-party logistics provider primarily using its own equipment and resources.

Container
Sealed, reusable metal box for carrying goods by ship or rail.

Contract logistics
Performance of complex logistics and logistics-related tasks along the value chain by a service provider. Services tailored to the particular industry and customer are provided under contracts lasting several years.

Co-pack services
Finishing, order picking and packaging under customer contract.

Day Definite
Delivery of express shipments on a specified day.

Dialogue marketing
Market-orientated activities which draw on direct communications to selectively reach target groups through a personal, individualised approach and to enter into dialogue.

Distribution
Process flows in the sales channel from producers via wholesalers/retailers to consumers.

Downstream access
As the dominant company in the market, Deutsche Post is obliged to make parts of the mail value chain available separately to customers and, under certain conditions, other postal service providers.

EU Postal Directive
Legal framework for the postal markets in the member states of the European Union.

Exclusive licence
In accordance with the German postal act, Deutsche Post AG had the exclusive licence until the end of 2007 to commercially transport certain items. The exclusive licence expired with effect from 1 January 2008.

Fast-moving consumer goods
Everyday consumer goods that sell quickly.

Federal Network Agency
(*Bundesnetzagentur*)
National regulator for electricity, gas, telecommunications, post and railway. Previously the Regulatory Authority for Telecommunications and Posts (*Regulierungsbehörde für Telekommunikation und Post*).

First Choice
Group-wide programme aimed at improving service quality and enhancing customer focus.

Full container load (FCL)
Shipments which completely fill a container.

Global Customer Solutions
Account management organisation for the Group's largest global clients.

Hub
Main transshipment base. Collection centre for the transshipment and consolidation of flows of goods.

IATA
International Air Transport Association.

Intermodal transport
Transport chain integrating different modes of transport, often combining road and rail.

Less than container load (LCL)
Loads that will not fill a container by themselves and are therefore grouped for ocean transport.

Logistics campus
Location where several distribution centres share certain resources such as staff and means of transport to save time and maximise cost efficiency.

Outsourcing
The subcontracting of tasks to external service providers.

Packstation
Parcel machine where parcels and small packets can be deposited and collected around the clock.

Paketbox
Postbox for franked parcels and small packets (maximum dimensions: 50 x 40 x 30cm).

Philately
The study of stamps. Systematic collection of postage stamps.

Postal act
(*Postgesetz*)
The purpose of the German postal act, which was adopted on 1 January 1998, is to promote postal competition through regulation and ensure the nationwide provision of appropriate and sufficient postal services. The postal act includes regulations on licensing, price control and the universal service.

Preferred periodical
A press product of which more than 30% consists of journalistic reporting.

Price-cap procedure
Procedure whereby the Federal Network Agency approves prices for key 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.

Same Day
Same-day delivery of express shipments.

Standard letter
Letter measuring max. 235 x 125 x 5mm and weighing up to 20g.

Standard periodical
A press product of which no more than 30% consists of journalistic reporting.

Supply chain
A series of connected resources and processes from sourcing materials to delivering goods to consumers.

TEU
Twenty-foot equivalent unit. Standardised container unit measuring 20 feet in length (1 foot = approximately 30cm).

Time Definite
Delivery of express shipments at a specified time.

Value-added services
Services which go beyond core services offered and thus create added value.

Index

8-Year Review

8-Year Review 2000 to 2007

€m	2000 restated	2001 restated	2002 restated	2003 restated	2004 restated	2005 restated	2006 restated	2007
Revenue								
MAIL	11,733	11,707	12,129	12,495	12,747	12,878	15,290	15,484
EXPRESS	6,022	6,421	14,637	15,293	17,557	16,831	13,463	13,874
LOGISTICS	8,289	9,153	5,817	5,878	6,786	9,933	24,405	25,739
FINANCIAL SERVICES	7,990	8,876	8,676	7,661	7,349	7,089	9,593	10,426
SERVICES	–	–	–	–	–	3,874	2,201	2,357
Divisions total	34,034	36,157	41,259	41,327	44,439	50,605	64,952	67,880
Consolidation (until 2004 Other/Consolidation)	–1,326	–2,778	–2,004	–1,310	–1,271	–6,011	–4,407	–4,368
Total	**32,708**	**33,379**	**39,255**	**40,017**	**43,168**	**44,594**	**60,545**	**63,512**
Profit or loss from operating activities before goodwill amortisation (EBITA)								
MAIL	2,004	1,960	2,144	2,082	2,085	2,030	2,094	2,003
EXPRESS	76	176	270	365	373	411	288	–174
LOGISTICS	113	159	173	206	281	346	751	957
FINANCIAL SERVICES	505	522	679	568	716	869	1,004	1,076
SERVICES	–	–	–	–	–	679	–229	–660
Divisions total	2,698	2,817	3,266	3,221	3,455	4,335	3,908	3,202
Consolidation (until 2004 Other/Consolidation)	–319	–270	–297	–246	–84	–131	–36	0
Total	**2,379**	**2,547**	**2,969**	**2,975**	**3,371**	**4,204**	**3,872**	**3,202**
Profit or loss from operating activities (EBIT)								
MAIL	2,003	1,958	2,138	2,067	2,072	2,030	2,094	2,003
EXPRESS	33	126	–79	152	117	–23	288	–174
LOGISTICS	13	42	80	116	182	346	751	957
FINANCIAL SERVICES	505	520	678	567	714	863	1,004	1,076
SERVICES	–	–	–	–	–	679	–229	–660
Divisions total	2,554	2,646	2,817	2,902	3,085	3,895	3,908	3,202
Consolidation (until 2004 Other/Consolidation)	–319	–270	–297	–246	–84	–131	–36	0
Total	**2,235**	**2,376**	**2,520**	**2,656**	**3,001**	**3,764**	**3,872**	**3,202**
Consolidated net profit for the period	**1,527**	**1,587**	**1,590**	**1,342**	**1,740**	**2,448**	**2,282**	**1,885**
Cash flow/investments/depreciation and amortisation								
Cash flow from operating activities	2,216	3,059	2,967	3,006	2,336	3,624	3,922	5,151
Cash flow from investing activities	–2,098	–2,380	–2,226	–2,133	–385	–5,052	–2,697	–753
Cash flow from financing activities	–89	–619	147	–304	–493	–1,288	–865	–2,087
Investments	3,113	3,468	3,100	2,846	2,536	6,176	–4,066	–2,656
Depreciation and amortisation	1,204	1,285	1,893	1,693	1,821	1,961	1,771	2,357
Assets and capital structure								
Non-current assets[1]	11,081	12,304	14,536	15,957	17,027	25,223	26,074	25,744
Current assets (until 2003: including deferred tax assets)[1]	139,199	144,397	148,111	138,976	136,369	147,417	191,624	209,722
Equity (excluding minority interest)	4,001	5,353	5,095	6,106	7,242	10,624	11,220	11,058
Minority interest	79	75	117	59	1,623	1,791	2,732	2,801
Current and non-current provisions	11,107	10,971	12,684	12,673	12,441	12,161	14,233	12,610
Current and non-current liabilities[2]	9,723	8,770	11,900	12,778	15,064	19,371	20,850	21,210
Total assets	150,280	156,701	162,647	154,933	153,396	172,640	217,698	235,466

8-Year Review 2000 to 2007

		2000 restated	2001 restated	2002 restated	2003 restated	2004 restated	2005 restated	2006 restated	2007
Employees/staff costs									
Total number of employees (headcount including trainees)	at 31 Dec.	324,203	321,369	371,912	383,173	379,828	502,545	520,112	536,350
Full time equivalents (excluding trainees)[3]	at 31 Dec.	284,890	283,330	334,952	348,781	340,667	455,115	463,350	475,100
Average number of employees (headcount)		319,998	323,298	375,890	375,096	381,492	393,463	507,641	524,803
Staff costs	€m	11,056	11,246	13,313	13,329	13,840	14,337	18,616	18,471
Staff cost ratio[4]	%	33.8	33.7	33.9	33.3	32.1	32.2	30.7	29.1
Key figures revenue/income/assets and capital structure									
Return on sales[5]	%	7.3	7.6	7.6	7.4	7.0	8.4	6.4	5.0
Return on equity (ROE) before taxes[6]	%	62.1	45.9	35.5	34.2	29.2	28.7	21.6	15.8
Return on total assets[7]	%	2.0	1.5	1.6	1.7	1.9	2.3	2.0	1.4
Tax rate[8]	%	25.1	26.1	14.3	29.9	20.2	19.8	19.7	14.0
Equity ratio[9]	%	2.7	3.4	3.1	3.9	5.8	7.2	6.4	5.9
Net debt (Postbank at equity)[10]	€m	2,010	1,750	1,494	2,044	–32	4,193	3,083	2,858
Net gearing (Postbank at equity)[11]	%	33.4	24.6	22.7	25.1	–0.4	28.1	21.4	20.3
Dynamic gearing (Postbank at equity)[12]	years	0.96	0.64	0.46	0.82	0.00	2.44	1.42	1.02
Key share data									
(Diluted) earnings per share[13]	€	1.36	1.42	0.59	1.18	1.44	1.99	1.60	1.15
(Diluted) earnings per share[13] before extraordinary expense	€	1.36	1.42	1.41	1.18	1.44	1.99	1.60	1.15
Cash flow per share[13),14]	€	1.99	2.75	2.67	2.70	2.10	3.23	3.28	4.27
Dividend distribution	€m	300.46	411.74	445.12	489.63	556.40	835.71	903.00	1,086.72
Payout ratio (distribution to consolidated net profit)	%	19.87	26.11	67.54	37.41	34.82	37.39	47.13	78.25
Dividend per share	€	0.27	0.37	0.40	0.44	0.50	0.70	0.75	0.90[15]
Dividend yield (based on year-end closing price)	%	1.2	2.5	4.0	2.7	3.0	3.4	3.3	3.8
(Diluted) price/earnings ratio before extraordinary expense[16]		16.8	10.6	7.1	13.9	11.7	10.3	14.3	20.4
Number of shares carrying dividend rights	millions	1,112.8	1,112.8	1,112.8	1,112.8	1,112.8	1,193.9	1,204.0	1,207.5
Year-end closing price	€	22.90	14.99	10.00	16.35	16.90	20.48	22.84	23.51

1) From 2004 balance sheet presented in accordance with the new IAS 1 as explained in item 5 of the Notes to the 2005 consolidated financial statements.
2) Excluding liabilities from financial services.
3) Until 2004 including trainees.
4) Staff costs/revenue.
5) Total EBITA/revenue; from 2004: total EBIT/revenue.
6) Profit before income taxes/average equity (from 2004 including minority interest).
7) Profit from operating activities (EBIT)/average total assets.
8) Income tax expense/profit before income taxes.
9) Equity (from 2004 including minority assets)/total assets.
10) Financial liabilities excluding cash and cash equivalents, current financial instruments, long-term deposits and financial liabilities to minority shareholders of Williams Lea.
11) Net debt/net debt and equity (from 2004 including minority interest).
12) Net debt/cash flow from operating activities.
13) The weighted average number of shares for the period was used for the calculation.
14) Cash flow from operating activities.
15) Proposal.
16) Year-end closing price/earnings per share before extraordinary expense.

Events and Contacts

Financial calendar[1)]

6 May 2008	Annual General Meeting
7 May 2008	Dividend payment
14 May 2008	Interim report on the first quarter of 2008, analysts´ conference call
31 July 2008	Interim report on the first half of 2008, financials press conference and analysts´ conference call
11 November 2008	Interim report on the first nine months of 2008, analysts´ conference call

1) For more information on other events, updates and details of live webcasts, please visit investors.dpwn.com

Investor events

4 – 5 June 2008	Deutsche Bank German Corporate Conference (Frankfurt)
23 – 24 June 2008	Goldman Business Services Conference (London)
10 – 11 September 2008	UBS Best of Germany Conference (New York)

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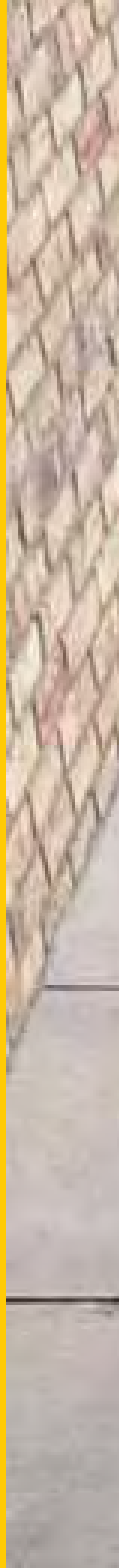

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