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Selected key figures

01

		2017	2018	+/- %	Q4 2017	Q4 2018	+/- %
Revenue	€m	60,444	61,550	1.8	16,109	16,926	5.1
Profit from operating activities (EBIT)	€m	3,741	3,162	-15.5	1,181	1,134	-4.0
Return on sales ¹	%	6.2	5.1	-	7.3	6.7	-
EBIT after asset charge (EAC)	€m	2,175	716	-67.1	796	509	-36.1
Consolidated net profit for the period ²	€m	2,713	2,075	-23.5	837	813	-2.9
Free cash flow	€m	1,432	1,059	-26.0	975	1,307	34.1
Net debt ³	€m	1,938	12,303	>100	-	-	-
Return on equity before taxes	%	27.5	19.3	-	-	-	-
Earnings per share ⁴	€	2.24	1.69	-24.6	0.69	0.66	-4.3
Dividend per share	€	1.15	1.15 ⁵	-	-	-	-
Number of employees ⁶		519,544	547,459	5.4	-	-	-

¹ EBIT/revenue.

² After deduction of non-controlling interests.

³ Calculation [↗ Group Management Report, page 49](#).

⁴ Basic earnings per share.

⁵ Proposal.

⁶ Headcount at the end of the year, including trainees.

WHAT'S NEXT, FRANK APPEL?



Martin Ziegenbalg, Head of Investor Relations, talks to CEO Frank Appel about 2018 and the prospects for Deutsche Post DHL Group.



Martin Ziegenbalg: Mr Appel, when I look back on recent months, there was one main issue that dominated our dialogue with investors and analysts.

Frank Appel: Developments in our Post - eCommerce - Parcel division certainly affected the overall impression of 2018 and I don't want to gloss over what happened. These developments definitely dominated in a year in which we had to cut our earnings forecasts, in which many things were called into question.

What were the reasons for these developments?

The revenue shift within the division, with the mail business in retreat but strong growth driven by e-commerce in the Parcel business unit, demands a delicate balance between cost and earnings growth, which was no longer the case in 2018. We've been gaining market share in the parcel business for years, with growth topping the agenda but that affected the bottom line. In the future, we'll be focussing more upon productivity gains and earnings management, even if that means we only grow as fast as the market. At the same time, the decline in mail volume calls for constant cost management, especially with rising materials expenses. So here too, we need a nuanced approach to price increases and productivity measures.

However, 2018 wasn't just a year of challenges.

No, it also had its positive aspects for the Group. Our DHL divisions were and are very well positioned, and they delivered outstanding results. Express did very well, as it has in recent years. It's very clear that we've taken the right steps at Global Forwarding, Freight and margins there are improving again, and business is growing at Supply Chain, although that's overshadowed by a variety of one-time effects.

How do you intend to get the German mail and parcel business back on track?

We reorganised the company at the beginning of 2019, dividing the business previously combined in the PeP division into Post & Paket Deutschland and DHL eCommerce Solutions. Now we can concentrate upon our strengths in the individual markets and exploit the potential in our domestic and international businesses. We're also aiming to make lasting improvements in productivity and cost structures. That can't be done overnight and it can't be done without painful cuts. At the same time, our pricing has to ensure that the high quality of our work and the increased materials expenses are rewarded adequately by our customers. So far we've been making good progress with these measures. I've temporarily taken over responsibility for the Post & Paket Deutschland division myself. Ken Allen,



who previously led the Express division very successfully, now heads DHL eCommerce Solutions, and with John Pearson, a proven expert has taken the helm at Express. This allows us to set clear priorities and invest effectively.

Then it's not only cost-cutting?

Not at all; we're also making major investments in our growth. We plan to invest around €3.7 billion in 2019 alone. That will go mainly into expanding and further optimising our global infrastructure, for example aircraft for our intercontinental fleet, and we're still building up our workforce in production, although at a slower rate. The Group added nearly 30,000 employees last year and we're also training the existing workforce.

As the CEO, what is your view on the performance of the company's shares?

Of course I'm not happy at all about our share price performance in 2018. To some extent, I can understand the scepticism it reflects. The fact is, we had to make some adjustments during the year. On the other hand, the overall market – and in particular our most important competitors in the mail and logistics sector – also saw very volatile price swings. Besides the challenges in our traditional core business, there were also external

“Our DHL divisions were and are very well positioned, and they delivered outstanding results.”

developments that impacted the share price. We can't influence factors such as global economic trends, interest rate policy, exchange rates, trade conflicts or Brexit. Instead we need to adapt to them as effectively as possible.

Deutsche Post DHL Group as a whole is still in very good shape. We're very diversified, which in times of growing uncertainty proves to be a clear competitive advantage. Our fundamental growth drivers remain intact. I'm certain that the market will acknowledge our efforts when we deliver again.

There's another perspective: a lot of bad news is already priced into the shares after their severe decline in 2018.

Once the measures that have been introduced take effect, especially on the cost side, there should be movement to the upside again. In your estimation, what can we expect from 2019?

It will be challenging but we can overcome the challenges and the measures we've introduced are beginning to pay off. I'm convinced that we'll see further improvements in the coming months. At the company I meet employees at all levels many times every day. Without exception, not only do they accept that we're facing challenges but above all there's a tremendous desire to tackle these challenges and get our mail and parcel business back on a successful track.



“Deutsche Post DHL Group as a whole is still in very good shape. We’re very diversified, which in times of growing uncertainty proves to be a clear competitive advantage.”

I’ve been on the board at Deutsche Post DHL Group for more than sixteen years now and have been CEO since 2008. A lot has happened in that time. If we move on together, we’ll master the challenges this time as well.

What will it take to do that?

Flexibility, dedication, guts and a willingness to change ourselves again and again, and that’s the case not only for the company as a whole but for every single employee. Artificial intelligence and automation have already changed working life and will continue to do so. Nobody has a guarantee that the job they have now will still be exactly the same ten or fifteen years from now. People need to be flexible, keep up their training and never stop learning.

In the past, we at Deutsche Post DHL Group have shown one thing: when we’re confronted with challenges, we tackle them with determination and focus upon results. Take digitalisation as an example. As a dedicated mail company, we would have viewed it as a major threat but as a diverse group, we see it as an opportunity that we’re already leveraging and that will certainly generate healthy business for us in the future.

You could say that it’s part of our corporate DNA to react flexibly and quickly to changes in our environment and to be agile. That enables us to perform even better in the future and make lasting improvements in our competitiveness. These are the foundations that make me confident we’ll always make the right strategic choices for achieving our ambitious goals.



FLEXIBLE. RESULTS-ORIENTATED. CUSTOMER-CENTRIC. Working life is changing more and more quickly. Organisations, along with their people, structures and processes, face new challenges increasingly often. As a global business, how can Deutsche Post DHL Group stay fit for the future in such an environment?

We need to be flexible in adapting to new challenges. That means identifying and assessing opportunities and risks at an early stage and dealing with them in a results-orientated manner, and we must be willing to review our decisions again and again and revise them when conditions call for it.

There is no other way to ensure that we can continue to provide top-quality services and solid profits in the future, and in all we do, our focus is upon customers.



An illustration of a man from the chest up, wearing a dark grey suit jacket, a white dress shirt, and a red necktie. He is pulling the white shirt open with both hands, revealing a bright yellow superhero-style chest piece. The chest piece has a diamond shape with a stylized muscle pattern. The text 'EMPOWER YOURSELF' is written across the chest in large, bold, sans-serif letters. 'EMPOWER' is in black, and 'YOURSELF' is in red. The background is a bright yellow with white rays emanating from behind the man's head.

EMPOWER YOURSELF

WE ALWAYS CONCENTRATE UPON OUR STRENGTHS, upon our core competencies. If you know what you're already good at, you can get even better.



WE ARE ALWAYS OPEN TO NEW IDEAS AND VISIONS so that we can exploit opportunities. Together, we do all we can to accept, approach and implement something new.

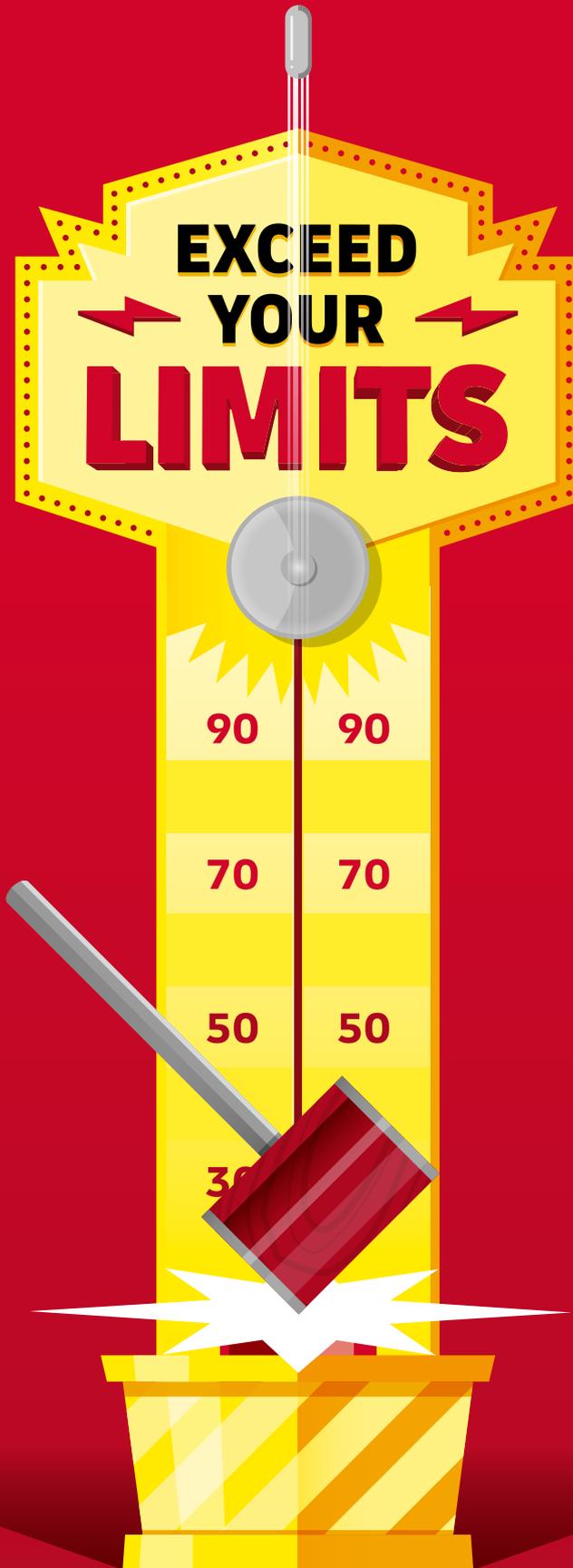


THINK

**CUS
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CENTRIC

OUR FOCUS IS UPON CUSTOMERS. When we put their needs at the centre of our thoughts and actions, we improve constantly – and in a results-orientated manner.



GOOD IS STILL NOT GOOD ENOUGH. We work every day at getting even better by optimising our products, services and processes. That means always striving to exceed our limits.



GROUP MANAGEMENT REPORT

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GENERAL INFORMATION

Business model

An international service portfolio

Deutsche Post AG is a listed corporation domiciled in Bonn, Germany. Under its Deutsche Post and DHL brands, the Group provides an international service portfolio consisting of letter and parcel dispatch, express delivery, freight transport, supply chain

management and e-commerce solutions. At 31 December 2018, the Group was organised into the four operating divisions of Post - eCommerce - Parcel, Express, Supply Chain and Global Forwarding, Freight, whose services are described in **Business units**, page 14 ff. Each of the divisions is managed by its own divisional headquarters and subdivided into functions, business units and regions for reporting purposes.

The internal services that support the entire Group are consolidated in our Global Business Services unit. Group management functions are centralised in Corporate Functions.

Organisational structure as at 31 December 2018

A.01

Deutsche Post DHL Group						
Corporate Functions			Divisions			
CEO, Global Business Services Board member <ul style="list-style-type: none"> Frank Appel Functions <ul style="list-style-type: none"> Board Services Corporate Legal Corporate Office Corporate Development & First Choice Corporate Executives Corporate Communications & Responsibility Corporate Public Policy & Regulation Management Global Business Services (Corporate Procurement, Corporate Real Estate, IT Services, Insurance & Risk Management etc.) 	Finance Board member <ul style="list-style-type: none"> Melanie Kreis Functions <ul style="list-style-type: none"> Corporate Accounting & Controlling Investor Relations Corporate Finance Corporate Audit & Security Taxes Divisional Finance Legal Services 	Human Resources, Corporate Incubations Board member <ul style="list-style-type: none"> Thomas Ogilvie Functions <ul style="list-style-type: none"> Corporate HR Germany & Employee Relations International Corporate HR Standards & Processes HR for Global Functions Divisional HR Organisations Business unit <ul style="list-style-type: none"> Corporate Incubations 	Post - eCommerce - Parcel Board member <ul style="list-style-type: none"> Frank Appel Business units <ul style="list-style-type: none"> Post eCommerce - Parcel 	Express Board member <ul style="list-style-type: none"> Ken Allen Regions <ul style="list-style-type: none"> Europe Americas Asia Pacific MEA (Middle East and Africa) Function <ul style="list-style-type: none"> Customer Solutions & Innovation 	Global Forwarding, Freight Board member <ul style="list-style-type: none"> Tim Scharwath Business units <ul style="list-style-type: none"> Global Forwarding Freight 	Supply Chain Board member <ul style="list-style-type: none"> John Gilbert Regions <ul style="list-style-type: none"> EMEA (Europe, Middle East and Africa) Americas Asia Pacific

Organisational changes

As at 1 February 2018, responsibility on the Board of Management for Customer Solutions & Innovation (CSI) was transferred to Ken Allen.

Since 4 April 2018, CEO Frank Appel has taken over responsibility for the Post - eCommerce - Parcel division in addition to his role as Chief Executive Officer.

Moreover, a new Corporate Incubations board department was created in April 2018. Thomas Ogilvie heads the new department in addition to his duties as Board Member for Human Resources and Labour Director.

Jürgen Gerdes resigned from his position on the Board of Management on 12 June 2018.

In September 2018, Ken Allen's Board of Management office and contract were renewed until July 2022. In addition, the Supervisory Board approved the following changes effective as of 1 January 2019: the Post - eCommerce - Parcel division was separated into a German and an international division, each led by a separate member of the Board of Management. The German business was renamed Post & Paket Deutschland and will remain under the interim leadership of the Group's CEO. A new DHL eCommerce Solutions division is also being created in order to optimally align the Group with the global e-commerce market.

Ken Allen has assumed responsibility for the new division in addition to his role as head of CSI. John Pearson has led the Express division since 1 January 2019.

A presence that spans the globe

Deutsche Post DHL Group's locations can be found in the [@ list of shareholdings, dpdhl.com/en/investors](#). Table A.02 provides an overview of market volumes in key regions. Our market shares are detailed in the business units section below.

Market volumes¹

Global
(2017)

55
M TEUs
Ocean freight³



215.9
€ BN
Contract logistics⁴

24
M TONNES
Air freight²

24
€ BN
International
express market
(2016)⁵

Germany
(2018)

4.3
€ BN
Mail communication⁶



11.6
€ BN
Parcel⁶

27.3
€ BN
Advertising
market⁷

A.02

(2017)	Middle East/Africa	Americas	Europe	Asia Pacific
Air freight (m tonnes) ²	1.4	5.1	6.3	11.0
Ocean freight (m TEUs) ³	5.5	8.8	8.4	32.8
Contract logistics (€ bn) ⁴	8.0	64.4	70.9	72.6
International express market (€ bn) ⁵	–	8.2 (2016)	7.1 (2016)	8.0 (2016)
Road transport (€ bn) ⁸	–	–	197	–

¹ Regional volumes do not add up to global volumes due to rounding.

² Data based solely upon export freight tonnes. Source: Seabury Consulting.

³ Twenty-foot equivalent units; estimated part of overall market controlled by forwarders. Data based solely upon export freight tonnes. Source: company estimates, Seabury Consulting.

⁴ Based upon Transport Intelligence and company estimates.

⁵ Includes express product Time Definite International. Country base: Americas, Europe, Asia Pacific, AE, SA, ZA (Global); AR, BR, CA, CL, CO, MX, PA, US (Americas); AT, CZ, DE, ES, FR, IT, NL, PL, RO, RU, SE, TR, UK (Europe); AU, CN, HK, IN, JP, KR, SG, TW (Asia Pacific). Source: Market Intelligence 2017, annual reports and desk research.

⁶ Germany only. Source: company estimates.

⁷ Includes all advertising media with external distribution costs. Source: company estimates.

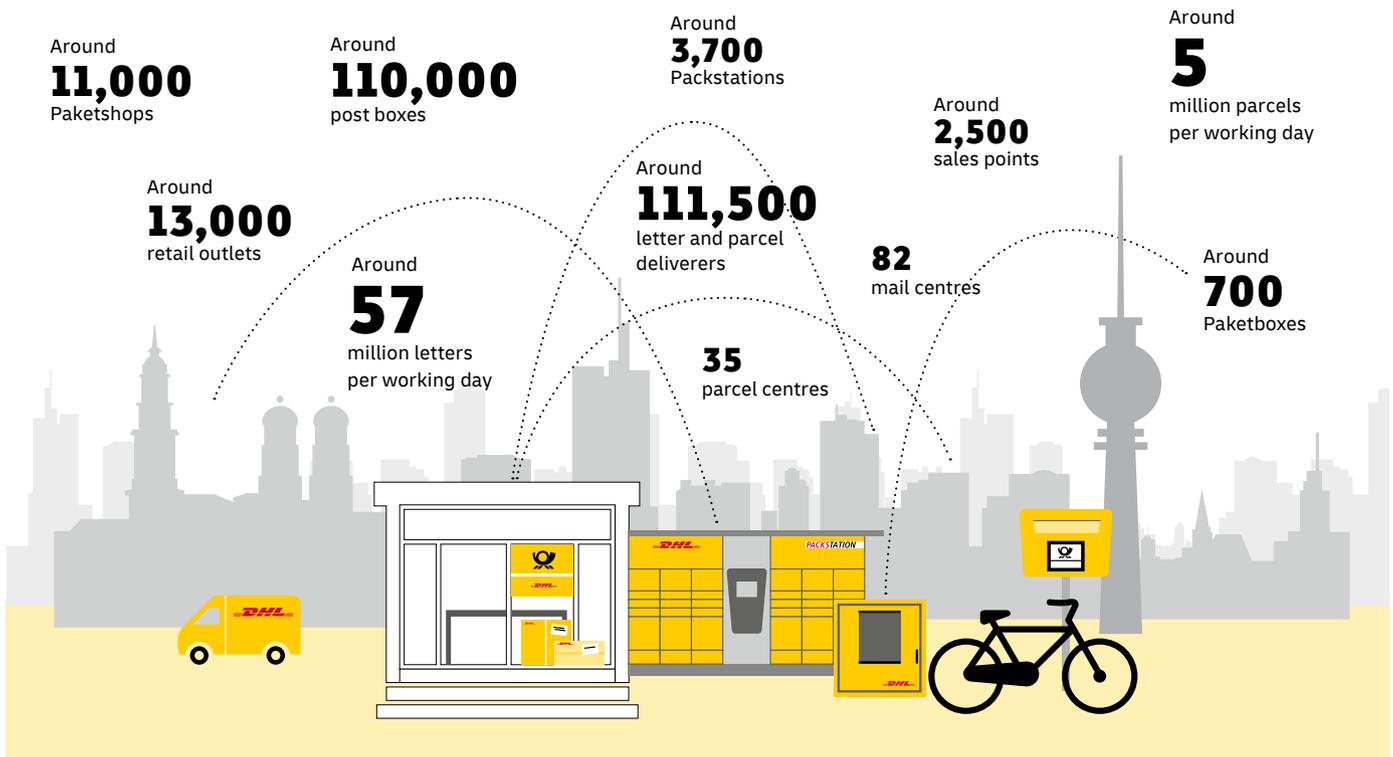
⁸ Market volume covers 25 European countries, excluding bulk and specialties transport. Source: DHL Market Intelligence Study 2018, based upon company calculations and content supplied by IHS Markit Group, copyright © IHS Global Inc., 2018. All rights reserved.

Business units

POST - ECOMMERCE - PARCEL DIVISION

Nationwide transport and delivery network in Germany, 2018

A.03



The postal service for Germany

We deliver around 57 million letters every working day in Germany, making us Europe's largest postal company. The products and services are targeted towards both private and business customers and range from physical, hybrid and electronic letters to special products for merchandise delivery, and include additional services such as cash on delivery, registered mail and insured items.

In the year under review, the German market for business communications was around €4.3 billion (previous year: around €4.5 billion). Here we look at the business customer market in which we compete, including the companies that operate as service providers in this market – i.e., both competitors offering end-to-end services and consolidators providing partial services. Our market share increased to 63.4% compared with the prior year (61.7%).

German mail communication market, business customers, 2018

A.04

Market volume: €4.3 billion

Deutsche Post	63.4%
Competition	36.6%

Source: company estimates.

Cross-channel customer dialogue

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

The advertising market in Germany gained 0.6% in 2018 to reach a volume of €27.3 billion. Our share of this highly fragmented market declined to 7.6% (previous year: 8.2%).

German advertising market¹, 2018

A.05
Market volume: €27.3 billion

Competition	92.4%
Deutsche Post	7.6%

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

Source: company estimates.

Sending mail and merchandise internationally

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

The global market volume for outbound international mail amounted to around €7.9 billion in 2018 (previous year: around €7.5 billion). Our market share was 12.3% (previous year: 12.8%). Market size and share have changed compared with the previous year's presentation as data from external sources have been adjusted.

International mail market (outbound), 2018

A.06
Market volume: €7.9 billion

Competition	87.7%
Deutsche Post DHL	12.3%

Source: company estimates.

Worldwide portfolio of parcel and e-commerce services

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

The German parcel market had a volume of around €11.6 billion in 2018 (previous year: around €10.8 billion). We were able to maintain our 45.5% market share in a highly competitive market (previous year: 45.4%).

German parcel market, 2018

A.07
Market volume: €11.6 billion

Competition	54.5%
DHL	45.5%

Source: company estimates.

We expanded our cross-border portfolio of e-commerce services during the year under review. In Europe, the B2C network amounts to a total of 27 countries, including Germany. There are more than 65,000 acceptance and drop-off points available to our customers in Europe. In the United States, we offer especially fast delivery in five metropolitan areas. In India, our Blue Dart subsidiary delivers to almost all available postcodes and has opened an additional 970 points of sale. Our network in south-east Asia includes more than 2,000 locations where online merchants can post parcels.

As described in the chapter **Business model, page 12 f.**, the German and international businesses will, in future, be managed in independent divisions and Board departments.

EXPRESS DIVISION

A global express network

In the Express division, we transport urgent documents and goods reliably and on time from door to door. Our global network spans more than 220 countries and territories in which some 100,000 employees provide services to 2.6 million customers.

Time-definite international shipments as our core business

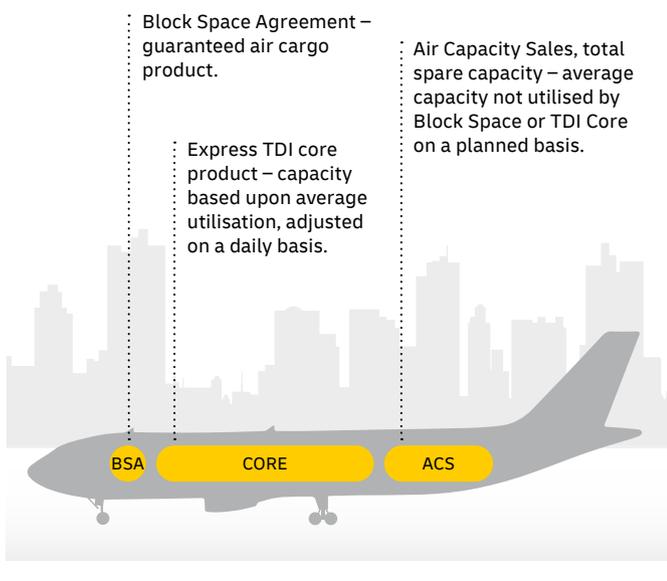
With the main product, Time Definite International (TDI), we provide services with a pre-defined delivery time. We also provide industry-specific services to complement this product. For example, our Medical Express transport solution, which is tailored specifically to customers in the Life Sciences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

Our virtual airline

Our global network consists of several airlines, some of which we own 100%. The combination of our own and purchased capacities, which includes varied contract periods, allows us to respond flexibly to fluctuating demand. Figure A.08 illustrates how the available freight capacity is organised and offered on the market. The largest buyer of the available freight capacities is the DHL Global Forwarding business unit.

Available capacity

A.08



In the year under review, we contracted with Boeing to purchase 14 new 777F aircraft as part of the rejuvenation of our intercontinental fleet. These cargo aircraft have a range of 9,070km with a 102t load, are considerably more reliable and bring significant cost and efficiency advantages. The first four aircraft are scheduled for delivery in 2019.

Trade boosts international express business

The international express business is benefiting from cross-border e-commerce and the growing importance of small and medium-sized enterprises in this segment.

Expanding and modernising the network in the Europe region

In the Europe region, we are reinforcing our network by steadily expanding our infrastructure and modernising our fleet. We officially opened our Brussels hub in February 2018, for instance. With four times its previous capacity, the hub is now one of our five largest worldwide. We also opened a new hub in Madrid, and expect construction of the new hub buildings in Cologne and Barcelona to be completed in 2019.

Expanding service in the Americas region

Given the strong rise in demand, especially from the retail sector, we opened around 1,500 of our own or partner-operated service points in 2018 in the Americas region and added two logistics hubs to our infrastructure in Mexico.

Further investing in Asia

In the Asia Pacific region, we put one of a total of four new Airbus A330-300s undergoing passenger-to-freighter conversion into operation in the year under review, which increases our previous loading capacity by around 33%. This will enable us to supply markets in Malaysia, Vietnam and Hong Kong, in particular. We also established a gateway in Zhuhai at the new Macao Bridge to make optimum use of the shorter transfer times between China and Hong Kong. An additional flight on the Shenzhen–Moscow–Leipzig route was also established to support business in south China.

Reliable partner in the MEA region

In the MEA (Middle East and Africa) region, the Middle East continued to suffer in 2018 from the sometimes unstable political situation. We were nonetheless able to maintain our operations whilst adhering to legal requirements and ensuring the safety of our employees.

GLOBAL FORWARDING, FREIGHT DIVISION

The air, ocean and overland freight forwarder

Our air, ocean and overland freight forwarding services include standardised transport as well as multimodal and sector-specific solutions, together with individualised industrial projects. Our business model is based upon brokering transport services between customers and freight carriers. Our network's global presence allows us to offer efficient routing and multimodal transport. Compared with other divisions, our operating business model is asset-light.

Air freight market, 2017: top 4 A.09

Thousands of tonnes¹

DHL	2,248
Kuehne + Nagel	1,570
DB Schenker	1,300
Panalpina	996

¹ Data based solely upon export freight tonnes.

Source: annual reports, publications and company estimates.

Air freight market leadership solidified

According to the International Air Transport Association (IATA), the worldwide freight tonne kilometres flown during the year under review grew by 3.5%. As global demand for transport capacity exceeded available supply, freight capacity remained at a low level – especially on routes out of Asia and Europe. With around 2.2 million transported export freight tonnes, we remained the air freight market leader in 2017, as shown in table A.09.

Consolidation continues in the ocean freight market

The ocean freight market continued to grow in 2018, with consolidation on the carrier side continuing. There was again overcapacity in the market for container ships and this trend is expected to continue in the coming years. With around 3.3 million transported twenty-foot equivalent units, we remained the second-largest provider of ocean freight services in 2017, as shown in the following table.

Ocean freight market, 2017: top 4 A.10

Thousands of TEUs¹

Kuehne + Nagel	4,355
DHL	3,259
DB Schenker	2,169
Panalpina	1,521

¹ Twenty-foot equivalent units.

Source: annual reports, publications and company estimates.

European overland freight market with solid growth

The road freight market showed solid growth in 2018, driven by volume increases and an unchanged high price level despite moderate economic growth in most European countries. In a fragmented and competitive environment, DHL Freight remained the second-largest provider in 2017, with a market share of 2.2%.

European road transport market, 2017: top 5 A.11

Market volume: €197 billion¹

DB Schenker	3.4%
DHL	2.2%
DSV	1.9%
Dachser	1.7%
Kuehne + Nagel	1.4%

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

Source: DHL Market Intelligence Study 2018, based upon the company's calculations and content supplied by IHS Markit Group, copyright © IHS Global Inc, 2018. All rights reserved.

SUPPLY CHAIN DIVISION

Customer-centric contract logistics solutions

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

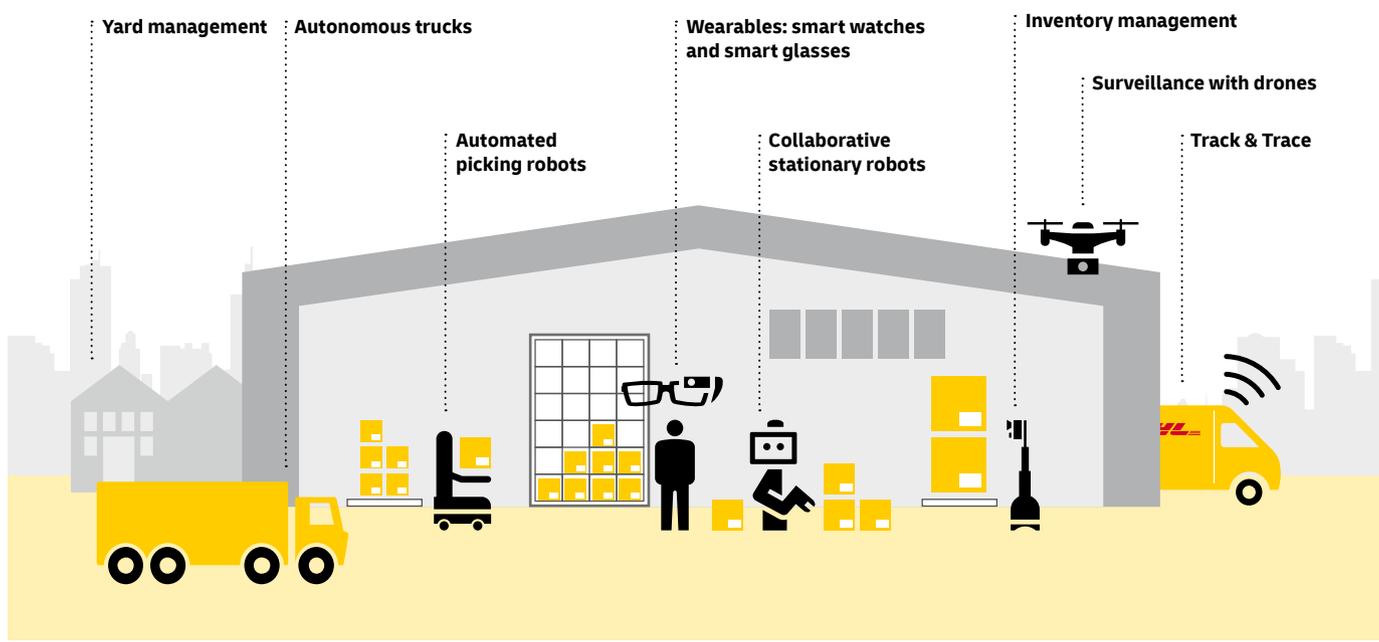
Our contract logistics services include planning, sourcing and production activities as well as packaging, repairs and returns. These services are rounded out by real estate solutions as well as management and fulfilment services for e-commerce.

Continuing to automate the supply chain

In our customers' interests, we ensure that our standard tools are well embedded in all operations. As a next step on the efficiency scale, more complex solutions, e.g., wearable devices and collaborative robotics, will be introduced. Overall, the aim is always to increase efficiency along the entire supply chain through standardisation and the use of new technologies. Whilst these efforts generally show benefits across all sectors, we see the largest demand in Retail and Consumer, which generate approximately half of the divisional revenue.

Automation and digitalisation of the supply chain

A.12



Leading position in a fragmented market

DHL remains the global leader in the fragmented contract logistics market, with a market share of 6.0% (2017) and operations in more than 50 countries. The contract logistics market is estimated at around €216 billion, with the top ten players only accounting for around 20% of the total volume. We lead the market in mature regions such as North America and Europe and are well positioned in rapidly growing markets throughout the Asia Pacific region and Latin America. In Latin America, we have strengthened our presence with the acquisition of the Colombian Suppla Group, [note 2 to the consolidated financial statements](#). Its integration is well on track and delivering the expected results.

Contract logistics market, 2017: top 10

A.13

Market volume: €215.9 billion

DHL	6.0%
XPO Logistics	2.3%
Kuehne + Nagel	2.1%
Hitachi Transport System	1.8%
CEVA	1.5%
SNCF Geodis	1.3%
DB Schenker	1.2%
UPS SCS	1.2%
Ryder	0.8%
DSV	0.7%

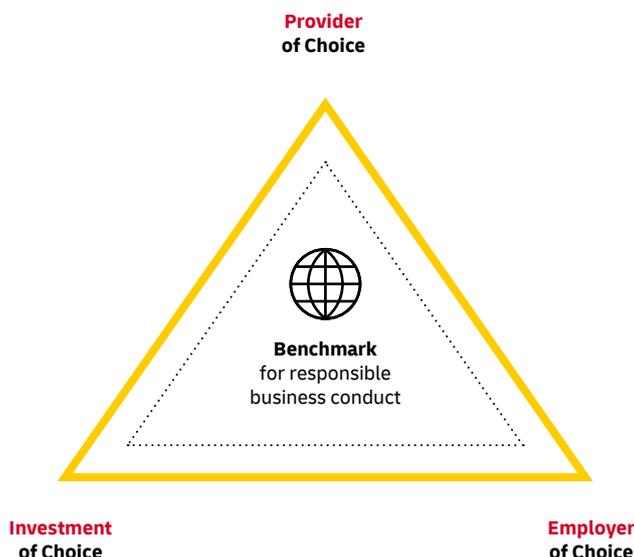
Source: company estimates; Transport Intelligence. Revenue figures are estimates based upon gross revenue from external customers; exchange rates as at 2017.

Strategy

CORPORATE STRATEGY

The Group strategy's bottom lines

A.14



Focus upon three bottom lines

Increasing digitalisation, the continuing boom in e-commerce and the dynamism of emerging markets offer us considerable growth opportunities. As described in the [Business unit chapter, page 14 ff.](#), we are also amongst the leading suppliers thanks to our global presence in the markets in which we operate. Moreover, according to Gartner 2018's Magic Quadrant Method, we are the most advanced logistics specialist for 3PL vendors [Glossary, page 176](#), in terms of vision and execution. We measure the degree of implementation of our strategy against the three bottom lines shown in chart A.14.

Provider of Choice: Customers are at the heart of everything we do. We strive to create a positive experience for customers every time we communicate with them. This customer orientation is also reflected in the value of our [Brands, page 62](#). Our principle of continuous improvement is integrated firmly into our day-to-day operations. Our First Choice methodology based upon Six Sigma, Change Management and Lean techniques is communicated by nearly 36,000 employees trained as first-choice specialists. Regular customer satisfaction surveys allow us to measure our performance against our quality aspiration and to identify areas for improvement, [Quality, page 60 f.](#)

Employer of Choice: Since we consider committed and skilled employees as the key to providing excellent service quality and achieving profitable growth, we conduct numerous initiatives designed to develop and motivate our employees, including the Group-wide "Certified" initiative. We foster internal dialogue through our annual Employee Opinion Survey, [Management, page 23](#). These measures contributed, amongst other things, to our Express division being named the sixth best employer in the world by Great Place to Work® and FORTUNE in 2018.

Investment of Choice: We aim to deliver profitable growth by taking a selective and focused approach, which includes growing the profitable core in each of our business areas. We closely monitor operational and financial KPIs and focus upon disciplined yield management across all divisions. We also leverage operational efficiencies and keep strict cost discipline.

Apart from these three bottom lines, we have integrated sustainability and corporate responsibility firmly into our strategy, as described in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](#).

STRATEGIES OF THE DIVISIONS

Post - eCommerce - Parcel division

The German postal and parcel business is in the midst of a process of change, in which we are currently working primarily upon improving quality, earnings, productivity and costs.

In addition, we are extending our offering in the Post business unit based upon market demand, continuously expanding our range of services in the German parcel business and developing digital service offerings.

As part of our Group-wide “Certified” initiative, we aim to certify the majority of our employees by 2020.

We are adapting our networks to the dynamic market conditions and shipment structures. We also cut costs wherever possible and sensible, whilst investing in technologies, automation, innovation and growth areas.

Express division

We concentrate upon shipments whose size and weight make them an optimal match for our network, and in terms of our pricing policy, we encourage global co-ordination and discipline. At the same time, we continuously improve our customer approach. Using global campaigns, we specifically target small and medium-sized businesses, which could often benefit from increasing exports.

Our Certified International Specialist training programme ensures that our employees have the requisite knowledge of the international express business at their disposal, develop mutual understanding and remain permanently motivated.

Our return on sales improves when growing volumes lead to economies of scale in our network, innovation and automation enhance productivity, and costs are strictly managed. We are gradually streamlining the IT systems architecture and are ensuring adherence to global standards, especially as regards facilities and operating resources. The majority of our costs are attributable to our air and ground network. Old aeroplanes are replaced with newer, more efficient and thus more cost-effective aircraft. We sell available cargo space to freight and forwarding companies, thus improving our network utilisation and reducing costs. On the ground, processes are automated and standardised.

Global Forwarding, Freight division

Our emphasis is upon customer orientation and industry-leading end-to-end quality. IT systems are being improved or replaced in the Global Forwarding business unit, thus integrating industry-proven solutions. We are focussing upon improved shipment visibility, electronic document management and a new transport management system.

Our emphasis is upon customer orientation and industry-leading end-to-end quality.

We are constantly adding new modules to our Certified International Forwarder training programme.

In the Global Forwarding business unit, we want to improve the EBIT-to-gross profit margin (conversion rate) and, in the medium term, raise it to the level of our leading competitors. To this end, we are increasing the profitability of contracts and aligning costs with business development.

In the Freight business unit, the FREIGHT 2020 strategy continues to support our goals of growing profitably, becoming more productive, working better together and increasing data transparency, whilst remaining customer centric and committed to high quality standards. The further expansion of the European network is supporting our growth targets. The Freight business unit responded to the systemic driver shortage in Europe by starting a campaign to hire drivers whom we can also use in our terminals. Our digital transport management systems will be further standardised step by step.

Supply Chain division

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

The Certified agenda has evolved into an overarching framework of training content. We leverage talent analytics for targeted succession planning and to support a purpose-built training agenda.

Our focus is upon those market segments that offer higher margins and growth rates. One example of this is the service logistics business, in which we provide sophisticated solutions for our customers supported by a standard global operating model, a central IT platform and value added services across 150 countries.

Management

FINANCIAL PERFORMANCE INDICATORS

Impact on management compensation

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

 [Report on economic position, page 37 ff.](#)

Profit from operating activities measures earnings power

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

EBIT after asset charge promotes efficient use of resources

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

The asset charge is calculated on the basis of the weighted average cost of capital, or WACC, which is defined as the weighted

average net cost of interest-bearing liabilities and equity, taking into account company-specific risk factors in accordance with the Capital Asset Pricing Model.

A standard WACC of 8.5% is applied across the divisions, and this figure also represents the minimum target for projects and investments within the Group. The WACC is generally reviewed once annually on the basis of the current situation on the financial markets. To ensure better comparability of asset charge with previous figures, in 2018 the WACC was maintained at a constant level compared with the previous years.

The asset charge calculation is performed each month so that fluctuations in the net asset base can also be taken into account during the year. Table A.15 shows the composition of the net asset base.

Free cash flow facilitates liquidity management

Along with EBIT and EAC, cash flow is another key performance metric used by Group management. This is targeted at maintaining sufficient liquidity to cover all of the Group's financial obligations from debt repayment and dividends, in addition to operating payment commitments and investments. Cash flow is calculated using the cash flow statement.

Operating cash flow (OCF) includes all items that are related directly to operating value creation. OCF is calculated by adjusting EBIT for changes in non-current assets (depreciation, amortisation and (reversals of) impairment losses, net income/loss from disposals), other non-cash income and expense, dividends received, taxes paid, changes in provisions and other non-current assets and liabilities. Another key parameter of OCF is net working capital. Effective management of net working capital is an important way for the Group to improve cash flow in the short to medium term.

Free cash flow (FCF) as a management-related performance indicator is calculated on the basis of OCF by adding/subtracting the cash flows from capital expenditure, leasing, acquisitions and divestitures as well as net interest paid. Free cash flow is regarded as an indicator of how much cash is available to the company at the end of a reporting period for paying dividends or repaying debt.

Calculations

A.15

<p>Revenue</p> <hr/> <ul style="list-style-type: none"> + Other operating income <hr/> ± Changes in inventories and work performed and capitalised <hr/> - Materials expense <hr/> - Staff costs <hr/> - Depreciation, amortisation and impairment losses <hr/> - Other operating expenses <hr/> ± Net income from investments accounted for using the equity method <hr/> <p>= EBIT Profit from operating activities</p>	<p>EBIT</p> <hr/> <ul style="list-style-type: none"> - Asset charge <hr/> = Net asset base × Weighted average cost of capital (WACC) <hr/> <p>= EAC EBIT after asset charge</p> <hr/> <p>Operating assets</p> <ul style="list-style-type: none"> • Intangible assets • Property, plant and equipment • Goodwill • Trade receivables (included in net working capital)¹ • Other non-current operating assets² <hr/> <ul style="list-style-type: none"> - Operating liabilities <hr/> • Operating provisions (not including provisions for pensions and similar obligations) • Trade payables (included in net working capital)¹ • Other non-current operating liabilities² <hr/> <p>= Net asset base</p>	<p>EBIT</p> <hr/> <ul style="list-style-type: none"> + Depreciation, amortisation and impairment losses <hr/> ± Net income/loss from disposal of non-current assets <hr/> ± Non-cash income and expense <hr/> ± Change in provisions <hr/> ± Change in other non-current assets and liabilities <hr/> + Dividends received <hr/> ± Income taxes paid <hr/> = Operating cash flow before changes in working capital (net working capital) <hr/> ± Changes in net working capital <hr/> = Net cash from/used in operating activities (operating cash flow – OCF) <hr/> ± Cash inflow/outflow arising from change in property, plant and equipment and intangible assets <hr/> ± Cash inflow/outflow arising from acquisitions/divestitures <hr/> - Cash outflow arising from repayments and interest on lease liabilities <hr/> ± Net interest paid <hr/> <p>= FCF Free cash flow</p>
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¹ Includes EBIT-related current assets and liabilities. Not included are assets and liabilities related to taxes, financing and cash and cash equivalents, for example.

² Includes EBIT-related other non-current assets and liabilities. Not included are assets and liabilities related to taxes or bonds, for example.

NON-FINANCIAL PERFORMANCE INDICATORS

Results of Employee Opinion Survey used as a management indicator

Our annual worldwide Employee Opinion Survey shows us how we are perceived as a group from the perspective of our employees. We place particular significance on the survey's indication of Employee Engagement and of how employees rate the leadership behaviour of their superiors. The Active Leadership indicator is thus used in the calculation of bonuses for executives. The results of the Employee Opinion Survey carried out in 2018 can be found in the [📌 Employees section, page 57](#).

Reducing dependency upon fossil fuels

We aim to reduce our dependency on fossil fuels, improve our CO₂ efficiency and lower costs. The corresponding target of our GoGreen environmental protection programme is greenhouse gas efficiency, which we measure using a carbon efficiency index (CEX). CEX is based upon the business unit-specific emission intensity figures, which are indexed to the base year. We quantify the greenhouse gas emissions upon which our CEX is based in accordance with the Greenhouse Gas Protocol Standards and DIN EN 16258; those attributable to our European air freight business are calculated in accordance with the requirements of the European Union Emissions Trading System (EU ETS). Pursuant to DIN EN 16258, all gases that are harmful to the environment must be disclosed in the form of CO₂ equivalents (CO₂e). This indicates the ratio of the respective emissions to a matching performance indicator in the Group. CEX is a management indicator of non-financial performance. The figures obtained for the year under review are provided in the section on [📌 Corporate responsibility, page 59](#).

CEX

(carbon efficiency index)

A management indicator of non-financial performance

Disclosures required by takeover law

Disclosures required under sections 289a (1) and 315a (1) of the *Handelsgesetzbuch* (HGB – German Commercial Code) and explanatory report

Composition of issued capital, voting rights and transfer of shares

As at 31 December 2018, the company's share capital totalled €1,236,506,759 and was composed of the same number of no-par value registered shares. Each share carries the same rights and obligations stipulated by law and/or in the company's Articles of Association and entitles the holder to one vote at the Annual General Meeting (AGM). No individual shareholder or group of shareholders is entitled to special rights, particularly rights granting powers of control.

The exercise of voting rights and the transfer of shares are based upon statutory provisions and the company's Articles of Association; the latter do not restrict either of these activities.

Shareholdings exceeding 10% of voting rights

KfW Bankengruppe (KfW), Frankfurt am Main, is our largest shareholder, holding 20.53% of the share capital. The Federal Republic of Germany holds an indirect stake in Deutsche Post AG via KfW.

Appointment and replacement of members of the Board of Management

The members of the Board of Management are appointed and replaced in accordance with the relevant statutory provisions (cf. sections 84 and 85 of the *Aktiengesetz* (AktG – German Stock Corporation Act) and section 31 of the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act)). Article 6 of the Articles of Association stipulates that the Board of Management must have at least two members. Beyond that, the number of board members is determined by the Supervisory Board.

Amendments to the Articles of Association

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

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

The Board of Management is authorised, subject to the consent of the Supervisory Board, to issue up to 160,000,000 new, no-par value registered shares (Authorised Capital). Details may be found in article 5 (2) of the Articles of Association. The Articles of Association may be viewed on the company's website, [@ dpdhl.com/en/investors](https://www.dpdhl.com/en/investors), and in the electronic company register. They may also be viewed in the commercial register of the Bonn Local Court.

The Board of Management has furthermore been authorised by resolution of the AGMs of 27 May 2014 (agenda item 8), 28 April 2017 (agenda item 7) and 24 April 2018 (agenda items 6 and 7) to issue pre-emptive rights/Performance Share Units (PSUs). The authorisation resolutions are included in the notarised minutes of the AGM that can be viewed in the commercial register of the Bonn Local Court. In order to service both current pre-emptive rights/PSUs and those yet to be issued, the AGM approved conditional capital increases. Details may be found in article 5 of the Articles of Association. As at 31 December 2018, the pre-emptive rights/PSUs already issued conferred rights to up to 31,284,326 Deutsche Post AG shares, assuming the pre-requisites are met. Under the authorisations granted, up to 41,680,692 additional pre-emptive rights/PSUs may be issued.

The AGM of 28 April 2017 authorised the company to buy back shares on or before 27 April 2022 up to an amount not to exceed 10% of the share capital existing as at the date of adoption of the resolution. Further details, including the possibilities of using the treasury shares acquired on the basis of this or a preceding authorisation, may be found in the authorisation resolution adopted by the AGM of 28 April 2017 (agenda item 8). In addition to this, the AGM of 28 April 2017 also authorised the Board of Management, within the scope specified in agenda item 8, to buy back shares, including through the use of derivatives (agenda item 9). Based upon that authorisation resolution, the company had repurchased 1,284,619 shares in the financial year. As at 31 December 2018, the company held 3,628,651 treasury shares.

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

Deutsche Post AG holds a syndicated credit facility with a volume of €2 billion that it has taken out with a consortium of banks. If a change in control within the meaning of the contract occurs, each member of the bank consortium is entitled under certain conditions to cancel its share of the credit line as well as its share of outstanding loans and to request repayment. The terms and conditions of the bonds issued under the Debt Issuance Programme established in March 2012 and of the convertible bond issued in December 2017 also contain change-in-control clauses. In the event of a change in control within the meaning of the terms and conditions, creditors are, under certain conditions, granted the right to demand early redemption of the respective bonds.

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

Research and development

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

Remuneration Report

The remuneration report describes the principles of the remuneration systems for the members of the Board of Management and the Supervisory Board and provides information about the remuneration granted to, and paid to, the members of the Board of Management and the Supervisory Board in financial year 2018. It has been prepared in accordance with the recommendations of the German Corporate Governance Code (the Code) and the requirements of the *Handelsgesetzbuch* (HGB – German Commercial Code), the German Accounting Standards and the International Financial Reporting Standards (IFRSs).

BOARD OF MANAGEMENT REMUNERATION

Remuneration structure of the Group Board of Management in financial year 2018

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

The Supervisory Board regularly examines the appropriateness of this remuneration. The criteria for evaluating the appropriateness of remuneration are the tasks performed by each individual Board of Management member, his or her personal performance and experience, the company’s economic situation, success and future prospects, and the customary level of remuneration, taking into consideration the peer group and the overall remuneration structure in the company. In this process, the Supervisory Board takes into consideration the relation of the Board of Management remuneration to the remuneration of the senior management level and the workforce overall, including its

development over time. In evaluating the appropriateness of remuneration, the Supervisory Board is assisted by an independent external remuneration expert. The current remuneration system was approved at the 2018 Annual General Meeting with 88.56% of the votes cast.

Remuneration components

The Board of Management’s remuneration comprises the following components, as shown in table A.17 below.

1. Base salary

The base salary is a fixed remuneration component and is paid in twelve equal monthly instalments retroactively at the end of each month.

2. Variable remuneration

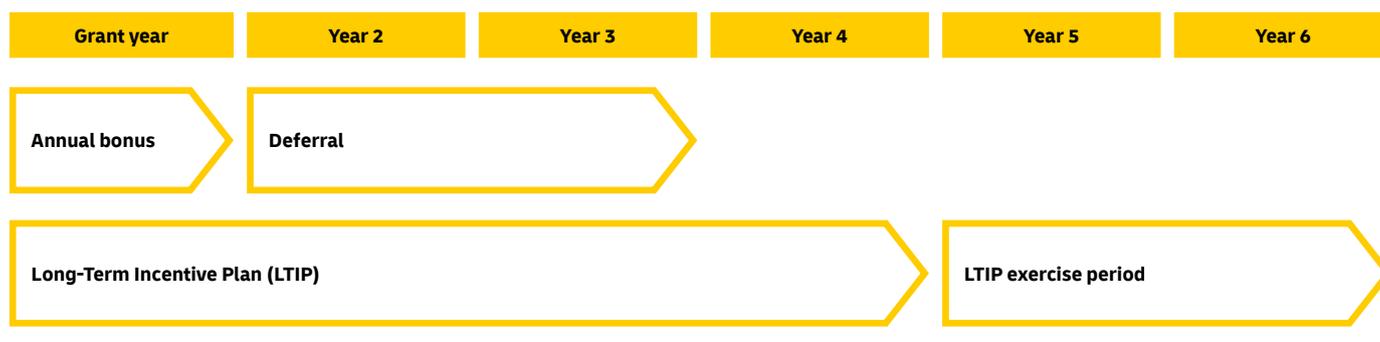
The variable remuneration is almost entirely multi-annual, in other words based upon medium- and long-term performance. More than half of the variable target remuneration for 2018 consists of a long-term component with a four-year calculation period; the rest is made up of an annual bonus, with 50% of the annual bonus flowing into a medium-term component with a three-year calculation period (deferral). All of the variable remuneration components are forward-looking. Less than a quarter of the variable remuneration component is granted on the basis of a one-year calculation.

ANNUAL BONUS

The members of the Board of Management receive an annual bonus whose individual amount reflects the extent to which their predefined targets are achieved, missed or exceeded. The annual bonus granted generally consists of financial targets (75%) and non-financial targets (25%).

Terms of variable remuneration in target remuneration

A.16



Remuneration components

A.17

1. Base salary	<ul style="list-style-type: none"> Annual amount:¹ €715,000 in the first contract year €860,000 from the third contract year €930,000 from the fourth contract year Subsequent review: after three more years or upon contract extension Payout: in equal instalments
2. Variable remuneration	<p>a. Annual bonus (including medium-term component)</p> <ul style="list-style-type: none"> Annual target amount: 80% of respective base salary Maximum amount (cap): 100% of respective base salary Calculation: according to targets agreed Payout: 50% after determination of target achievement in subsequent year 50% after another two years (sustainability phase) and only if the EAC² sustainability indicator is met <p>b. Long-term component</p> <p>Granting of stock appreciation rights</p> <ul style="list-style-type: none"> Annual grant amount depends on achievement of strategic targets during the year prior to granting (granting corridor: 50–150% of respective base salary) Maximum amount (cap): 400%³ of the grant amount Exercisability: according to degree of achievement of six share-price-based sub-targets Payout: in the fifth or sixth year after granting, depending on the respective exercise date
3. Fringe benefits	<ul style="list-style-type: none"> Annual amount corresponds to the value of all non-cash benefits granted
4. Pension commitments	<p>Contribution-based pension commitment⁴</p> <ul style="list-style-type: none"> Annual amount of 35% of the base salary Annual pension expense corresponds to the carrying amount of the pension entitlements acquired in the respective financial year
5. Maximum amount (cap) Total remuneration	<ul style="list-style-type: none"> Maximum remuneration granted (cap on remuneration granted): €5 million⁵ Starting in 2022: maximum remuneration paid (cap on remuneration paid): €5 million⁶

¹ Amounts for ordinary members of the Board of Management. The chairman of the Board of Management receives a base salary of €2,060,684.

² EBIT after asset charge (EAC) of the Group, including the asset charge on goodwill before goodwill impairment.

³ The cap for the chairman of the Board of Management amounts to 250% of the grant amount.

⁴ There is still a final-salary-based pension commitment for the chairman of the Board of Management.

⁵ The cap on remuneration granted amounts to €8 million for the chairman of the Board of Management.

⁶ The cap on remuneration paid amounts to €8 million for the chairman of the Board of Management.

The performance criteria used to calculate the amount of the annual bonus and their weighting were the same as in the previous year.

For each target, the maximum amount that may be earned is equal to the weighting applied to one base salary (for example, for the free cash flow performance criterion, the maximum payout is 10% of one base salary). This means the total annual bonus is limited to one base salary.

Performance criteria for the annual bonus

A.18

Weighting	Performance criterion
55% ¹	EBIT after asset charge (EAC) of the Group, including the asset charge on goodwill before goodwill impairment
10% ²	EAC of the respective Board of Management member's division
10%	Free cash flow (FCF) of the Group
12.5%	Positive rating of Employee Engagement KPI in the Group-wide Employee Opinion Survey
12.5%	Individual targets that reflect the focus of the Board of Management member's work in accordance with the Group strategy

¹ For Frank Appel, Melanie Kreis and Thomas Ogilvie, the weighting is 65%.

² Only for the Board of Management members responsible for the Post - eCommerce - Parcel, Express, Global Forwarding, Freight and Supply Chain divisions.

In measuring the degree of achievement of each of the performance criteria, three thresholds are agreed with each Board of Management member that are used to calculate the amount of their individual annual bonus: There is no payout until the lowest threshold is reached; when the lowest threshold is reached, 50% of the maximum amount for this target is paid. When the performance target is achieved, 80% is paid, and when the upper threshold is reached, 100% is paid.

The targets for the Group EAC and Group free cash flow financial goals correspond to the budgeted figures for the financial year. The degree to which the targets have been achieved is announced at the end of the financial year. In financial year 2018, target achievement was 0% for Group EAC and 50.47% for FCF. For divisional EAC, target achievement was between 0% and 100%. The degree to which the employee target was reached was 90%. For the individual targets, the average degree of target achievement was 59.29%. Based upon these target achievement percentages, the average annual bonus (including deferral) was 26.57% of one base salary.

MEDIUM-TERM COMPONENT (DEFERRAL)

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

LONG-TERM COMPONENT

Since financial year 2006, the company has granted members of the Board of Management cash remuneration linked to the company's long-term share price performance through the issue of stock appreciation rights (SARs) as part of a Long-Term Incentive Plan (LTIP). Participation in the LTIP requires Board of Management members to make a personal investment of 10% of their annual base salary by the grant date of the respective tranche, primarily in shares.

SAR ALLOCATION

The Supervisory Board agrees strategic goals with the members of the Board of Management for a period of twelve months prior to the grant date for the purpose of determining the value of the SARs to be granted. The relevant target categories for the granting of SARs in 2018 were the performance of the share price compared with that of the company's competitors, strategic individual targets and a digital transformation target for each member. The target categories each carry a weighting of 1/3.

For the share price performance compared with the company's competitors, a peer group of two to three companies is selected for each of the four operating divisions of the Group. The digital transformation targets required defining divisional digital transformation strategies based upon the Group strategy, beginning their implementation and anchoring them in the corporate culture.

The focus of the other individual targets set for Board of Management members was on customers and employees, in particular. Based upon the target achievement determined, Board of Management members were granted SARs that on average amounted to 87.5% of their base salary on the grant date.

SAR target achievement

A.19

	Weighting	Target achievement %	SAR allocation 2018 tranche
Share price performance compared with the company's competitors	1/3	0	0
Strategic individual targets	1/3	120–130	581,224
Digital transformation targets	1/3	100–150	610,616
			1,191,840

We comply with the requirement regarding the ability to retain or reclaim (clawback) variable remuneration in justified cases by making the granting of LTIP components (SARs) dependent upon the attainment of previously stipulated goals. Extraordinary developments can therefore already lead to a decrease in the number of SARs at the time they are granted. Moreover, SARs are granted on the condition that the Supervisory Board may limit the payment amount in the event of extraordinary developments. The value of the SARs granted to each Board of Management member in financial year 2018 is presented in the "Remuneration granted in accordance with the German Corporate Governance Code" table. See the following table for the number of SARs granted.

Long-Term Incentive Plan: number of SARs granted **A.20**

Number	SARs 2017 tranche	SARs 2018 tranche ¹
Frank Appel, Chairman	546,678	329,538
Ken Allen	280,170	196,596
Jürgen Gerdes (until 12 June 2018)	280,170	–
John Gilbert	259,056	216,384
Melanie Kreis	239,556	185,070
Thomas Ogilvie (since 1 September 2017)	199,170	127,044
Tim Scharwath (since 1 June 2017)	199,170	137,208

¹ Grant date 1 September 2018: the average price of Deutsche Post shares during the reference period was €31.08 and the average index value 385.02 points; grant date 1 November 2018 (John Gilbert): the average price of Deutsche Post shares during the reference period was €28.69 and the average index value was 362.23 points.

EXERCISE OF SARs

At the earliest, SARs granted can be exercised, in whole or in part, after a four-year waiting period, provided the absolute or relative targets have been achieved at the end of that period.

How many, if any, of the SARs granted can be exercised is determined in accordance with four (absolute) performance targets based upon the share price and two (relative) performance targets based upon a benchmark index. One-sixth of the SARs granted are earned each time the closing price of Deutsche Post shares exceeds the issue price by at least 10, 15, 20 or 25% at the end of the waiting period (absolute performance targets). Both relative performance targets are tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). They are met if the share price equals the index performance or if it outperforms the index by more than 10%.

Mechanism of stock appreciation rights **A.21**

SAR performance targets	Thresholds	Number of exercisable SARs
Performance versus STOXX Europe 600	+10%	1/6
	+0%	1/6
Absolute increase in share price	+25%	1/6
	+20%	1/6
	+15%	1/6
	+10%	1/6

The performance is determined by comparing the average price of Deutsche Post shares or the average index value during a reference and a performance period. The reference period comprises the last 20 consecutive trading days prior to the issue date. The performance period is the last 60 trading days before the end of the waiting period. The average (closing) price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system. If absolute or relative performance targets are not met by the end of the waiting period, the SARs attributable to them will expire without replacement or compensation.

After expiration of the waiting period, the SARs must be exercised within a period of two years (exercise period); any SARs not exercised expire.

Each SAR exercised entitles the exercising Board of Management member to receive a cash settlement equal to the difference between the average closing price of Deutsche Post shares for the five trading days preceding the exercise date and the exercise price of the SAR. The proceeds from stock appreciation rights are limited to a maximum amount. Table A.24 shows the individual maximum amounts for the 2018 tranche. Furthermore, the remuneration from stock appreciation rights may be limited by the Supervisory Board in the event of extraordinary circumstances.

3. Fringe benefits

Fringe benefits granted to Board of Management members primarily include the use of a company car, subsidies for health and long-term care insurance in accordance with the provisions of the German Social Security Code, and special allowances and benefits for assignments outside the members' home countries.

4. Pension commitments (retirement and surviving dependants' benefits)

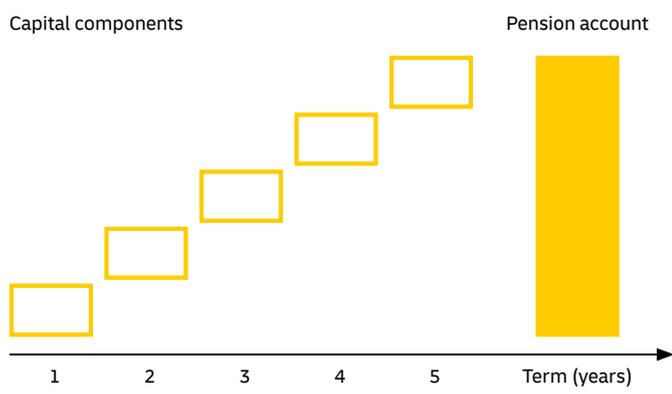
The members of the Board of Management have been granted contribution-based pension commitments. There is still a legacy pension commitment for the chairman of the Board of Management.

Under the contribution-based pension plan, the company credits an annual amount of 35% of the base salary to a virtual pension account for each Board of Management member. The maximum contribution period is 15 years.

The pension capital accrues interest at an annual rate equal to the “iBoxx Corporates AA 10+ Annual Yield” rate, or at an annual rate of 2.25% at minimum, and will continue to do so until the pension benefits fall due. The pension benefits are paid out in a lump sum in the amount of the value accumulated in the pension account. The benefits fall due when the Board of Management member reaches the age of 62, or in the case of invalidity whilst in office or death.

In the event of benefits falling due, the pension beneficiary may opt to receive an annuity payment in lieu of a lump-sum payment. If this option is exercised, the capital is converted to an annuity payment, taking into account the average “iBoxx Corporates AA 10+ Annual Yield” for the past ten full calendar years as well as the individual data of the surviving dependants and a future pension increase of 1% per year.

Function of the contribution-based pension plan A.22



When he was first appointed, the chairman of the Board of Management was granted a final-salary-based direct pension commitment then customary in the company, which provides for benefits in the case of permanent invalidity, death or retirement. His pension commitment provides for retirement benefits to be granted at the earliest from the age of 55. He has not availed himself of this provision. His pension is geared towards annuity payments. He also has the option of choosing a lump sum instead. The benefit amount depends on the pensionable income and the pension level derived from the years of service. Pensionable income consists of the base salary computed on the basis of the average salary over the last twelve calendar months of employment. The chairman of the Board of Management attained the maximum pension level (50%) after ten years of service. Subsequent retirement benefits increase or decrease to reflect changes in the consumer price index in Germany.

5. Remuneration caps

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

The remuneration system also provides for overall caps beyond the individual caps for the variable remuneration components that further limit payout: for remuneration granted in a financial year, overall caps have been in place since 2017 totalling €8 million for the chairman of the Board of Management and €5 million for the ordinary members (excluding fringe benefits in each case). This is the overall cap on remuneration granted.

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

The maximum amounts applicable to the individual variable remuneration components and the maximum amount paid from remuneration granted in 2018 are broken down in table A.24.

Example illustration of the included remuneration components A.23

Overall cap on remuneration granted Example: 2018	Overall cap on remuneration paid Example: 2022
<p>Remuneration components included</p> <ul style="list-style-type: none"> • 2018 base salary • Proportion of 2018 annual bonus for immediate payout • Deferral from 2018 annual bonus • Long-Term Incentive Plan 2018 tranche • 2018 pension expense (service cost) 	<p>Remuneration components included</p> <ul style="list-style-type: none"> • 2022 base salary • Proportion of 2022 annual bonus for immediate payout • Deferral from 2020 annual bonus • Long-Term Incentive Plan 2016/2017/2018 tranches¹ • 2022 pension expense (service cost)

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

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

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

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

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

In the event that the right to early termination is exercised or a Board of Management contract is terminated by mutual consent within nine months of the change in control, the Board of Management member is entitled to payment to compensate the remaining term of their Board of Management contract. Such payment is limited to 150% of the severance payment cap (see above for the calculation) pursuant to the Code recommendation. The amount of the payment is reduced by 25% if the Board of Management member has not reached the age of 60 upon leaving the company. If the remaining term of the Board of Management contract is less than two years and the Board of Management member has not reached the age of 62 upon leaving the company, the payment will correspond to the severance payment cap. The same applies if a Board of Management contract expires prior to the Board of Management member's reaching the age

of 62 because less than nine months remained on the term of the contract at the time of the change of control and the contract was not renewed.

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

Other

Jürgen Gerdes stepped down from his position as a member of the company's Board of Management as at 12 June 2018 and left the company as at 30 June 2018.

Remuneration of the Group Board of Management in financial year 2018

The remuneration paid to members of the Board of Management in financial year 2018 totalled €11.37 million (previous year: €11.57 million) in accordance with the applicable accounting standards. Non-performance-related components accounted for €8.12 million (previous year: €7.57 million) and €3.25 million was attributable to the annual bonus paid as a performance-related component (previous year: €4.00 million); the performance criteria for the annual bonus are presented on page 26. An additional €0.58 million of the annual bonus was transferred to the medium-term component (deferral) and will be paid out in 2021 subject to the condition that the required EAC, an indicator of sustainability, be reached.

In financial year 2018, the Board of Management members were granted a total of 1,191,840 SARs, which at the issue date were valued at €5.43 million (previous year: €7.19 million).

The total remuneration paid to Board of Management members is presented in the tables below. In addition to the applicable accounting principles, the Code recommendations were also taken into account.

Remuneration granted in accordance with the German Corporate Governance Code

A.24

€	Frank Appel Chairman ¹				Ken Allen Express			
	2017	2018	Min. 2018	Max. 2018	2017	2018	Min. 2018	Max. 2018
Base salary	1,978,911	2,060,684	2,060,684	2,060,684	1,000,913	1,005,795	1,005,795	1,005,795
Fringe benefits	35,294	52,889	52,889	52,889	98,197	102,716	102,716	102,716
Total	2,014,205	2,113,573	2,113,573	2,113,573	1,099,110	1,108,511	1,108,511	1,108,511
Annual bonus: one-year share	791,564	824,274	0	1,030,342	400,365	402,318	0	502,898
Multi-year variable remuneration	2,754,138	2,369,807	0	4,894,125	1,406,175	1,324,353	0	4,190,947
LTIP with four-year waiting period	1,962,574	1,545,533	0	3,863,783	1,005,810	922,035	0	3,688,049
Annual bonus: deferral with three-year waiting period	791,564	824,274	0	1,030,342	400,365	402,318	0	502,898
Total	5,559,907	5,307,654	2,113,573	8,038,040	2,905,650	2,835,182	1,108,511	5,802,356
Pension expense (service cost)	1,041,772	1,121,934	1,121,934	1,121,934	332,801	345,640	345,640	345,640
Total remuneration	6,601,679	6,429,588	3,235,507	9,159,974	3,238,451	3,180,822	1,454,151	6,147,996
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2018				8,000,000				5,000,000

	Jürgen Gerdes Corporate Incubations (until 12 June 2018)				John Gilbert Supply Chain			
	2017	2018	Min. 2018	Max. 2018	2017	2018	Min. 2018	Max. 2018
Base salary	1,005,795	452,608	452,608	452,608	912,500	930,000	930,000	930,000
Fringe benefits	36,289	18,053 ²	18,053	18,053	173,167	264,539	264,539	264,539
Total	1,042,084	470,661	470,661	470,661	1,085,667	1,194,539	1,194,539	1,194,539
Annual bonus: one-year share	402,318	181,043	0	226,304	365,000	372,000	0	465,000
Multi-year variable remuneration	1,408,128	181,043	0	226,304	1,295,011	1,224,553	0	3,875,124
LTIP with four-year waiting period	1,005,810	–	–	–	930,011	852,553	0	3,410,124
Annual bonus: deferral with three-year waiting period	402,318	181,043	0	226,304	365,000	372,000	0	465,000
Total	2,852,530	832,747	470,661	923,269	2,745,678	2,791,092	1,194,539	5,534,663
Pension expense (service cost)	344,288	373,407	373,407	373,407	273,132	310,989	310,989	310,989
Total remuneration	3,196,818	1,206,154	844,068	1,296,676	3,018,810	3,102,081	1,505,528	5,845,652
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2018				n.a.				5,000,000

	Melanie Kreis Finance				Thomas Ogilvie Human Resources and Corporate Incubations (since 1 September 2017) ³			
	2017	2018	Min. 2018	Max. 2018	2017	2018	Min. 2018	Max. 2018
Base salary	871,667	930,000	930,000	930,000	238,333	715,000	715,000	715,000
Fringe benefits	17,029	17,003	17,003	17,003	3,159	14,896	14,896	14,896
Total	888,696	947,003	947,003	947,003	241,492	729,896	729,896	729,896
Annual bonus: one-year share	348,667	372,000	0	465,000	95,333	286,000	0	357,500
Multi-year variable remuneration	1,208,673	1,239,978	0	3,936,876	810,353	881,836	0	2,740,738
LTIP with four-year waiting period	860,006	867,978	0	3,471,876	715,020	595,836	0	2,383,238
Annual bonus: deferral with three-year waiting period	348,667	372,000	0	465,000	95,333	286,000	0	357,500
Total	2,446,036	2,558,981	947,003	5,348,879	1,147,178	1,897,732	729,896	3,828,134
Pension expense (service cost)	276,923	317,375	317,375	317,375	–	247,753	247,753	247,753
Total remuneration	2,722,959	2,876,356	1,264,378	5,666,254	1,147,178	2,145,485	977,649	4,075,887
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2018				5,000,000				n.a.

	Tim Scharwath Global Forwarding, Freight (since 1 June 2017)			
	2017	2018	Min. 2018	Max. 2018
Base salary	417,083	715,000	715,000	715,000
Fringe benefits	29,812	53,390	53,390	53,390
Total	446,895	768,390	768,390	768,390
Annual bonus: one-year share	166,833	286,000	0	357,500
Multi-year variable remuneration	881,853	929,506	0	2,931,500
LTIP with four-year waiting period	715,020	643,506	0	2,574,000
Annual bonus: deferral with three-year waiting period	166,833	286,000	0	357,500
Total	1,495,581	1,983,896	768,390	4,057,390
Pension expense (service cost)	–	247,556	247,556	247,556
Total remuneration	1,495,581	2,231,452	1,015,946	4,304,946
Cap on the maximum payment amount (excluding fringe benefits) from remuneration granted in 2018				n.a.

¹ Also responsible for Post - eCommerce - Parcel since 4 April 2018.

² Mr Gerdes also received a payment of €4,288,805 as compensation for his rights under his employment contract.

³ Responsible for Corporate Incubations since 13 June 2018.

Remuneration paid in accordance with the German Corporate Governance Code

A.25

	Frank Appel Chairman ¹		Ken Allen Express		Jürgen Gerdes Corporate Incubations (until 12 June 2018)	
	2017	2018	2017	2018	2017	2018
Base salary	1,978,911	2,060,684	1,000,913	1,005,795	1,005,795	452,608
Fringe benefits	35,294	52,889	98,197	102,716	36,289	18,053 ³
Total	2,014,205	2,113,573	1,099,110	1,108,511	1,042,084	470,661
Annual bonus: one-year share	952,351	0 ²	487,945	195,124	464,074	36,888
Multi-year variable remuneration	5,844,840	4,958,262	4,492,254	482,147	4,958,436	478,406
Annual bonus: deferral from 2015	288,300	–	203,680	–	167,256	–
Annual bonus: deferral from 2016	–	950,662	–	482,147	–	478,406
2011 LTIP tranche	838,025	–	–	–	–	–
2012 LTIP tranche	4,718,515	4,007,600	1,808,056	–	2,422,380	–
2013 LTIP tranche	–	–	2,480,518	–	2,368,800	–
Other	–	–	–	–	–	–
Total	8,811,396	7,071,835	6,079,309	1,785,782	6,464,594	985,955
Pension expense (service cost)	1,041,772	1,121,934	332,801	345,640	344,288	373,407
Total	9,853,168	8,193,769	6,412,110	2,131,422	6,808,882	1,359,362

	John Gilbert Supply Chain		Melanie Kreis Finance		Thomas Ogilvie Human Resources and Corporate Incubations (since 1 September 2017) ⁵	
	2017	2018	2017	2018	2017	2018
Base salary	912,500	930,000	871,667	930,000	238,333	715,000
Fringe benefits	173,167	264,539	17,029	17,003	3,159	14,896
Total	1,085,667	1,194,539	888,696	947,003	241,492	729,896
Annual bonus: one-year share	434,806	122,295	405,892	0 ⁴	116,188	96,275
Multi-year variable remuneration	156,406	389,263	120,656	364,964	–	–
Annual bonus: deferral from 2015	156,406	–	120,656	–	–	–
Annual bonus: deferral from 2016	–	389,263	–	364,964	–	–
2011 LTIP tranche	–	–	–	–	–	–
2012 LTIP tranche	–	–	–	–	–	–
2013 LTIP tranche	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total	1,676,879	1,706,097	1,415,244	1,311,967	357,680	826,171
Pension expense (service cost)	273,132	310,989	276,923	317,375	–	247,753
Total	1,950,011	2,017,086	1,692,167	1,629,342	357,680	1,073,924

	Tim Scharwath Global Forwarding, Freight (since 1 June 2017)	
	2017	2018
Base salary	417,083	715,000
Fringe benefits ⁶	29,812	53,390
Total	446,895	768,390
Annual bonus: one-year share	196,780	129,773
Multi-year variable remuneration	–	–
Annual bonus: deferral from 2015	–	–
Annual bonus: deferral from 2016	–	–
2011 LTIP tranche	–	–
2012 LTIP tranche	–	–
2013 LTIP tranche	–	–
Other	–	–
Total	643,675	898,163
Pension expense (service cost)	–	247,556
Total	643,675	1,145,719

¹ Also responsible for Post - eCommerce - Parcel since 4 April 2018.

² With the approval of the Supervisory Board, Frank Appel waived an annual bonus (including deferral) resulting from the determination of target achievement for financial year 2018.

³ Mr Gerdes also received a payment of €4,288,805 as compensation for his rights under his employment contract.

⁴ With the approval of the Supervisory Board, Melanie Kreis waived an annual bonus (including deferral) resulting from the determination of target achievement for financial year 2018.

⁵ Responsible for Corporate Incubations since 13 June 2018.

⁶ Mr Scharwath also received a payment of €750,664 in 2017 and a payment of €783,460 in 2018 as compensation for the lapsing of long-term remuneration rights granted by his previous employer.

Remuneration in accordance with the HGB (DRS 17)

A.26

€	Frank Appel Chairman ¹		Ken Allen Express		Jürgen Gerdes Corporate Incubations (until 12 June 2018)	
	2017	2018	2017	2018	2017	2018
	Base salary	1,978,911	2,060,684	1,000,913	1,005,795	1,005,795
Fringe benefits	35,294	52,889	98,197	102,716	36,289	18,053 ³
Annual bonus: one-year share	952,351	0 ²	487,945	195,124	464,074	36,888
Annual bonus: deferral from 2015	288,300	–	203,680	–	167,256	–
Annual bonus: deferral from 2016	–	950,662	–	482,147	–	478,406
2017 LTIP tranche	1,962,574	–	1,005,810	–	1,005,810	–
2018 LTIP tranche	–	1,545,533	–	922,035	–	–
Total	5,217,430	4,609,768	2,796,545	2,707,817	2,679,224	5,274,760

€	John Gilbert Supply Chain		Melanie Kreis Finance		Thomas Ogilvie Human Resources and Corporate Incubations (since 1 September 2017) ⁵	
	2017	2018	2017	2018	2017	2018
	Base salary	912,500	930,000	871,667	930,000	238,333
Fringe benefits	173,167	264,539	17,029	17,003	3,159	14,896
Annual bonus: one-year share	434,806	122,295	405,892	0 ⁴	116,188	96,275
Annual bonus: deferral from 2015	156,406	–	120,656	–	–	–
Annual bonus: deferral from 2016	–	389,263	–	364,964	–	–
2017 LTIP tranche	930,011	–	860,006	–	715,020	–
2018 LTIP tranche	–	852,553	–	867,978	–	595,836
Total	2,606,890	2,558,650	2,275,250	2,179,945	1,072,700	1,422,007

	Tim Scharwath Global Forwarding, Freight (since 1 June 2017)	
	2017	2018
Base salary	417,083	715,000
Fringe benefits ⁶	29,812	53,390
Annual bonus: one-year share	196,780	129,773
Annual bonus: deferral from 2015	–	–
Annual bonus: deferral from 2016	–	–
2017 LTIP tranche	715,020	–
2018 LTIP tranche	–	643,506
Total	2,109,359	2,325,129

¹ Also responsible for Post - eCommerce - Parcel since 4 April 2018.

² With the approval of the Supervisory Board, Frank Appel waived an annual bonus (including deferral) resulting from the determination of target achievement for financial year 2018.

³ Mr Gerdes also received a payment of €4,288,805 as compensation for his rights under his employment contract.

⁴ With the approval of the Supervisory Board, Melanie Kreis waived an annual bonus (including deferral) resulting from the determination of target achievement for financial year 2018.

⁵ Responsible for Corporate Incubations since 13 June 2018.

⁶ Mr Scharwath also received a payment of €750,664 in 2017 and a payment of €783,460 in 2018 as compensation for the lapsing of long-term remuneration rights granted by his previous employer.

Contribution-based pension commitments: individual breakdown

A.27

€	Total contribution for 2017	Total contribution for 2018	Present value (DBO) as at 31 Dec. 2017	Present value (DBO) as at 31 Dec. 2018
Ken Allen	341,775	352,028	2,903,991	3,364,734
John Gilbert	301,000	325,500	1,020,273	1,330,176
Melanie Kreis	301,000	325,500	1,359,361	1,719,088
Thomas Ogilvie (since 1 September 2017)	83,417	250,250	136,411	392,850
Tim Scharwath (since 1 June 2017)	145,979	250,250	146,294	404,952
Total	1,173,171	1,503,528	5,566,330	7,211,800

Final-salary-based legacy pension commitments: individual breakdown

A.28

	Pension commitments			Present value (DBO) as at 31 Dec. 2017 €	Present value (DBO) as at 31 Dec. 2018 €
	Pension level on 31 Dec. 2017 %	Pension level on 31 Dec. 2018 %	Maximum pension level %		
Frank Appel, Chairman	50	50	50	20,171,783	21,563,074
Jürgen Gerdes (until 12 June 2018)	50	50	50	8,973,098	11,895,398 ¹
Total				29,144,881	33,458,472

¹ The increase in the present value (DBO) in the case of Mr Gerdes is largely due to the reduction in the financing period for his pension commitments as he left the company.

Benefits for former Board of Management members

Benefits paid to former members of the Board of Management or their surviving dependants amounted to €9.6 million in financial year 2018 (previous year: €7.0 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSs was €94 million (previous year: €95 million).

REMUNERATION OF THE SUPERVISORY BOARD

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

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

As in the previous year, Supervisory Board members receive an attendance allowance of €1,000 for each plenary meeting of

the Supervisory Board or committee meeting that they attend. They are entitled to the reimbursement of out-of-pocket cash expenses incurred in the exercise of their office. Any value added tax charged on Supervisory Board remuneration or out-of-pocket expenses is reimbursed.

The remuneration for 2018 totalled €2,733,167 (previous year: €2,641,000). Table A.29 shows both totals, broken down as the remuneration paid to each Supervisory Board member.

Remuneration paid to Supervisory Board members

A.29

€	2017			2018		
	Fixed component	Attendance allowance	Total	Fixed component	Attendance allowance	Total
Board members						
Prof. Dr Wulf von Schimmelmann (Chair) (until 24 April 2018)	315,000	21,000	336,000	91,875	7,000	98,875
Dr Nikolaus von Bomhard (Chair since 24 April 2018)	72,917	7,000	79,917	253,750	26,000	279,750
Andrea Kocsis (Deputy Chair)	245,000	21,000	266,000	245,000	26,000	271,000
Rolf Bauermeister	140,000	17,000	157,000	140,000	22,000	162,000
Dr Günther Bräunig (since 17 March 2018)	–	–	–	55,417	5,000	60,417
Dr Mario Daberkow (since 24 April 2018)	–	–	–	49,583	7,000	56,583
Ingrid Deltenre	70,000	6,000	76,000	94,792	15,000	109,792
Jörg von Dosky	70,000	6,000	76,000	70,000	10,000	80,000
Werner Gatzler	140,000	16,000	156,000	140,000	19,000	159,000
Gabriele Gülzau (since 24 April 2018)	–	–	–	49,583	8,000	57,583
Thomas Held (since 24 April 2018)	–	–	–	74,375	12,000	86,375
Mario Jacobasch (since 24 April 2018)	–	–	–	49,583	8,000	57,583
Prof. Dr Henning Kagermann	105,000	10,000	115,000	105,000	15,000	120,000
Thomas Koczelnik	175,000	21,000	196,000	175,000	27,000	202,000
Anke Kufalt (until 24 April 2018)	70,000	6,000	76,000	20,417	2,000	22,417
Ulrike Lennartz-Pipenbacher	35,000	4,000	39,000	70,000	10,000	80,000
Simone Menne	105,000	11,000	116,000	105,000	17,000	122,000
Roland Oetker	140,000	15,000	155,000	140,000	19,000	159,000
Andreas Schädler (until 24 April 2018)	70,000	6,000	76,000	20,417	1,000	21,417
Sabine Schielmann (until 24 April 2018)	70,000	6,000	76,000	20,417	2,000	22,417
Dr Ulrich Schröder (until 6 February 2018)	102,083	0	102,083	8,750	0	8,750
Dr Stefan Schulte	140,000	13,000	153,000	140,000	18,000	158,000
Stephan Teuscher ¹	105,000	13,000	118,000	105,000	18,000	123,000
Helga Thiel (until 30 June 2017)	52,500	6,000	58,500	–	–	–
Stefanie Weckesser	122,500	15,000	137,500	115,208	20,000	135,208
Prof. Dr-Ing. Katja Windt	70,000	6,000	76,000	70,000	10,000	80,000

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

Annual Corporate Governance Statement and non-financial report

The Annual Corporate Governance Statement can be found at [dpdhl.com/en/investors](https://www.dpdhl.com/en/investors) and in the [Corporate Governance Report](#), page 83 ff. The summarised, separate non-financial report for

Deutsche Post AG and the Group with the disclosures in accordance with sections 289b ff. and 315b f. of the HGB can be found in the [Corporate Responsibility Report](#), [dpdhl.com/cr-report2018](https://www.dpdhl.com/cr-report2018).

REPORT ON ECONOMIC POSITION

Overall assessment of the Group's economic position

Deutsche Post DHL Group was able to increase consolidated revenue in financial year 2018, although strong currency effects had a significant negative impact. After we had adjusted our earnings forecast for the full year in June 2018 for the PeP division from

around €1.50 billion to around €0.6 billion and for the Group from around €4.15 billion to around €3.2 billion, EBIT was in line with our adjusted expectations. In the Post - eCommerce - Parcel division, restructuring expenses, in particular, had a significant negative impact on earnings. Express continued to grow strongly and Global Forwarding, Freight made visible progress in its operational business. Supply Chain earnings were impacted by negative one-off effects. Capital expenditure was again higher than in the previous year, whilst free cash flow fell below the prior-year figure, as expected since June. All in all, the Board of Management views the Group's financial position as being sound.

Forecast/actual comparison

Forecast/actual comparison

A.30

Targets 2018	Results 2018	Targets 2019
<p>EBIT</p> <ul style="list-style-type: none"> Group: around €3.2 billion¹. PeP division: around €0.6 billion¹. DHL divisions: around €3.0 billion. Corporate Functions: around €-0.42 billion; of which Corporate Center/ Other: around €-0.35 billion. <p>EAC</p> <ul style="list-style-type: none"> Will decrease due to initial application of IFRS 16. <p>Cash flow</p> <ul style="list-style-type: none"> Free cash flow of at least €1.0 billion (excluding the debt-financed renewal of the Express intercontinental fleet)¹. <p>Capital expenditure (capex)</p> <ul style="list-style-type: none"> Increase investments (excluding leases) to around €2.5 billion plus around €0.2 billion for the debt-financed renewal of the Express intercontinental fleet.² <p>Dividend distribution</p> <ul style="list-style-type: none"> Pay out 40% to 60% of net profit as dividend. <p>Employee Opinion Survey</p> <ul style="list-style-type: none"> Increase approval rating of key performance indicator Active Leadership by one percentage point. <p>Greenhouse gas efficiency</p> <ul style="list-style-type: none"> CEX will increase by one index point. 	<p>EBIT</p> <ul style="list-style-type: none"> Group: €3.2 billion. PeP division: €0.7 billion. DHL divisions: €2.9 billion. Corporate Functions: €-0.41 billion. <p>EAC</p> <ul style="list-style-type: none"> Decreased due to initial application of IFRS 16. <p>Cash flow</p> <ul style="list-style-type: none"> Free cash flow of €1.2 billion (excluding the debt-financed renewal of the Express intercontinental fleet). <p>Capital expenditure (capex)</p> <ul style="list-style-type: none"> Invested (excluding leases): around €2.5 billion plus around €0.2 billion for the debt-financed renewal of the Express intercontinental fleet. <p>Dividend distribution</p> <ul style="list-style-type: none"> Proposal: pay out 55% of adjusted net profit as dividend. <p>Employee Opinion Survey</p> <ul style="list-style-type: none"> Approval rating of key performance indicator Active Leadership increased by one percentage point to 76%. <p>Greenhouse gas efficiency</p> <ul style="list-style-type: none"> CEX increased by one index point to 33. 	<p>EBIT</p> <ul style="list-style-type: none"> Group: €3.9 billion to €4.3 billion Post & Paket Deutschland: €1.0 billion to €1.3 billion DHL divisions: €3.4 billion to €3.5 billion Corporate Functions: around €-0.5 billion <p>EAC</p> <ul style="list-style-type: none"> Will develop in line with EBIT and increase. <p>Cash flow</p> <ul style="list-style-type: none"> Free cash flow to exceed €0.5 billion (including the debt-financed renewal of the Express intercontinental fleet). <p>Capital expenditure (capex)</p> <ul style="list-style-type: none"> Invest (excluding leases) around €3.7 billion (including the debt-financed renewal of the Express intercontinental fleet). <p>Dividend distribution</p> <ul style="list-style-type: none"> Pay out 40% to 60% of net profit as dividend. <p>Employee Opinion Survey</p> <ul style="list-style-type: none"> Increase approval rating of key performance indicator Active Leadership by one percentage point. <p>Greenhouse gas efficiency</p> <ul style="list-style-type: none"> CEX will increase by another index point.

¹ Forecast lowered during the year.

² Forecast raised during the year.

Economic parameters

Global economy continues to record solid growth

The world economy posted solid growth in 2018 with economic momentum peaking at mid-year. In the industrial countries, average GDP growth declined to 2.3%. Growth in the emerging markets slowed slightly to 4.6%. Total global economic output was up by 3.7%, somewhat less than in the previous year. Global trade again experienced substantial growth in terms of the value of goods and services, although the increase was not as strong as in 2017 (IMF: 4.0%; OECD 3.9%).

Global economy: growth indicators, 2018

A.31

%	Gross domestic product (GDP)	Export	Domestic demand
China	6.6	9.9	n.a.
Japan	0.7	3.1	0.7
USA	2.9	4.3	3.1
Euro zone	1.8	2.8	1.7
Germany	1.5	2.4	1.8

Data estimated, as at 1 February 2019.

Source: Postbank, national statistics.

The Asian economies again provided the strongest economic momentum. At 6.5%, GDP growth was at the same level as in the previous year. However, growth in China slowed to 6.6% (previous year: 6.9%). Whilst Chinese exports expanded considerably, industrial production lost ground. In Japan, the upwards economic trend lessened significantly. Private consumption and gross fixed capital formation rose only moderately, and foreign trade supplied no notable momentum despite solid growth figures in exports. All in all, GDP growth fell to 0.7% (previous year: 1.9%).

In the USA, the economy sped up rapidly. Businesses significantly expanded investment activity, although private consumption remained the main growth driver. Foreign trade put a slight damper on growth, despite the fact that export activity increased. Overall GDP growth accelerated to 2.9% (previous year: 2.2%), whilst the unemployment rate dropped again significantly from its already very low level.

In the euro zone, the economic upswing weakened in the year under review. Domestic demand continued to provide strong momentum, however. In particular, gross fixed capital formation increased significantly. Growth in private consumption slowed somewhat but maintained a solid level. Government spending increased moderately. Foreign trade continued to contribute to economic growth, albeit to a much lesser extent than in the previous year. The decrease in foreign trade growth was ultimately responsible for the decline in GDP growth to 1.8% (pre-

vious year: 2.4%). The average unemployment rate dropped significantly to 8.2% in line with the continuing upturn.

The German economy slowed in the second half of 2018. Although significant momentum continued to come from gross fixed capital formation, growth in private consumption lessened notably despite another strong increase in income levels. In addition, the rise in government spending lagged behind the figures for 2017. However, it was exports that took the biggest hit against the backdrop of an increasingly difficult international climate. All in all, foreign trade was a drag on economic growth after having made a positive contribution in the previous year. This situation led to an overall decline in GDP growth to 1.5% (previous year: 2.2%). The unemployment rate nonetheless fell to 5.2% on an annual average (previous year: 5.7%), with the average number of employed persons rising to 44.8 million (previous year: 44.3 million).

Crude oil price rises on annual average

By the end of 2018, the price for one barrel of Brent Crude had dropped to US\$50.56 (previous year: US\$66.73). However, the average price of oil for the year was around 31% higher than in the previous year at around US\$71 per barrel. Over the course of the year, the price fluctuated between US\$50 and US\$86. After peaking in October, increasing concerns about the global economy pushed crude oil prices down substantially during the rest of the year.

Euro weakens slightly due to declining euro zone momentum

The European Central Bank (ECB) adhered to the cautious change of direction in its monetary policy initiated in 2018. The Bank reduced its monthly bond-buying volumes from €30 billion at the start of the year to €15 billion starting in October before phasing out the quantitative easing programme entirely at the end of the year. Euro zone monetary policy nonetheless remained quite expansionary. The ECB left its key refinancing rate at 0.00% and the deposit rate for the year as a whole was -0.40%. By contrast, the US Federal Reserve tightened its monetary policy. Against the backdrop of strong economic growth and falling unemployment rates, the Fed raised its key interest rate in four steps of 0.25 percentage points each to a range of 2.25% to 2.50% at year-end.

The euro weakened slightly against the US dollar in 2018 in light of the increasing divergence in key interest rates and lower economic momentum in the euro zone. At the end of the year, the euro was trading at just under US\$1.15, a year-on-year decline of 4.7%. The pound-to-euro exchange rate fluctuated only minimally in 2018 despite the fraught negotiations on the United Kingdom's exit from the EU and uncertainty as to whether the deal would pass the UK parliament. Overall, the euro gained 1.1% on the pound sterling in 2018.

Significant rise in risk premiums for corporate bonds

The euro zone bond markets were negatively impacted by political uncertainty and changing economic expectations during 2018. Capital market interest rates initially rose at the start of the year. However, increasing risk at an international level led to a subsequent decrease in investor risk affinity. This effect was exacerbated as the economy weakened toward the end of the year, leading to a significant decrease in capital market interest rates. By year-end 2018, yields on ten-year German government bonds had fallen to 0.24% (previous year: 0.43%). By contrast, yields on ten-year US government bonds were up by 0.28 percentage points year-on-year to 2.68% at the end of the year. Risk premiums for investment grade corporate bonds were well above the year-end 2017 level at the end of 2018.

Stock market prices saw noticeable losses during the course of 2018. European dividend levels declined due to a variety of political risks, particularly from mid-year onward. The downward trend sped up in the autumn due to economic concerns. In addition, corporate profit forecasts saw successive downward corrections. The DAX ended the year at 10,559 points, a year-on-

year loss of 18.3%. The EURO STOXX 50 registered a decline of 14.3%. In the US, the broad-market S&P 500 did not come under any significant pressure until near the end of the year and thus fell by only 6.2% year-on-year.

The **DAX** ended 2018
with a year-on-year **loss of**

18.3%

International trade continues to grow

The global trade movements of relevance to us – air and ocean freight sent in containers, excluding liquids and bulk goods – grew by a total of 4.8% in the year under review (previous year: 5.1%). Air and ocean freight volumes grew at roughly the same pace. Imports to Latin America and Asia evidenced the highest growth rates.

Trade volumes: compound annual growth rate, 2017 to 2018

A.32

Export	Import					
	Asia Pacific	Europe	Latin America	MEA (Middle East and Africa)	North America	
Asia Pacific	5.3	3.8	8.6	0.0	4.2	
Europe	1.5	5.3	6.8	3.1	3.3	
Latin America	10.3	1.9	0.0	-5.3	2.3	
MEA (Middle East and Africa)	11.0	10.9	11.5	5.6	7.0	
North America	6.8	7.8	8.0	6.2	24.2	

Source: Seabury Consulting, as at 28 November 2018; based upon all relevant ocean and air freight trading volumes in tonnes, excluding liquids and bulk goods. Excluding shipments within the European Union free trade zone.

Legal environment

In view of our leading market position, a large number of our services are subject to sector-specific regulation under the *Postgesetz* (PostG – German Postal Act). Further information regarding this issue and legal risks is contained in [note 46 to the consolidated financial statements](#).

Significant events

In order to counteract the clear negative earnings trend in the Post - eCommerce - Parcel (PeP) division, in early June, the Board of Management decided upon measures to secure sustainable earnings growth in the PeP division. The measures decided upon are designed to further improve productivity, indirect costs and yield management in the Post and Parcel business. €400 million was already spent during the year under review on an early retirement programme for civil servants in overhead areas. In addition, as announced in June, around €100 million was invested in further restructuring measures. In June, we also adjusted our forecasts for EBIT, EAC and free cash flow for the current financial year to reflect the above. How these key figures are calculated is described in [Management, page 21 ff.](#)

At the end of October, we decided to sell our supply chain business in China, Hong Kong and Macao as part of a strategic partnership with the logistics service provider S.F. Holding, China. In return, we shall receive a non-recurring payment of around €700 million and an annual amount linked to revenue over the next ten years. All of the company's assets and liabilities were reclassified as held for sale.

Leases are presented more extensively as a result of the initial application of IFRS 16, [note 4 to the consolidated financial statements](#). This has a significant impact upon the presentation of the Group's net assets, financial position and results of operations.

Results of operations

Selected indicators for results of operations

A.33

		2017	2018	Q4 2017	Q4 2018
Revenue	€m	60,444	61,550	16,109	16,926
Profit from operating activities (EBIT)	€m	3,741	3,162	1,181	1,134
Return on sales ¹	%	6.2	5.1	7.3	6.7
EBIT after asset charge (EAC)	€m	2,175	716	796	509
Consolidated net profit for the period ²	€m	2,713	2,075	837	813
Earnings per share ³	€	2.24	1.69	0.69	0.66
Dividend per share	€	1.15	1.15 ⁴	–	–

¹ EBIT/revenue.

² After deduction of non-controlling interests.

³ Basic earnings per share.

⁴ Proposal.

Portfolio and reporting changed

To reflect the importance of state-of-the-art mobility solutions such as our StreetScooter electric vehicles and other technological innovations, we have transferred these activities out of the Post - eCommerce - Parcel division and combined them in the new Corporate Incubations board department. The new board department acts as an incubator for mobility solutions, digital platforms and automation. The results of Corporate Incubations and Corporate Center/Other are now presented together in Corporate Functions. The prior-period amounts were adjusted accordingly.

In the second quarter, we acquired the Colombian Suppla Group, a specialist in transport, warehousing and packaging ser-

vices. The acquisition is intended to strengthen DHL Supply Chain's presence in Latin America, [note 2 to the consolidated financial statements](#).

In the third quarter, we sold 50% of our UK start-up Flexible Lifestyle Employment Company. The company provides digital solutions for staff recruitment in the logistics sector.

In the fourth quarter, we sold our 40% interest in Air Hong Kong to the majority shareholder Cathay Pacific and, at the same time, agreed a 15-year partnership.

In the Post - eCommerce - Parcel division, we sold our online supermarket business, Allyouneed Fresh, to Delticom AG, Hanover.

Currency effects weigh on revenue growth

Consolidated revenue rose by €1,106 million to €61,550 million in financial year 2018, although currency effects had a considerable negative impact of €1,466 million. The proportion of revenue generated abroad fell slightly from 69.6% to 69.5%. Revenue for the fourth quarter of 2018 was up by €817 million to €16,926 million. It was also reduced by currency effects of €63 million.

Revenue, 2018

€m

61,550

2017	Change
60,444	+ 1.8%

Other operating income dropped from €1,971 million to €1,914 million in the year under review. Amongst other things, this was due to higher income from the disposal of non-current assets included in this item in the previous year.

Significant increase in depreciation, amortisation and impairment losses

Materials expense decreased by €1,102 million to €31,673 million. The decline is attributable mainly to currency effects of €799 million and the elimination of lease expenses as a result of the initial application of IFRS 16. Transport and fuel costs, on the other hand, showed an increase. At €20,825 million, staff costs exceeded the prior-year figure (€20,072 million), largely on account of new hires and provisions recognised for the early retirement programme in the Post - eCommerce - Parcel division. Currency effects reduced the staff cost figure by €335 million. The application of IFRS 16, in particular, caused depreciation, amortisation and impairment losses to rise sharply, by €1,821 million to €3,292 million. Other operating expenses rose from €4,526 million to €4,597 million, amongst other things because of negative effects from customer contracts amounting to €49 million.

Changes in revenue, other operating income and operating expenses, 2018

A.34

	€m	+/-%	
Revenue	61,550	1.8	• Currency effects reduce figure by €1,466 million
Other operating income	1,914	-2.9	• Prior-year figure included higher income from the disposal of non-current assets
Materials expense	31,673	-3.4	• Currency effects reduce figure by €799 million • Reduction due to initial application of IFRS 16 • Higher transport and fuel costs
Staff costs	20,825	3.8	• Rise in headcount • Expense of €400 million for early retirement programme in the PeP division • Currency effects reduce figure by €335 million
Depreciation, amortisation and impairment losses	3,292	> 100	• Increase due to initial application of IFRS 16
Other operating expenses	4,597	1.6	• Figure includes negative effect from customer contracts amounting to €49 million

Consolidated EBIT down by 15.5%

In the year under review, consolidated EBIT stood at €3,162 million, 15.5% below the previous year's level (€3,741 million). EBIT in the fourth quarter was down €47 million to €1,134 million. Net finance costs widened from €-411 million to €-576 million in full-year 2018, due primarily to interest expenses on lease liabilities. Profit before income taxes declined by €744 million to €2,586 million. Income taxes also fell, dropping by €115 million to €362 million.

EBIT 2018

€m

3,162

2017	Change
3,741	-15.5%

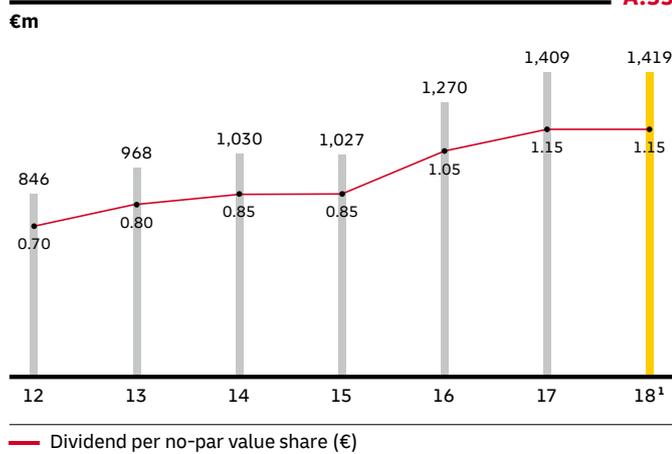
Consolidated net profit below prior-year figure

Consolidated net profit for the period fell from €2,853 million to €2,224 million in financial year 2018. Of this amount, €2,075 million was attributable to Deutsche Post AG shareholders and €149 million to non-controlling interest shareholders. Basic earnings per share declined from €2.24 to €1.69 and diluted earnings per share from €2.15 to €1.66.

Dividend of €1.15 per share proposed

Our finance strategy calls for a payout of 40% to 60% of net profits as dividends as a general rule. The Board of Management and the Supervisory Board will therefore propose a dividend of €1.15 per share for financial year 2018 to shareholders at the Annual General Meeting on 15 May 2019 (previous year: €1.15). The payout ratio in relation to consolidated net profit attributable to the shareholders of Deutsche Post AG amounts to 68.4%. Adjusted for one-off effects, the payout ratio is 55.4%. The dividend yield based upon the year-end closing price for our shares is 4.8%. The dividend will be distributed on 20 May 2019 and is tax-free for shareholders resident in Germany. It does not entitle recipients to a tax refund or a tax credit.

Total dividend and dividend per no-par value share A.35



¹ Proposal.

EBIT after asset charge (EAC) declines significantly

EAC declined from €2,175 million to €716 million in 2018. In addition to the steep decrease in EBIT, the imputed asset charge rose sharply due to the lease assets recognised additionally in accordance with IFRS 16, as a result of which EAC fell at a greater rate than EBIT.

EBIT after asset charge (EAC) A.36

€ m	2017	2018	+/--%
EBIT	3,741	3,162	-15.5
⊖ Asset charge	-1,566	-2,446	-56.2
⊖ EAC	2,175	716	-67.1

The net asset base on the reporting date rose by around €11.2 billion to €28,594 million, due mainly to the additional lease assets recognised as property, plant and equipment. This item was increased further by investments in IT systems, the purchase of freight aircraft, and replacement and expansion investments in warehouses, sorting systems and the vehicle fleet. Net working capital rose year-on-year.

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

Net asset base (consolidated)¹ A.37

€ m	31 Dec. 2017	31 Dec. 2018	+/--%
Intangible assets and property, plant and equipment	20,594	31,254	51.8
⊕ Net working capital	-1,095	-919	16.1
⊖ Operating provisions (excluding provisions for pensions and similar obligations)	-2,089	-1,865	10.7
⊕ Other non-current assets and liabilities	31	124	> 100
⊖ Net asset base	17,441	28,594	63.9

¹ Assets and liabilities as described in the segment reporting, [note 10 to the consolidated financial statements](#).

Financial position

Selected cash flow indicators

A.38

€m	2017	2018	Q4 2017	Q4 2018
Cash and cash equivalents as at 31 December	3,135	3,017	3,135	3,017
Change in cash and cash equivalents	119	-20	1,596	809
Net cash from operating activities	3,297	5,796	1,527	2,652
Net cash used in investing activities	-2,091	-2,777	-1,042	-1,481
Net cash used in/from financing activities	-1,087	-3,039	1,111	-362

Financial management is a centralised function in the Group

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

Corporate Finance's main task is to minimise financial risk and the cost of capital in addition to preserving the Group's financial stability and flexibility over the long term. In order to maintain its unrestricted access to the capital markets, the Group continues to aim for a credit rating appropriate to the sector.

Maintaining financial flexibility and low cost of capital

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

A key component of this strategy is having a target rating of "BBB+", which is managed via a dynamic performance metric known as funds from operations to debt (FFO to debt). Our strategy additionally includes a long-term dividend policy and clear priorities regarding excess liquidity, which is to be used to distribute special dividends or to buy back shares.

Finance strategy

A.39

Credit rating

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

Dividend policy

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

Excess liquidity

- Pay out special dividends or implement share buyback programme.

Debt portfolio

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

Investors

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

Group

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

FFO to debt**A.40**

€ m	2017	2018
Operating cash flow before changes in working capital	3,418	6,079
+ Interest received	52	52
− Interest paid	160	526
+ Adjustment for operating leases	1,641	0
+ Adjustment for pensions	567	309
− Funds from operations (FFO)	5,518	5,914
Reported financial liabilities	6,050	16,462
− Financial liabilities at fair value through profit or loss	44	38
+ Adjustment for operating leases	9,406	0
+ Adjustment for pensions	4,323	4,110
− Surplus cash and near-cash investments ¹	2,503	2,683
− Debt	17,232	17,851
FFO to debt (%)	32.0	33.1

¹ Reported cash and cash equivalents and investment funds callable at sight, less cash needed for operations.

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

Although the debt level rose, the FFO to debt performance metric saw a year-on-year increase in the year under review because funds from operations increased at a faster pace than debt.

Funds from operations rose by €396 million to €5,914 million. Operating cash flow before changes in working capital increased significantly due to the further funding of pension obligations in the previous year. In addition, the application of IFRS 16 increased operating cash flow and, at the same time, reduced the adjustment for operating leases. The amount of interest paid went up because it now includes interest paid on leases. The adjustment for pensions declined year-on-year as a result of lower funding of pension obligations in the year under review.

Debt rose by €619 million to €17,851 million compared with the previous year. Reported financial liabilities increased due to a bond issue in December in the amount of €0.75 billion and the issuance in September of promissory note loans in the amount of €0.5 billion. However, they were reduced by the repayment of a €0.5 billion bond in October and the conversion or repayment of shares in the 2012 convertible bond in the amount of €0.1 billion. In addition, reported financial liabilities increased as they include lease liabilities under IFRS 16 in the year under review, which also explains the discontinuation in the adjustment for operating leases,  **note 41 to the consolidated financial statements.**

Cash and liquidity managed centrally

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

Limiting market risk

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

Flexible and stable financing

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

We also have a syndicated credit facility in a total volume of €2 billion that guarantees us favourable market conditions and acts as a secure, long-term liquidity reserve. The facility was renegotiated in the year under review and now runs until 2023. It includes two renewal options of one year each, and does not contain any covenants concerning the Group's financial indicators. Thanks to our solid liquidity situation, the syndicated credit facility was not drawn down during the year under review.

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

In December 2018, we issued a bond in a volume of €0.75 billion as part of the up to €8 billion Debt Issuance Programme established in 2012. In September, the Group also issued promissory note loans for the first time in a total volume of €0.5 billion. The cash proceeds were used to refinance existing financial liabilities and to purchase aircraft.

One bond in the amount of €0.5 billion was repaid in the year under review. The outstanding €0.1 billion of the convertible bond issued in 2012 was converted or repaid in full. Further information on bonds is contained in [note 41 to the consolidated financial statements](#).

Sureties, letters of comfort and guarantees

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

No change in the Group's credit rating

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

No change in the Group's credit ratings of **BBB+** and **A3**

Agency ratings

A.41

Fitch Ratings

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

+ Rating factors

- Balanced business risk profile.
- Growth in internet-led parcel volumes.
- Strong position in global time-definite express services with continued growth and margin improvement.
- Solid financial metrics and good liquidity.

– Rating factors

- Structural mail volume decline in the Post - eCommerce - Parcel division and challenges in managing the cost structure in the division.
- Exposure to global market volatility and competitiveness through the DHL divisions.

Moody's Investors Service

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

+ Rating factors

- Scale and global presence as the world's largest logistics company.
- Large and robust mail business in Germany.
- Solid financial metrics, conservative financial policy and excellent liquidity profile.

– Rating factors

- Challenges in the Post - eCommerce - Parcel division.
- Exposure to highly competitive mature markets and volatile market conditions in the logistics business.
- Structural decline of traditional postal services.
- Restructuring costs and higher capital spending.

Liquidity and sources of funds

As at the reporting date, the Group had cash and cash equivalents of €3.0 billion (previous year: €3.1 billion) at its disposal. A large portion of that amount is held directly by Deutsche Post AG. The cash is either invested centrally on the money market or deposited in existing bank accounts. These central, short-term financial investments had a volume of €1.5 billion as at the reporting date (previous year: €1.7 billion).

In addition, €0.8 billion was invested in a money market fund (previous year: €0.5 billion). The following table gives a breakdown of the financial liabilities reported in the balance sheet. Additional information is provided in [note 41 to the consolidated financial statements](#).

Financial liabilities**A.42**

€ m	2017	2018
Lease liabilities	181	9,859
Bonds	5,350	5,472
Promissory note loans	0	499
Amounts due to banks	156	264
Financial liabilities measured at fair value through profit or loss	44	38
Other financial liabilities	319	330
	6,050	16,462

Higher capital expenditure for assets acquired

Investments in property, plant and equipment and intangible assets (excluding goodwill) for assets acquired amounted to €2,648 million in the year under review (previous year: €2,268 million). Please refer to [notes 10, 22 and 23 to the consolidated financial statements](#) for a breakdown of capital expenditure (capex) into asset classes and regions.

Capex and depreciation, amortisation and impairment losses, full year**A.43**

	PeP adjusted ¹		Express		Global Forwarding, Freight		Supply Chain		Corporate Functions adjusted ¹		Consolidation ^{1,2}		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Capex (€m) relating to assets acquired	618	786	1,047	1,190	69	110	277	282	241	290	16	-10	2,268	2,648
Capex (€m) relating to leased assets	4	176	2	739	1	158	0	805	2	518	0	1	9	2,397
Total (€m)	622	962	1,049	1,929	70	268	277	1,087	243	808	16	-9	2,277	5,045
Depreciation, amortisation and impairment losses (€m)	353	454	525	1,152	70	238	319	826	203	623	1	-1	1,471	3,292
Ratio of total capex to depreciation, amortisation and impairment losses	1.76	2.12	2.00	1.67	1.00	1.13	0.87	1.32	1.20	1.30	-	-	1.55	1.53

¹ Reclassification of Corporate Incubations to Corporate Functions.² Including rounding.**Capex and depreciation, amortisation and impairment losses, Q4****A.44**

	PeP adjusted ¹		Express		Global Forwarding, Freight		Supply Chain		Corporate Functions adjusted ¹		Consolidation ^{1,2}		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Capex (€m) relating to assets acquired	298	245	605	511	18	35	83	82	142	111	0	-39	1,146	945
Capex (€m) relating to leased assets	1	81	0	102	0	37	0	216	2	143	0	2	3	581
Total (€m)	299	326	605	613	18	72	83	298	144	254	0	-37	1,149	1,526
Depreciation, amortisation and impairment losses (€m)	88	121	132	312	19	65	99	217	52	164	0	-1	390	878
Ratio of total capex to depreciation, amortisation and impairment losses	3.40	2.69	4.58	1.96	0.95	1.11	0.84	1.37	2.77	1.55	-	-	2.95	1.74

¹ Reclassification of Corporate Incubations to Corporate Functions.² Including rounding.

In the Post - eCommerce - Parcel division, the largest share of capex was attributable to the expansion of the infrastructure for the Post and Parcel business in Germany.

In the Express division, we invested in the expansion of our network infrastructure, particularly in Madrid, Hong Kong, Cincinnati and Leipzig. Capital spending also focussed upon continuous maintenance and renewal of our aircraft fleet, including advance payments for the planned renewal of the Express inter-continental aircraft fleet.

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

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

At Corporate Functions, investments rose and were made increasingly in the vehicle fleet and in the expanded production of StreetScooter electric vehicles.

Higher operating cash flow

Net cash from operating activities increased by €2,499 million to €5,796 million in financial year 2018. All non-cash income and

expenses were eliminated based upon EBIT, which at €3,162 million was down substantially on the prior-year figure (€3,741 million). Depreciation, amortisation and impairment losses rose from €1,471 million to €3,292 million due to the initial recognition of lease assets. Provisions changed from €-940 million to €282 million due to factors including the provisions recognised for the early retirement programme in the Post - eCommerce - Parcel division. In the prior year, €495 million was used to finance pension obligations in the United Kingdom. Net cash from operating activities before changes in working capital increased sharply, by €2,661 million to €6,079 million. The cash outflow from changes in working capital rose by €162 million, due primarily to a reduction in liabilities and other items.

At €2,777 million, net cash used in investing activities considerably exceeded the level of the previous year (€2,091 million), a period affected primarily by the sale of the Williams Lea Tag Group, which generated proceeds from the disposal of subsidiaries and other business units totalling €316 million. The cash outflow to acquire property, plant and equipment and intangible assets was €446 million higher than in the previous year (€2,203 million).

Calculation of free cash flow

A.45

€ m	2017	2018	Q4 2017	Q4 2018
Net cash from operating activities	3,297	5,796	1,527	2,652
Sale of property, plant and equipment and intangible assets	236	151	135	105
Acquisition of property, plant and equipment and intangible assets	-2,203	-2,649	-914	-851
Cash outflow from change in property, plant and equipment and intangible assets	-1,967	-2,498	-779	-746
Disposals of subsidiaries and other business units	316	14	316	9
Disposals of investments accounted for using the equity method and other investments	3	23	0	23
Acquisition of subsidiaries and other business units	-54	-58	0	0
Acquisition of investments accounted for using the equity method and other investments	-55	-39	-32	-6
Cash inflow/outflow from acquisitions/divestitures	210	-60	284	26
Proceeds from lease receivables	-	17	-	4
Repayment of lease liabilities	-	-1,722	-	-465
Interest on lease liabilities	-	-376	-	-99
Cash outflow from leases	-	-2,081	-	-560
Interest received	52	52	12	13
Interest paid	-160	-150	-69	-78
Net interest paid	-108	-98	-57	-65
Free cash flow	1,432	1,059	975	1,307

In order to ensure the comparability of free cash flow figures after the initial application of IFRS 16, the cash outflows from interest payments and the repayment of lease liabilities have been included in addition to the depreciation of, and impairment losses on, lease assets. Free cash flow deteriorated from €1,432 million to €1,059 million for reasons including a €531 million increase in the cash outflow from the change in property, plant and equipment and intangible assets compared with the prior-year figure (€1,967 million) and an increase in the cash outflow from changes in working capital.

At €3,039 million, net cash used in financing activities was €1,952 million higher than in the prior-year period (€1,087 million). The reasons for this include lease payments in the year under review. Shareholders were also paid dividends of €1,409 million and we repaid a €500 million bond. By contrast, we issued promissory note loans totalling €500 million and a bond in the amount of €750 million. In the previous year, the purchase of treasury shares led to a cash outflow of €148 million and in June 2017 we repaid a bond.

Cash and cash equivalents declined from €3,135 million as at 31 December 2017 to €3,017 million.

Net assets

Selected indicators for net assets

A.46

		31 Dec. 2017	31 Dec. 2018
Equity ratio	%	33.4	27.5
Net debt	€m	1,938	12,303
Net interest cover		34.6	6.7
Net gearing	%	13.1	47.0

Consolidated total assets up sharply

The Group's total assets amounted to €50,470 million as at 31 December 2018, €11,798 million higher than at 31 December 2017 (€38,672 million).

Non-current assets increased substantially due to the application of IFRS 16. The initial recognition of right-of-use assets from leases increased property, plant and equipment by €9.1 billion. Other non-current assets rose by €122 million to €353 million on account of the increase in pension assets. We invested surplus funds in the capital markets, increasing current financial assets from €652 million to €943 million. As a result of the application of IFRS 15, other current assets were also up €185 million to €2,369 million, **note 4 to the consolidated financial statements**. Assets held for sale climbed sharply by €422 million to €426 million, mainly as the result of reclassification of all of the assets of our supply chain business in China.

On the equity and liabilities side of the balance sheet, equity attributable to Deutsche Post AG shareholders stood at €13,590 million, well above the level as at 31 December 2017 (€12,637 million): the consolidated net profit for the period, actuarial gains from pension obligations and a capital increase in connection with the convertible bond increased this figure, whilst the dividend payment decreased it. Financial liabilities were up considerably, from €6,050 million to €16,462 million, due in particular to the initial recognition of lease liabilities of €9.2 billion. In addition, we issued a bond in the amount of €750 million. Trade payables increased from €7,343 million to €7,422 million. At €7,130 million, provisions were slightly above the figure as

Business performance in the divisions

POST - ECOMMERCE - PARCEL DIVISION

Key figures of the Post - eCommerce - Parcel division

A.49

€m	2017 adjusted ¹	2018	+/- %	Q4 2017 adjusted ¹	Q4 2018	+/- %
Revenue	18,161	18,476	1.7	5,047	5,125	1.5
of which Post	9,956	9,709	-2.5	2,688	2,611	-2.9
eCommerce - Parcel	8,482	9,073	7.0	2,432	2,604	7.1
Other/Consolidation PeP	-277	-306	-10.5	-73	-90	-23.3
Profit from operating activities (EBIT)	1,503	656	-56.4	511	366	-28.4
of which Germany	1,495	658	-56.0	505	364	-27.9
International Parcel and eCommerce	8	-2	<-100	6	2	-66.7
Return on sales (%) ²	8.3	3.6	-	10.1	7.1	-
Operating cash flow	1,559	1,263	-19.0	836	648	-22.5

¹ Conversion of reporting to the business unit consolidated view and reclassification of business areas.

² EBIT/revenue.

Revenue exceeds previous year's level

In the year under review, revenue in the division was €18,476 million, 1.7% above the prior-year figure of €18,161 million, although there were 0.7 fewer working days in Germany. Most of the growth originated in the eCommerce - Parcel business unit. Negative currency effects of €93 million reduced revenue in 2018. Excluding these effects, the increase in revenue was 2.2%. Divisional revenue for the fourth quarter was up 1.5% compared with the prior-year period.

Revenue declines in the Post business unit

In the Post business unit, revenue was €9,709 million in the year under review and thus 2.5% below the prior-year level of €9,956 million. Volumes declined by 4.2%. Fourth-quarter revenue decreased by 2.9% to €2,611 million (previous year: €2,688 million).

Progressive electronic substitution and fewer special events than in the previous year, such as elections, caused volumes in Mail Communication to decline as expected. In Dialogue Marketing, the absence of special events also led to declining revenues and volumes. Revenue in the cross-border mail business rose significantly.

Post: revenue

A.50

€m	2017 adjusted ¹	2018	+/- %	Q4 2017 adjusted ¹	Q4 2018	+/- %
Mail Communication	6,401	6,303	-1.5	1,720	1,696	-1.4
Dialogue Marketing	2,333	2,205	-5.5	656	602	-8.2
Other/Consolidation Post	1,222	1,201	-1.7	312	313	0.3
Total	9,956	9,709	-2.5	2,688	2,611	-2.9

¹ Conversion of reporting to the business unit consolidated view and reclassification of business areas.

Post: volumes**A.51****Mail items (millions)**

	2017 adjusted ¹	2018	+/- %	Q4 2017 adjusted ¹	Q4 2018	+/- %
Total	18,590	17,818	-4.2	4,935	4,760	-3.5
of which Mail Communication	7,964	7,707	-3.2	2,079	2,067	-0.6
of which Dialogue Marketing	8,874	8,417	-5.1	2,393	2,235	-6.6

¹ Conversion of reporting to the business unit consolidated view and reclassification of business areas.**eCommerce - Parcel business unit continues to grow**

Revenue in the eCommerce - Parcel business unit was €9,073 million in the year under review, exceeding the prior-year figure of €8,482 million by 7.0%. In the fourth quarter of 2018, revenue grew by 7.1%.

The Parcel business in Germany continued to grow steadily due to the strong e-commerce trend. Revenue in the Parcel Germany business increased by 7.1% to €5,556 million in 2018 (previous year: €5,190 million). Volumes rose by 7.5% to 1,479 million parcels.

Our domestic and cross-border parcel business in Europe is also continuing to perform dynamically. In the Parcel Europe business, revenue in 2018 grew by 10.6% to €2,216 million (previous year: €2,004 million).

Revenue in the DHL eCommerce business was up by 6.9% to €1,650 million in the year under review (previous year: €1,544 million) due to the US domestic business as well as business in Asia. Excluding currency effects, growth was 12.0%.

eCommerce - Parcel: revenue**A.52**

€m	2017 adjusted ¹	2018	+/- %	Q4 2017 adjusted ¹	Q4 2018	+/- %
Parcel Germany	5,190	5,556	7.1	1,533	1,627	6.1
Parcel Europe ²	2,004	2,216	10.6	558	609	9.1
Consolidation Parcel	-256	-349	-36.3	-80	-98	-22.5
Parcel total	6,938	7,423	7.0	2,011	2,138	6.3
DHL eCommerce ³	1,544	1,650	6.9	421	466	10.7
Total	8,482	9,073	7.0	2,432	2,604	7.1

¹ Conversion of reporting to the business unit consolidated view and reclassification of business areas.² Excluding Germany.³ Outside Europe.**Parcel Germany: volumes****A.53****Parcels (millions)**

	2017 adjusted ¹	2018	+/- %	Q4 2017 adjusted ¹	Q4 2018	+/- %
Total	1,376	1,479	7.5	410	432	5.4

¹ Conversion of reporting to the business unit consolidated view.**EBIT declines significantly due to restructuring expenses**

The division's EBIT declined significantly due to the restructuring measures resolved in the middle of the year. In 2018, EBIT was €656 million (previous year: €1,503 million). The decrease was due mainly to higher costs for material and labour – including €400 million for the early retirement programme – as well as on-going investments in the parcel network. These were partly offset by non-recurring income from the remeasurement of pension obligations in the amount of €108 million. Return on sales

fell to 3.6% (previous year: 8.3%). Restructuring expenses and the effects of collective bargaining agreements, in particular, reduced divisional EBIT in the fourth quarter from €511 million in the previous year to €366 million. Operating cash flow fell from €1,559 million to €1,263 million in the year under review. It was influenced significantly by the decline in EBIT. In addition, it was impacted by the conversion of bonus payments for employees covered by collective bargaining agreements into fixed salary under the current agreement.

EXPRESS DIVISION

Key figures of the Express division

A.54

€m	2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Revenue	15,049	16,147	7.3	4,059	4,423	9.0
of which Europe	6,696	7,245	8.2	1,841	1,972	7.1
Americas	3,010	3,296	9.5	813	913	12.3
Asia Pacific	5,556	5,740	3.3	1,454	1,585	9.0
MEA (Middle East and Africa)	1,110	1,142	2.9	283	300	6.0
Consolidation/Other	-1,323	-1,276	3.6	-332	-347	-4.5
Profit from operating activities (EBIT)	1,736	1,957	12.7	499	570	14.2
Return on sales (%) ¹	11.5	12.1	-	12.3	12.9	-
Operating cash flow	2,212	3,073	38.9	723	905	25.2

¹ EBIT/revenue.

International business continues to grow

Revenue in the division improved by 7.3% to €16,147 million in the year under review (previous year: €15,049 million). This includes negative currency effects of €551 million. Excluding these effects, the increase in revenue was 11.0%. The revenue figure also reflects the fact that fuel surcharges were higher in all regions as the price of crude oil increased compared with the previous year. Excluding foreign currency losses and higher fuel surcharges, revenue was up by 8.0%.

In the Time Definite International (TDI) product line, revenues per day increased by 9.6% and per-day shipment volumes by 7.4% in 2018. Revenues per day for the fourth quarter were up by 8.1% and per-day shipment volumes by 6.7%.

In the Time Definite Domestic (TDD) product line, revenues per day increased by 7.0% and per-day shipment volumes by 6.7% in 2018. Growth in the fourth quarter amounted to 8.5% for revenues per day and 6.6% for per-day volumes.

Express: revenue by product

A.55

€m per day ¹	2017 adjusted ¹	2018	+/-%	Q4 2017 adjusted ¹	Q4 2018	+/-%
Time Definite International (TDI)	45.9	50.3	9.6	50.8	54.9	8.1
Time Definite Domestic (TDD)	4.3	4.6	7.0	4.7	5.1	8.5

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

Express: volumes by product

A.56

Thousands of items per day	2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Time Definite International (TDI)	889	955	7.4	978	1,044	6.7
Time Definite Domestic (TDD)	461	492	6.7	512	546	6.6

Momentum in the Europe region remains high

Revenue in the Europe region increased by 8.2% to €7,245 million in the year under review (previous year: €6,696 million). This included negative currency effects of €123 million, which related mainly to Turkey and Russia. Excluding these effects, revenue

growth was 10.0%. In the TDI product line, revenues per day rose by 11.4%; per-day TDI shipment volumes improved by 9.0% in 2018. International per-day shipment revenues for the fourth quarter were up by 8.6% and per-day shipment volumes by 7.4%.

Strong revenue growth in the Americas region

Revenue in the Americas region increased by 9.5% to €3,296 million in the year under review (previous year: €3,010 million). This included negative currency effects of €172 million, which related primarily to the United States. Excluding the currency effects, the revenue increase was 15.2%. In the TDI product line, revenues per day were up 11.9% in 2018. Per-day shipment volumes improved by 8.5%. Revenues per day for the fourth quarter were up by 7.7% and per-day shipment volumes by 7.3%.

Increase in revenues and volumes in Asia Pacific region

Revenue in the Asia Pacific region increased by 3.3% to €5,740 million in the year under review (previous year: €5,556 million). This included negative currency effects of €196 million, most of which related to India, Hong Kong and China. Excluding these effects, revenue in 2018 increased by 6.8%. In the TDI product line, revenues per day improved by 6.9% and per-day volumes by 4.7%. Growth in the fourth quarter amounted to 7.9% for revenues per day and 6.0% for per-day volumes.

Further improvement in international business in the MEA region

Revenue in the MEA region (Middle East and Africa) improved by 2.9% to €1,142 million in the year under review (previous year: €1,110 million). This included negative currency effects of €54 million, most of which related to the United Arab Emirates. Excluding these effects, revenue increased by 7.7%. In the TDI product line, revenues per day were up by 8.6% and per-day volumes by 10.6%. Growth in the fourth quarter amounted to 6.7% for revenues per day and 4.8% for per-day volumes.

EBIT and operating cash flow show significant improvement

EBIT in the division rose by 12.7% to €1,957 million in financial year 2018 (previous year: €1,736 million), driven by network improvement and strong growth in international business. Return on sales increased from 11.5% to 12.1%. In the fourth quarter, EBIT improved by 14.2% to €570 million and return on sales increased from 12.3% to 12.9%. Operating cash flow improved from €2,212 million to €3,073 million in 2018.

GLOBAL FORWARDING, FREIGHT DIVISION**Key figures of the Global Forwarding, Freight division****A.57**

€m	2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Revenue	14,482	14,978	3.4	3,791	4,002	5.6
of which Global Forwarding	10,279	10,667	3.8	2,698	2,883	6.9
Freight	4,354	4,454	2.3	1,130	1,156	2.3
Consolidation/Other	-151	-143	5.3	-37	-37	0.0
Profit from operating activities (EBIT)	297	442	48.8	123	161	30.9
Return on sales (%) ¹	2.1	3.0	-	3.2	4.0	-
Operating cash flow	131	523	>100	119	286	>100

¹ EBIT/revenue.**Revenue increases despite negative currency effects**

Revenue in the division increased by 3.4% to €14,978 million in the year under review (previous year: €14,482 million). Excluding negative currency effects of €470 million, revenue was up by 6.7% year-on-year. In the fourth quarter of 2018, revenue amounted to €4,002 million, exceeding the prior-year figure by 5.6%.

In the Global Forwarding business unit, revenue increased by 3.8% to €10,667 million in 2018 (previous year: €10,279 mil-

lion). Excluding negative currency effects of €389 million, the increase was 7.6%. Gross profit is defined as revenue from transport or other services less directly attributable costs. These include transport costs for air and ocean freight, road and rail transport, expenses for commissions, insurances, customs clearance and other revenue-related expenses. Gross profit improved by 4.1% to €2,487 million (previous year: €2,390 million) despite negative currency effects.

Air and ocean freight with improved margins

Air freight volumes dropped by 3.9% in the year under review, due mainly to structural adjustments in the customer portfolio. Revenue increased by 6.9% compared with the previous year thanks to rising freight rates worldwide. Gross profit from air freight improved by 9.2%. Air freight revenue rose by 10.4% in the fourth quarter of 2018, whilst gross profit improved by 14.6%, despite a volume decline of 3.6% versus the exceptionally strong prior-year fourth quarter for the air freight market.

Ocean freight volumes in the year under review were 1.0% below the level of the previous year. Here, too, we focussed in-

creasingly upon high-margin volumes. Our revenue from ocean freight remained at the previous year's level, whilst gross profit improved slightly by 0.9%. Ocean freight revenue rose by 4.5% and ocean freight volume by 0.5% in the fourth quarter.

The performance of our industrial project business (in the following table reported as part of Other in the Global Forwarding business unit) improved significantly compared with the previous year. The share of revenue related to industrial project business and reported under Other increased from 25.6% in the prior year to 30.0%. Gross profit improved by 9.4%.

Global Forwarding: revenue

A.58

€m	2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Air freight	4,608	4,924	6.9	1,243	1,372	10.4
Ocean freight	3,512	3,503	-0.3	889	929	4.5
Other	2,159	2,240	3.8	566	582	2.8
Total	10,279	10,667	3.8	2,698	2,883	6.9

Global Forwarding: volumes

A.59

Thousands		2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Air freight	tonnes	3,961	3,806	-3.9	1,037	1,000	-3.6
of which exports	tonnes	2,248	2,150	-4.4	600	571	-4.8
Ocean freight	TEUs ¹	3,259	3,225	-1.0	820	824	0.5

¹ Twenty-foot equivalent units.

Revenue increase in European overland transport business

In the Freight business unit, revenue rose by 2.3% to €4,454 million in the year under review (previous year: €4,354 million) despite negative currency effects of €84 million. The 6.5% volume growth was driven mainly by e-commerce based business in Sweden and less-than-truckload business in Germany. The business unit's gross profit rose by 3.4% to €1,117 million (previous year: €1,080 million).

EBIT up sharply

Divisional EBIT increased significantly by 48.8% in 2018, rising from €297 million to €442 million. The increase was due mainly to improved gross profit margins in air freight and cost measures. Return on sales rose from 2.1% to 3.0%. EBIT for the fourth quarter of 2018 improved from €123 million to €161 million and return on sales rose to 4.0%. Operating cash flow amounted to €523 million in the year under review (previous year: €131 million).

SUPPLY CHAIN DIVISION

Key figures of the Supply Chain division

A.60

€m	2017	2018	+/-%	Q4 2017	Q4 2018	+/-%
Revenue	14,152	13,350	-5.7	3,619	3,743	3.4
of which EMEA (Europe, Middle East and Africa)	7,245	6,871	-5.2	1,921	1,824	-5.0
Americas	4,551	4,385	-3.6	1,125	1,352	20.2
Asia Pacific	2,389	2,147	-10.1	583	578	-0.9
Consolidation/Other	-33	-53	-60.6	-10	-11	-10.0
Profit from operating activities (EBIT)	555	520	-6.3	184	184	0.0
Return on sales (%) ¹	3.9	3.9	-	5.1	4.9	-
Operating cash flow	239	1,322	>100	28	936	>100

¹ EBIT/revenue.

Sale of Williams Lea Tag and currency effects reduce revenue

Revenue in the division fell by 5.7% to €13,350 million in the year under review (previous year: €14,152 million). The decline was attributable mainly to the sale of the Williams Lea Tag Group in the fourth quarter of 2017. In addition, negative currency effects reduced revenue by €369 million in 2018. Excluding these effects, revenue growth was 4.3%, due mainly to a positive business performance in the Americas and EMEA regions. In the fourth quarter, revenue was up by 3.4% to €3,743 million (previous year: €3,619 million).

In the EMEA and Americas regions, the Automotive sector recorded the highest growth rates. In the Asia Pacific region, revenues rose most strongly in the Retail and Engineering & Manufacturing sectors.

Supply Chain: revenue by sector and region, 2018

A.61

Total revenue: €13,350 million

of which Retail	27%
Consumer	23%
Automotive	16%
Technology	12%
Life Sciences & Healthcare	10%
Others	7%
Engineering & Manufacturing	5%
of which Europe/Middle East/Africa/Consolidation	51%
Americas	33%
Asia Pacific	16%

New business worth €1,282 million secured

In 2018, the division concluded additional contracts worth €1,282 million in annualised revenue with both new and existing customers. The Retail, Consumer and Automotive sectors accounted for the majority of the new business. The annualised contract renewal rate remained at a consistently high level.

One-off effects inhibit EBIT growth

EBIT in the division was €520 million in the year under review (previous year: €555 million). The figure was impacted by negative one-off effects of €50 million from customer contracts and €42 million from pension obligations. Excluding these effects, the write-down of customer relationship assets in the previous year and despite adverse currency effects, EBIT improved by 4.3% thanks to business growth and strategic initiatives. The return on sales of 3.9% matched the previous year's level. At €184 million, EBIT in the fourth quarter of 2018 reached the level of the prior-year quarter. Return on sales for the fourth quarter was 4.9% (previous year: 5.1%). Operating cash flow improved significantly, rising from €239 million to €1,322 million in 2018. In the previous year, it had been reduced by a one-time cash outflow of €459 million to further fund pension obligations.

DEUTSCHE POST SHARES

Deutsche Post shares: seven-year overview

A.62

		2012	2013	2014	2015	2016	2017	2018
Year-end closing price	€	16.60	26.50	27.05	25.96	31.24	39.75	23.91
High	€	16.66	26.71	28.43	31.08	31.35	40.99	40.96
Low	€	11.88	16.51	22.30	23.15	19.73	30.60	23.72
Number of shares as at 31 December	millions	1,209.0	1,209.0	1,211.2	1,212.8	1,240.9	1,228.7	1,236.5
Market capitalisation as at 31 December	€m	20,069	32,039	32,758	31,483	38,760	48,841	29,411
Average trading volume per day ¹	shares	4,052,323	4,114,460	4,019,689	4,351,223	3,497,213	2,613,290	3,770,866
Annual performance including dividends	%	45.6	63.9	5.1	-0.9	23.6	30.6	-36.9
Annual performance excluding dividends	%	39.7	59.6	2.1	-4.0	20.3	27.2	-39.8
Beta factor ²		0.88	0.86	0.94	0.95	0.97	0.99	0.97
Earnings per share ³	€	1.36 ⁷	1.73	1.71	1.27	2.19	2.24	1.69
Cash flow per share ⁴	€	-0.17	2.47	2.51	2.84	2.03	2.72	4.71
Price-to-earnings ratio ⁵		12.2 ⁷	15.3	15.8	20.4	14.3	17.7	14.1
Price-to-cash flow ratio ^{4,6}		-97.6	10.7	10.8	9.1	15.4	14.6	5.1
Dividend	€m	846	968	1,030	1,027 ⁸	1,270	1,409	1,419 ¹⁰
Payout ratio	%	51.6	46.3	49.7	66.7 ⁹	48.1	51.9	68.4 ¹¹
Dividend per share	€	0.70	0.80	0.85	0.85	1.05	1.15	1.15 ¹⁰
Dividend yield	%	4.2	3.0	3.1	3.3	3.4	2.9	4.8

¹ Volumes traded via the Xetra trading venue. ² Three-year beta; source: Bloomberg. ³ Based upon consolidated net profit after deduction of non-controlling interests, [note 20 to the consolidated financial statements](#). ⁴ Cash flow from operating activities. ⁵ Year-end closing price/earnings per share. ⁶ Year-end closing price/cash flow per share.

⁷ Adjusted to reflect the application of IAS 19R. ⁸ Reduction due to the share buyback. ⁹ Excluding one-off effects: 45.8%. ¹⁰ Proposal. ¹¹ Excluding one-off effects: 55.4%.

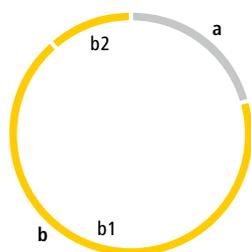
Free float stable

The investment share of our largest investor – KfW Bankengruppe – is 20.5% (previous year: 20.7%) and the free float is 79.5%. Based upon our share register's figures, the share of outstanding stock held by private investors is 12.7% (previous year: 11.1%).

In terms of the regional distribution of identified institutional investors, the highest percentage of shares (15.8%) is held by US investors (previous year: 15.8%), followed by the United Kingdom with a share of 12.2% (previous year: 13.8%). The share of institutional investors in Germany decreased to 11.3% (previous year: 12.0%). Our 25 largest institutional investors held a total of 32.7% of all issued shares (previous year: 38.9%).

Shareholder structure¹

A.63

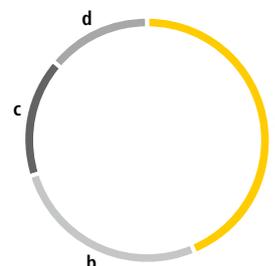


a KfW Bankengruppe	20.5%
b Free float	79.5%
b1 Institutional investors	66.8%
b2 Private investors	12.7%

¹ At 31 December 2018.

Shareholder structure by region¹

A.64



a Germany	44.5%
b Other	27.5%
c USA	15.8%
d UK	12.2%

¹ At 31 December 2018.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Employees

Meeting changes in the professional world

Digital transformation in the professional world is changing job descriptions as well as creating new fields of activity. We ensure that our employees are optimally prepared for new opportunities and changing requirements in their working environment and involve them in the process of change. This places particular demands on our managers, who follow defined leadership principles to give them the necessary foundation for creating a motivating working environment that fosters open communication and in which employees feel valued.

Selected results from the Employee Opinion Survey

Our annual Group-wide Employee Opinion Survey comprises 41 questions categorised in ten key performance indicators and one index. In the year under review, the results achieved were the same or better than in the previous year in each survey category. The results also surpassed external benchmarks in nearly all cases. The stable response rate of 76% again underscores the survey's high acceptance level.

Selected results from the Employee Opinion Survey **A.65**

	2017	2018
Response rate	76	76
Positive rating of Active Leadership KPI	75	76
Positive rating of Employee Engagement KPI	75	76

Number of employees continues to rise

As at 31 December 2018, we employed 499,018 full-time equivalents, or 5.7% more than in the previous year. The headcount at the end of the year was 547,459. Female employees made up 34.8% of our global workforce and hold 22.1% of all upper and mid-level management positions (previous year: 21.5%).

As in the previous year, 18% of all employees took advantage of the opportunity for part-time employment. Another 9.2% of working-age employees left the Group outside any agreed plans (previous year: 8.5%).

In the Post - eCommerce - Parcel division, we hired new employees in particular for the eCommerce - Parcel business unit's rapidly growing operations in Germany, elsewhere in Europe, Asia and the Americas. The number of employees in the Express division increased compared with the previous year. Most of the new hires were in the area of operations due to the increase in shipment volumes. In the Global Forwarding, Freight division, the bulk of our new personnel was hired for positions in our shared service centres in Asia. In the Supply Chain division, the number of employees increased due to the acquisition of the Suppla Group as well as additional business with both new and existing clients.

Employee levels were up in all regions. We reported the largest percentage increase in the Asia Pacific region, although we continue to employ most of our personnel in Germany.

In Germany and some neighbouring countries, we offer an opportunity to enrol in dual-study apprenticeship programmes consisting of in-house training combined with programmes at state vocational schools. In 2018, we offered 2,670 positions in our apprenticeship and study programmes.

Our current planning foresees another slight increase in the number of employees for financial year 2019.

Number of employees **A.66**

	2017	2018	+/- %
Full-time equivalents			
At year-end¹	472,208	499,018	5.7
of which Post - eCommerce - Parcel ²	183,430	192,237	4.8
Express	90,784	95,717	5.4
Global Forwarding, Freight	41,034	42,783	4.3
Supply Chain	145,575	155,954	7.1
Corporate Functions ²	11,385	12,327	8.3
of which Germany	180,479	187,103	3.7
Europe (excluding Germany)	114,360	118,745	3.8
Americas	82,887	90,648	9.4
Asia Pacific	76,081	83,561	9.8
Other regions	18,401	18,961	3.0
Average for the year³	468,724	489,571	4.4
Headcount			
At year-end³	519,544	547,459	5.4
Average for the year	513,338	534,370	4.1
of which hourly workers and salaried employees	477,251	499,943	4.8
Civil servants	30,468	28,718	-5.7
Trainees	5,619	5,709	1.6

¹ Excluding trainees.

² Transfers from the Post - eCommerce - Parcel division to Corporate Functions

note 10 to the consolidated financial statements.

³ Including trainees.

Employees 2018

Headcount at year-end including trainees

547,459

2017	Change
519,544	+ 5.4%

Performance-based and market-based pay

At €20,825 million, staff costs exceeded the prior-year figure of €20,072 million. Details can be found in [note 15 to the consolidated financial statements](#).

We foster employee loyalty and motivation by offering performance-based pay in line with market standards, supplemented by, amongst other things, contributions to defined benefit and defined contribution pension plans.

In April 2018, a collective agreement was reached for the approximately 130,000 employees of Deutsche Post AG subject to collective bargaining. For the first time, the agreement offered employees the opportunity to decide if they wish to benefit from additional time off or from a wage increase. The option was available in October 2018 and will again be available in October 2019. The new collective agreement has a term of 28 months and runs until 31 May 2020.

Further details on remuneration components can be found in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](#).

Responding to demographic change

We have concluded a Generations Pact with the trade unions in response to demographic change in Germany and for the purpose of ensuring an ageing-friendly workplace. A total of 25,464 of our non-civil servant employees maintain a working time account in line with this proven model and 4,115 are in partial retirement. The collective agreement concluded in 2018 included additional significant improvements in partial-retirement conditions. Since 2016, we have also been offering comparable arrangements for civil servants, 4,017 of whom have established a lifetime working account and 1,317 have entered partial retirement.

A total of €400 million was spent in the year under review on an early retirement programme aimed at civil servants in overhead areas in the Post - eCommerce - Parcel division. The main condition for taking advantage of the Engaged Retirement programme is that the civil servant is working in an area with a surplus of personnel and cannot be employed elsewhere in the company or administrative organisations. Moreover, there must be no operational or business-related objections to placement in the programme. The civil servant must also commit to social involvement within the first three years of commencing retirement.

Safety and health

Occupational safety: always the top priority

In the area of safety and health, our focus lies on systematic prevention. The applicable standards are described in our Occupational Health & Safety Policy Statement.

Workplace accidents

A.67

	2017	2018
Accident rate (number of accidents per 200,000 hours worked)	4.4	4.3
Working days lost per accident	15.3	15.8
Number of fatalities due to workplace accidents	3	8
of which as a result of traffic accidents	1	3

Most accidents occur in connection with pick-up and delivery. The Group's accident rate fell slightly in 2018. We report on occupational safety measures and targets and describe the changes in the accident data for the divisions and regions in more detail in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](#).

Bolstering health

We foster our employees' awareness of a healthy lifestyle through health-related projects and local initiatives. In 2018, stress management and dealing with mental health issues were again topics of focus. Our Group-wide employee benefits programme also enables employees outside of Germany to enjoy primary or supplementary health insurance benefits. The world-wide illness rate was 5.3% in 2018 (previous year: 5.2%).

Corporate responsibility

Commitment to shared values

We conduct our business in accordance with applicable laws, ethical and ecological standards, and international guidelines. Through ongoing dialogue with our stakeholders, we ensure that their expectations as regards social and environmental issues are accounted for appropriately and that our business is aligned systematically with these interests.

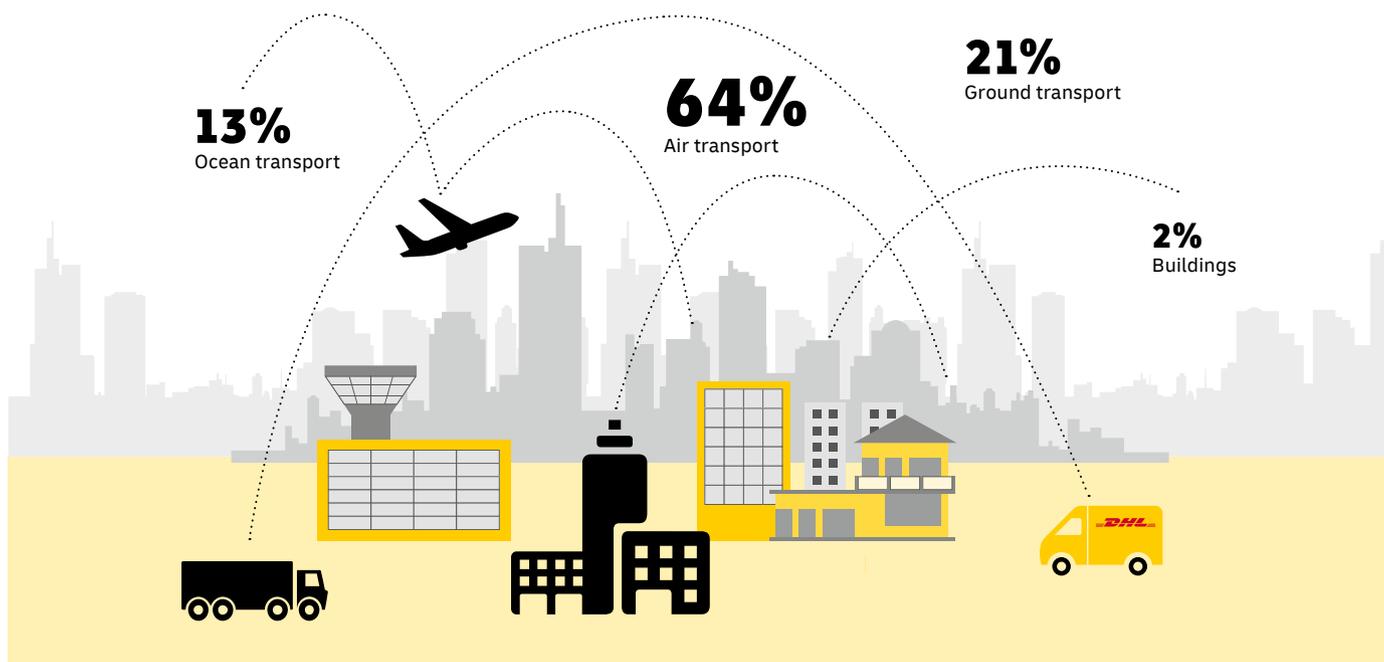
We use our expertise as a mail and logistics services group for the benefit of society and the environment, for example by providing logistical support following natural disasters, preparing airports for appropriate scenarios, helping to improve career opportunities for socially disadvantaged young people and supporting our employees' local projects.

With measures to increase CO₂ efficiency and an environmentally friendly product range, we uphold our responsibility to the environment and strengthen our own market position at the same time. One area we focussed upon in the year under review was further increasing the proportion of electric vehicles in our fleet.

CO₂e emissions, 2018

Total: 29.48 million tonnes¹

A.68



¹ Scope 1 to Scope 3.

Efficiency target met

We use a carbon efficiency index (CEX) to measure and manage our greenhouse gas efficiency, [Management, page 23](#). In 2018, our direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions amounted to 6.57 million tonnes of CO₂e (previous year: 6.34 million tonnes of CO₂e). The indirect greenhouse gas emissions (Scope 3) of our transport subcontractors amounted to 22.91 million tonnes of CO₂e (previous year, adjusted: 22.52 million tonnes of CO₂e).

Amongst other things, we set ourselves the environmental target of improving our CEX by 50% by 2025 compared with the base year of 2007. We already achieved an improvement of 33% versus 2007 in 2018, thus reaching our goal of improving the CEX by one index point compared with the prior year. Efficiency improvements in road transport and the increased use of renewable energy sources as well as a more efficient ocean freight business, which this year for the first time includes a detour surcharge in accordance with the recommendation of the Clean Cargo Working Group (CCWG), contributed to this result.

Additional information on our environmental activities and targets is included in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](#).

Fuel and energy consumption in company fleet and buildings

A.69

		2017	2018
Consumption by fleet			
Air transport (jet fuel)	million kilograms	1,406.3	1,518.1
Road transport (petrol, biodiesel, diesel, bio-ethanol, LPG)	million litres	451.1	464.7
Road transport (biogas, CNG, LNG)	million kilograms	3.6	4.2
Energy for buildings and facilities (including electric vehicles)	million kilowatt hours	3,194	3,194

Quality

Sending mail and parcels quickly and reliably

According to surveys conducted by Quotas, a quality research institute, around 93% of the domestic letters posted in Germany during our daily opening hours or before final collection were delivered to their recipients the next day in 2018. Around 99% reached their recipients within two days. This puts us well above the legally required 80% (D+1) and 95% (D+2). The Quotas measurement system is audited and certified each year by TÜV. Transit times for international letters are determined by the International Post Corporation. Here, we rank amongst the top postal companies.



Around
93% D+1

Domestic letters posted in Germany
are delivered **the next day**

In the parcel business, around 82% of items reached their recipients the next working day in the year under review. This figure is based upon parcels collected from business customers that were delivered the next day. Our internal system for measuring parcel transit times has been certified by TÜV since 2008.

In our mail business, the level of sorting automation exceeds 90%. In our parcel network, we have increased our sorting capacity by more than 50% since 2012, by raising productivity in our existing facilities and expanding our infrastructure nationwide. In the year under review, we converted the warehouse in the Bremen freight transport centre into a further parcel centre with a sorting capacity of 40,000 items per hour. With now 35 parcel centres, we process around 5 million items per working day. More than 80 mechanised delivery bases support our operations. Our approximately 27,000 sales points were open for an average of 54 hours per week (previous year: 54 hours). The annual survey conducted by *Kundenmonitor Deutschland*, the largest consumer survey in Germany, showed a high acceptance of our exclusively partner-operated retail outlets: 94.3% of customers were satisfied with our quality and service (previous year: 93.9%). In addition, impartial mystery shoppers from TNS Infratest tested the postal outlets in retail stores around 28,000 times over the year. The result showed that 93.5% of customers were served within three minutes (previous year: 94.3%).



94.3%

satisfied customers according to
Kundenmonitor Deutschland

Another key quality indicator for us is environmental protection, which we describe in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](https://www.dpdhl.com/cr-report2018). In the area of electric mobility, which is strategically important to us, we put around 4,000 vehicles into operation in the year under review. As a result, we expanded emission-free delivery, particularly in Aachen, Bonn, Essen, Hamburg, Cologne and Stuttgart. The electric StreetScooter Work XL vehicle has also been used for parcel delivery since 2018 and the first electric lorries are now being used for delivery to major customers.



Around
4,000

electric vehicles
put into operation in 2018

Service quality and insanely customer centric culture in the express business

As a global network operator working with standardised processes, we are constantly optimising our services to enable us to keep our commitments to customers. We therefore keep an eye on our customers' ever-changing requirements, for example through the Insanely Customer Centric Culture programme and as part of our Net Promoter Approach. Our managers speak personally to customers in order to continuously translate customer criticism into improvements.

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

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

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

As of the year under review, our On Demand Delivery service is now already available in more than 100 countries and 45 languages. We also expanded our Paketbox network to around 7,000 Service Point Lockers worldwide.

We conduct regular reviews of operational safety, compliance with standards and the quality of service at our facilities in co-operation with government authorities. Approximately 300 locations, more than 100 of which are in Asia, have been certified by the security organisation Transported Asset Protection Association (TAPA). This makes us the leader in this area. Since 2010, we have been certified globally to ISO 9001:2008; in the year under review, we were even certified according to the newest ISO 9001:2015 standard. In addition, we remain certified in certain regions and countries in the areas of environmental protection and energy management. We describe this in detail in our [Corporate Responsibility Report, dpdhl.com/cr-report2018](#).



Approximately

300

locations certified by the Transported Asset Protection Association (TAPA)

Systematic customer feedback in the forwarding business

Our performance in the Global Forwarding business unit is continuously being improved based upon customer feedback. We record these systematically with the help of the Net Promoter Approach. Almost 200 Customer Improvement Projects were initiated on the topics of quality, reporting and loss events in 2018. Operating performance is also constantly monitored and adjusted where necessary through regular initiatives such as performance dialogues.

In the Freight business unit, we expanded our customer satisfaction survey to over 30 countries in 2018 and based upon this feedback, we have implemented over 200 initiatives to continuously improve our products and services. With Eurapid, we are successfully meeting the customer demand for premium solu-

tions. A defined terminal classification framework structure fosters the implementation of common operational performance standards.

Quality leader in contract logistics

We aim to build upon our position as quality leader in contract logistics. By applying standardised operations and solutions supported by supply chain champions at all of our sites, we ensure that we meet or exceed our customers' quality expectations. As part of our operations excellence programme, a uniform Service Quality KPI routinely measures whether our locations are meeting defined operating standards.

Our survey methodology for continuously measuring and increasing customer loyalty and satisfaction is based upon the Net Promoter Score®. The programme is being rolled out globally and covers a significant part of our business. In the year under review, the measured values developed positively, especially amongst customers surveyed repeatedly over time. In fact, the follow-up, which is conducted with each individual customer, has proven to have a huge impact on satisfaction and loyalty.

In addition, we offer our customers integrated environmental solutions that help them meet their sustainability targets. One example of this is the use of electric light commercial vehicles.

We aim to build upon our position as quality leader in contract logistics.

Brands

Brand architecture as at 31 December 2018

A.70



Value of Group brands continues to rise

According to independent studies, the value of the Deutsche Post and DHL brands increased again in 2018.

The DHL brand was valued at US\$20.6 billion by the market research institute Kantar Millward Brown (previous year: US\$15.8 billion). This moves DHL up eight places to 62nd on the institute's 2018 BrandZ rankings of the 100 Most Valuable Global Brands. The study looks at financial figures as well as market and consumer research data. In the annual Interbrand rankings, DHL came in at 79th place (previous year: 76th) based upon an increase in brand value to US\$5.9 billion (previous year: US\$5.7 billion).

For the Deutsche Post brand, the consulting company Brand Finance calculated a value of €3.6 billion in 2018 (previous year: €2.9 billion). The Deutsche Post brand thus moved up to 21st place in Brand Finance's Germany 50 report of the strongest German brands. Kantar Millward Brown compiled a BrandZ Top 50 Most Valuable German Brands ranking for the first time in 2018. The market research institute ranked Deutsche Post in 18th place with a brand value of US\$3.7 billion.

Partnerships and events give our brands a boost

Emotional associations with our brands are strengthened by their presence at high-profile sporting events.

In the year under review, the Deutsche Post brand continued to partner with the *Deutscher Fußball-Bund* (DFB – German football federation), the *Deutsche Tourenwagen-Masters* (DTM – German Touring Car Masters) racing series and the *Bob- und Schlittenverband für Deutschland* (BSD – German bobsleigh, luge and skeleton federation), amongst other associations.

To support our DHL brand, we continue to rely upon our traditional logistics partnerships with Formula 1[®] and the ABB FIA Formula E Championship in international motor sports. In May 2018, DHL additionally began handling event logistics for e-sport tournaments on various continents as a shipping and logistics partner to the ESL One series.

Marketing expenditures, 2018

A.71

Volume: around €374 million

Product development and communication	45.3%
Other	33.6%
Public & customer relations	15.5%
Corporate wear	5.6%

EXPECTED DEVELOPMENTS

Overall assessment of the Group's future economic position

For financial year 2019, we expect consolidated EBIT to range between €3.9 billion and €4.3 billion after special factors from the sale of the supply chain business in China and other effects in the Supply Chain and eCommerce Solutions divisions. The Post & Paket Deutschland division is expected to contribute between €1.0 billion and €1.3 billion to Group EBIT. For the DHL divisions, which include the new eCommerce Solutions division, we expect EBIT to reach a total of between €3.4 billion and €3.5 billion. This includes the special factors mentioned above. Corporate Functions is anticipated to contribute around €-0.5 billion to earnings. In line with the projected growth in EBIT, we expect that EAC will also increase in 2019. Free cash flow is expected to exceed €0.5 billion.

Forecast period

The information contained in the report on expected developments generally refers to financial year 2019.

Future economic parameters

Uncertain outlook for the global economy

The global economy is expected to grow more slowly in 2019 than in the year under review. Economic growth will be supported by continuing expansionary monetary policies and fiscal stimuli, although their effects will tend to diminish. Against this backdrop, growth in the industrial countries is projected to soften slightly. Momentum in the emerging markets is expected to remain almost stable. At the same time, risk levels are unusually high at present, with international trade conflicts constituting the greatest uncertainty. Europe could be negatively affected by the consequences of a UK exit from the EU without an exit deal. A deterioration in international financing conditions – for instance due to a sharp increase in key interest rates in the US – would have a negative impact on the emerging markets in particular. Should any of these risks materialise on a large scale, the global economy could experience much weaker growth than currently projected, which would have a disproportionate effect on international trade.

Global economy: growth forecast

A.72

%	2018	2019
World trade¹	4.0	4.0
Real gross domestic product		
World	3.7	3.5
Industrial countries	2.3	2.0
Emerging markets	4.6	4.5
Central and Eastern Europe	3.8	0.7
CIS countries	2.4	2.2
Emerging markets in Asia	6.5	6.3
Middle East and North Africa	2.4	2.4
Latin America and the Caribbean	1.1	2.0
Sub-Saharan Africa	2.9	3.5

¹ In terms of the value of goods and services.

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

The Chinese economy is likely to weaken further, with GDP growth expected to record another decline (IMF: 6.2%; OECD: 6.3%). Economic output in Japan is projected to grow only slightly more than in 2018 (IMF: 1.1%; OECD: 1.0%).

In the United States, GDP is not likely to see another increase as significant as in 2018 (IMF: 2.5%; OECD: 2.7%).

The euro zone economy is expected to continue recovering, albeit at a slower pace. GDP growth is likely to remain somewhat below the prior-year level (IMF: 1.6%; ECB: 1.7%).

Leading indicators suggest that the upswing in Germany will continue at a slower pace. Growth for 2019 as a whole is expected to decline (IMF: 1.3%; *Sachverständigenrat*: 1.5%).

Crude oil prices are likely to see a slight increase from their present levels.

The ECB could raise its key interest rate slightly towards the end of 2019 for the first time in the current cycle, although this will depend heavily on the figures for inflation and economic growth. The US Federal Reserve may raise its key interest rate again during the course of the year, although not as significantly as in 2018. Any such increase could result in a moderate increase in capital market interest rates.

World trade grows solidly

After two strong years in succession, we expect growth in the global trade flows relevant to us (air and ocean freight shipped in containers (tonnes), excluding liquids and bulk goods) to slow somewhat in 2019. All in all, we anticipate an increase of 3.6%.

German parcel market expected to see sustained growth

The German market for paper-based mail communication will continue to decline, primarily because people are communicating digitally to an increasing extent. For 2019, we are aiming for a postage increase in the regulated ex-ante area, [📌 Glossary, page 176](#).

The volume of the German advertising market is likely to remain roughly the same in 2019. Advertising budgets will continue to shift towards online media. The trend towards automated dialogue marketing campaigns is set to remain unchanged.

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

The German parcel market will continue to grow.

E-commerce encourages further growth in international express market

Experience shows that growth in the international express market is highly dependent upon the economic situation. We believe that the steadily growing cross-border e-commerce sector will continue to drive growth in the international express market in 2019.

Market trends in freight forwarding business likely to continue

On the air freight market, we expect demand to rise on the whole in 2019. Freight rates are likely to increase on the main trade lanes.

With regard to ocean freight, we anticipate solid market growth to continue, although overcapacity is likely to remain in the market.

For the European road transport market, we expect slightly lower growth levels for volume in 2019 due to slower economic growth in most European markets. However, market prices are likely to rise again robustly. The main reason for this remains the systemic shortage of available transport capacities.

Contract logistics market continues to grow

The trend towards outsourcing warehousing and distribution as well as demand for value-added logistics services are set to continue. The growing demand for e-fulfilment solutions is expected to persist, with our customers being confronted with high order volatility throughout the year.

Projections indicate that the market for contract logistics will continue to experience stable growth of around 5%. In turn, the demand for supply chain services in the Asian market, especially in China, is likely to rise sharply. In anticipation of this, we have entered into a strategic partnership with local company S.F. Holding, [📌 note 3 to the consolidated financial statements](#).

Growth prospects for international parcel market

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

Earnings forecast

Our expectations regarding the Group's business trend in 2019 are based upon continued expansion of the world economy, even though the pace of growth will slow compared with previous years. However, above-average growth rates are likely to persist in those areas driven by structural growth in e-commerce in particular.

We expect the Group's earnings performance to be impacted by a number of special factors. We are forecasting a non-recurring increase in EBIT by around €400 million in the first quarter of 2019, upon completing the sale of our Chinese supply chain business to S.F. Holding in China. To compensate for the loss of earnings contributed by the divested unit in the 2020 forecast, approximately €150 million of the proceeds will be invested in projects to improve earnings in the Supply Chain division in 2019, meaning that the net positive effect of the transaction will amount to around €250 million.

Approximately €60 million will be invested in DHL eCommerce Solutions during its first year as an independent Group division, with the objective of increasing the division's future earnings power.

For financial year 2019, we expect consolidated EBIT to range between €3.9 billion and €4.3 billion after the aforementioned special factors, which total around €200 million.

We do not envision the price cap review currently being conducted to determine the extent to which prices can be increased with respect to the Post & Paket Deutschland revenue volumes that are subject to ex-ante regulation being completed prior to the second quarter of 2019. The outcome of this review will influence future earnings performance. In view of the uncertain outcome and any measures that may also be required, we expect earnings of between €1.0 billion and €1.3 billion at the Post & Paket Deutschland division.

For the DHL divisions including the new eCommerce Solutions division we expect total earnings of between €3.4 billion and €3.5 billion. This figure includes the above-mentioned special factors in the amount of €200 million. The Corporate Functions result is expected to be around €-0.5 billion.

Our finance strategy continues to call for a payout of 40% to 60% of net profits as dividends as a general rule. As part of that strategy, we have the option of adjusting reported net income for non-recurring items in the interests of dividend continuity. We have made the corresponding adjustment for financial year 2018 and intend to propose a dividend payout of €1.15 per share (previous year: €1.15 per share) to the shareholders at the Annual General Meeting on 15 May 2019. The payout ratio in relation to adjusted net profit is thus 55%.

Expected financial position

No change in the Group's credit rating

In light of the earnings forecast for 2019, we expect the "FFO to debt" indicator to remain stable on the whole and do not expect the rating agencies to change our credit rating from the present level.

Liquidity to remain solid

We anticipate a reduction in our liquidity in the first half of 2019 as a result of the annual pension-related prepayment due to the *Bundesanstalt für Post und Telekommunikation* (German federal post and telecommunications agency) as well as the dividend

payment for financial year 2018 in May 2019. In addition, the payments not covered by borrowed funds to renew the aircraft fleet in the Express division will reduce liquidity. By contrast, the proceeds from the sale of the supply chain business in China will increase liquidity in the first half of the year. Our operating liquidity situation will improve again towards the end of the year due to the upturn in business that is normal in the second half.

Capital expenditure of around €3.7 billion expected

In 2019, we plan to increase capital expenditure (excluding leases) to around €3.7 billion in support of our strategic objectives and further growth. The focus of capital expenditure will be similar to that of previous years. The total figure includes around €1.1 billion for the largely debt-financed renewal of the Express intercontinental fleet.

Performance of further indicators relevant for internal management

EAC and free cash flow increase

In line with the projected growth in EBIT, we expect that EAC will also increase in 2019. Divisional EAC will be affected by the same factors as detailed in the EBIT outlook. However, reflecting our on-going investing activities, the rise in EBIT after asset charge may fall slightly short of the EBIT growth. Free cash flow is expected to exceed €0.5 billion. This already accounts for a payment of around €1.1 billion for the largely debt-financed renewal of the Express intercontinental fleet.

Employee Opinion Survey results again positive

We intend to keep up the positive results that our Employee Opinion Survey achieved in the year under review. For 2019, we expect to see an increase to 77% in the approval rating for the Active Leadership key performance indicator.

Further improve greenhouse gas efficiency

We expect the Group to further improve its carbon efficiency. Our CEX score is projected to increase by one index point during financial year 2019.

OPPORTUNITIES AND RISKS

Overall assessment of the opportunity and risk situation

Identifying and swiftly capitalising upon opportunities and counteracting risks are important objectives for our Group. We already account for the anticipated impact of potential events and developments in our business plan. Opportunities and risks are defined as potential deviations from projected earnings. In consideration of our current business plan, the Group's overall opportunity and risk situation has not changed significantly compared with last year's risk report. According to current assessments, no new risks with a potentially critical impact upon the Group's result have been identified. Based upon the Group's early warning system and in the estimation of its Board of Management, there were no identifiable risks for the Group in the current forecast period which, individually or collectively, cast doubt upon the Group's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future. The assessment of a stable to positive outlook is moreover reflected in the Group's  credit ratings, as found on [page 45](#).

Opportunity and risk management

Uniform reporting standards for opportunity and risk management

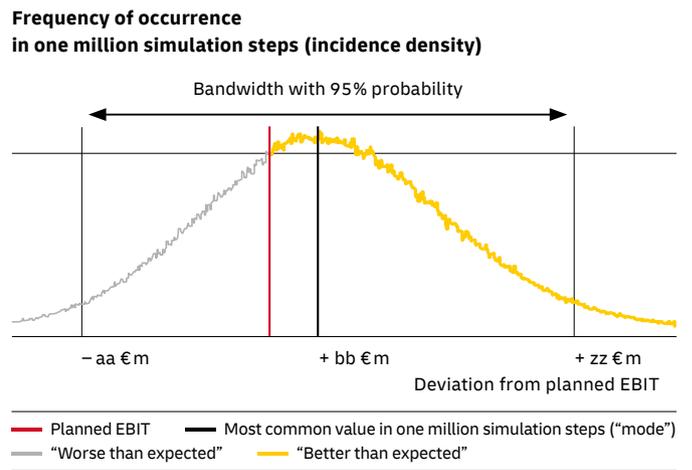
As an internationally operating logistics company, we are facing numerous changes. Our aim is to identify the resulting opportunities and risks at an early stage and take the necessary measures in the specific areas affected in due time to ensure that we achieve a sustained increase in enterprise value.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

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

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

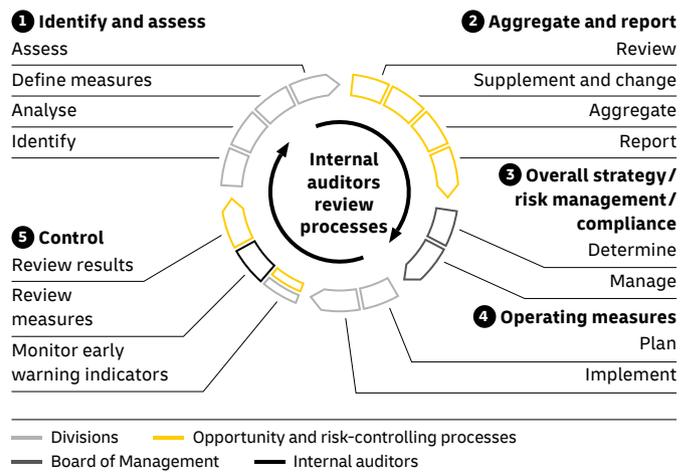
Monte Carlo simulation

A.73



Opportunity and risk management process

A.74



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

- ❶ **Identify and assess:** Managers in all divisions and regions evaluate the opportunity and risk situation on a quarterly basis and document the action taken. They use scenarios to assess best, expected and worst cases. Each identified risk is assigned to one or more managers who assess and monitor the risk, specify possible procedures for going forwards and then file a report. The same applies to opportunities. The results are compiled in a database.
- ❷ **Aggregate and report:** The controlling units collect the results, evaluate them and review them for plausibility. If individual financial effects overlap, this is noted in our database and taken into account in the compilation process. After being approved by the department head, all results are passed on to the next level in the hierarchy. The last step is complete when Corporate Controlling reports to the Group Board of Management on significant opportunities and risks as well as on the potential overall impact each division might experience. For this purpose, opportunities and risks are aggregated for the key organisational levels. We use two methods for this. In the first method, we calculate a possible spectrum of results for the divisions and combine the respective scenarios. The totals for “worst case” and “best case” indicate the total spectrum of results for the respective division. Within these extremes, the total for “expected cases” shows current expectations. The second method makes use of a Monte Carlo simulation, the divisional-level results of which are regularly included in the opportunity and risk reports to the Board of Management.
- ❸ **Overall strategy:** The Group Board of Management decides on the methodology that will be used to analyse and report on opportunities and risks. The reports created by Corporate Controlling provide the Board of Management with an additional, regular source of information for the overall steering of the Group.
- ❹ **Operating measures:** The measures to be used to take advantage of opportunities and manage risks are determined within the individual organisational units. They use cost-benefit analyses to assess whether risks can be avoided, mitigated or transferred to third parties.
- ❺ **Control:** For key opportunities and risks, early-warning indicators have been defined that are monitored constantly by those responsible. Corporate Internal Audit has the task of ensuring that the Board of Management’s specifications are adhered to. It also reviews the quality of the entire opportunity and risk management operation. The control units regularly analyse all parts of the process as well as the reports from Internal Audit and the independent auditors, with the goal of identifying potential for improvement and making adjustments where necessary.

Accounting-related internal control and risk management system

(Disclosures required under section 315(4) of the *Handelsgesetzbuch* (HGB – German Commercial Code) and explanatory report) Deutsche Post DHL Group has implemented an accounting-related internal control system (ICS) as part of its risk management system. The ICS aims to ensure the compliance of (Group) accounting and financial reporting with generally accepted principles. Specifically, it is intended to ensure that all transactions are recorded promptly, accurately and in a uniform manner on the basis of the applicable norms, accounting standards and internal Group regulations. Accounting errors are to be avoided in principle and significant measurement errors detected promptly.

The ICS was designed to follow the internationally recognised COSO framework for internal control systems (COSO: Committee of Sponsoring Organizations of the Treadway Commission). It is continuously updated and is a mandatory and integral part of the accounting and financial reporting process of the companies included in the Group.

The approach of the accounting-related ICS in summary:

- The internal control system takes a risk-based approach that is defined in a Group guideline and takes both quantitative and qualitative aspects into account.
- Risks that could lead to material misstatements in the financial reports are identified and minimum requirements are formulated on the basis of such risks.
- Both preventive and detective control mechanisms are used to ensure that the minimum requirements are met along with all division-specific and local requirements.
- The ICS is subjected to ongoing reviews using a self-assessment approach, in order to maintain the system’s effectiveness and implement continuous improvements.
- The Supervisory Board is provided with regular reports on the results of the review of ICS effectiveness.

In addition to the ICS components already described, additional organisational and technical procedures have been implemented for all companies in the Group. Centrally standardised accounting guidelines govern the reconciliation of the single-entity financial statements and ensure that international financial reporting standards (EU IFRSs) are applied in a uniform manner throughout the Group. A standard chart of accounts is required to be applied by all Group companies. We immediately assess new developments in international accounting for relevance and announce their implementation in a timely manner, for example in monthly newsletters. Often, accounting processes are pooled in a shared service centre in order to centralise and standardise them. The IFRS financial statements of the separate Group companies are recorded in a standard, SAP-based system and then processed at a central location where one-step consolidation is performed.

Other quality assurance components include automatic plausibility reviews and system validations of the accounting data. In addition, regular, manual checks are carried out centrally at the Corporate Center by Corporate Accounting & Controlling, Taxes and Corporate Finance. If necessary, we call in outside experts. Finally, the Group's standardised process for preparing financial statements of using a centrally administered financial statements calendar guarantees a structured and efficient accounting process.

Over and above the ICS and risk management, Corporate Internal Audit is an essential component of the Group's control and monitoring system. Using risk-based auditing procedures, Corporate Internal Audit regularly examines the processes related to financial reporting and reports its results to the Board of Management.

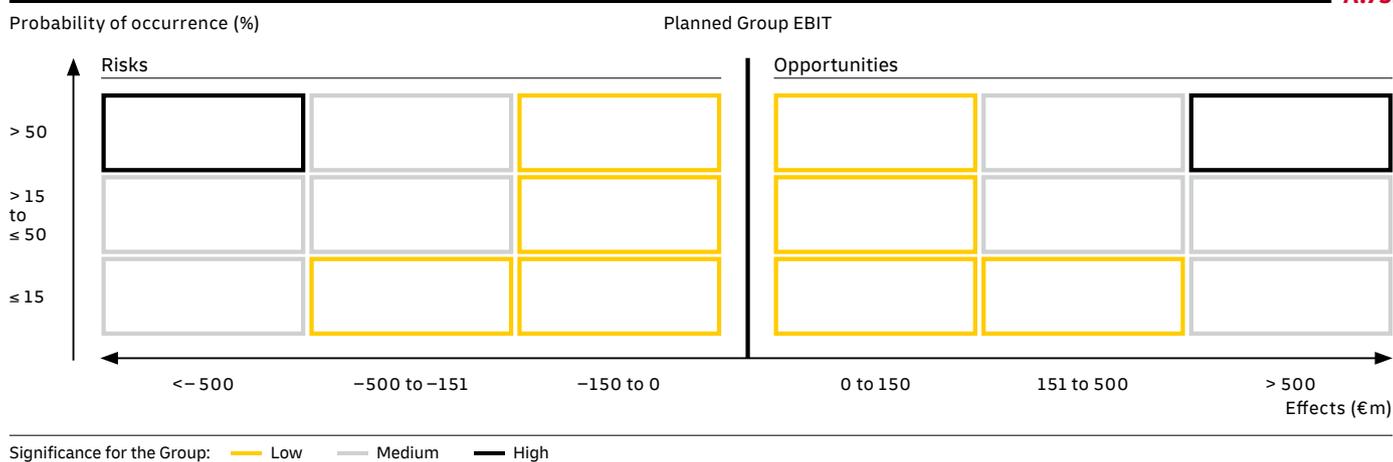
It should always be taken into consideration that no ICS, regardless of how well designed, can offer absolute certainty that all material accounting misstatements will be avoided or detected.

Reporting and assessing opportunities and risks

In the following, we have reported mainly on those risks and opportunities which, from a current standpoint, could have a significant impact upon the Group during the forecast period beyond the impact already accounted for in the business plan. The risks and opportunities have been assessed in terms of their probability of occurrence and their impact. The assessment is used to classify the opportunities and risks into those of low, high or medium relevance. We characterise opportunities and risks of high or medium relevance as significant, shown as black or grey in table A.75. The following assessment scale is used:

Classification of risks and opportunities

A.75



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

Opportunities and risks are identified and assessed decentrally at Deutsche Post DHL Group. Reporting on possible deviations from projections, including latent opportunities and risks, occurs primarily at the country or regional level. In view of the degree of detail provided in the internal reports, we have com-

bin the decentrally reported opportunities and risks into the categories shown below for the purposes of this report. It should be noted that the figures provided in the underlying individual reports exhibit a significant correlation with the performance of the world economy and global economic output. Unless otherwise specified, a low relevance is attached to the individual opportunities and risks within the respective categories and in the forecast period under observation (2019). The opportunities and risks generally apply to all divisions, unless indicated otherwise.

Categories of opportunities and risks

Opportunities and risks arising from political, regulatory or legal conditions

A number of risks arise primarily from the fact that the Group provides some of its services in a regulated market. Many of the postal services rendered by Deutsche Post AG and its subsidiaries (particularly the Post - eCommerce - Parcel division – since 1 January 2019, Post & Paket Deutschland) are subject to sector-specific regulation by the *Bundesnetzagentur* (German federal network agency) [P Glossary, page 176](#), pursuant to the *Postgesetz* (PostG – German Postal Act), [P Glossary, page 176](#). The *Bundesnetzagentur* approves or reviews prices, formulates the terms of downstream access and has special supervisory powers to combat market abuse.

Risks may also arise from the price-cap procedure, [P Glossary, page 176](#). In 2015, the *Bundesnetzagentur* stipulated the conditions applicable to the approval of postage rates for letters of up to 1,000 grams under the price cap procedure. These conditions are referred to as parameters and will be revised by the *Bundesnetzagentur* in 2019.

In a judgement dated 14 July 2016, the General Court of the European Union (EGC) set aside the European Commission's state aid decision dated 25 January 2012 in an action brought by the Federal Republic of Germany. We described this in detail in the 2016 Annual Report in note 48 to the consolidated financial statements, [@ dpdhl.com/en/investors](https://www.dpdhl.com/en/investors). The EGC's judgment is legally effective. The state aid decision of the European Commission is therefore null and void with final effect and there are no longer any grounds for the obligation to repay the alleged state aid under the state aid decision. The amount of €378 million that had been deposited in a trustee account for the purpose of implementing the state aid decision was released. The action brought by Deutsche Post AG against the 2011 "extension decision" (*Ausweitungsbeschluss*) is still pending. That action is based upon procedural matters involving the validity of the European Commission's 2011 decision to extend the state aid proceedings. In the pending action, the European Commission advanced the legal argument that the state aid proceedings initiated in 1999 remain open on some counts and that it could therefore issue a new final decision bringing the proceedings to a close. The European Commission gave no particulars regarding the possible substance of the decision. In the legal opinion of Deutsche Post AG, however, the proceedings initiated in 1999 were resolved in full by way of the European Commission's state aid ruling of 19 June 2002. The European Court of Justice expressly confirmed that opinion in its ruling of 24 October 2013. The European Commission's state aid decision of 25 January 2012 thus remains null and void with final effect.

We describe other significant legal proceedings in [P note 46 to the consolidated financial statements](#). However, we do not see these proceedings as posing a risk of significant deviations from the projections for the 2019 forecast period.

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

Macroeconomic and industry-specific opportunities and risks

Macroeconomic and sector-specific conditions are a key factor in determining the success of our business. We therefore pay close attention to economic trends within the regions in which we operate. We are currently watching for both the potential impact of US economic policies as well as the possible consequences of the United Kingdom's exit from the EU. Alongside other aspects, Brexit would pose a risk to the Group's net assets, financial position and results of operations owing to potential changes in exchange rates, the economy, air traffic rights and customs duties as well as the impact on our customers both within and outside of the UK. To this end, we have established topic-specific working groups to prepare ourselves as thoroughly as possible for the effects of Brexit. Despite the volatile economic climate, demand for logistics services rose overall in 2018, as did the related revenues.

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

the Middle East, where we are similarly well positioned to take advantage of the market opportunities arising.

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

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

The booming online marketplace represents another opportunity for us.

The booming online marketplace represents another opportunity for us as it is creating demand for transporting documents and goods. The B2C market, [Glossary, page 176](#), is experiencing strong growth, particularly due to the continued upward trend in digital retail trade. This has created high growth potential for the domestic and international parcel business, which we intend to tap into by expanding our parcel network.

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

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

Financial opportunities and risks

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

Opportunities and risks with respect to currencies may result from scheduled foreign currency transactions or those budgeted for the future. Significant currency risks from budgeted transactions are quantified as a net position over a rolling 24-month period. Highly correlated currencies are consolidated in blocks. The most important net surpluses are budgeted at the Group level in the "US dollar block", pound sterling, Japanese yen and Korean won. The Czech koruna is the only currency with a considerable net deficit. As of the reporting date, there were no significant currency hedges for planned foreign currency transactions.

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

The overall risk of all these currency effects is currently deemed to be of low relevance for the Group.

As a logistics group, our biggest commodity price risks result from changes in fuel prices (kerosene, diesel and marine diesel). In the DHL divisions, most of these risks are passed on to customers via operating measures (fuel surcharges).

The key control parameters for liquidity management are the centrally available liquidity reserves. Deutsche Post DHL Group had central liquidity reserves of €4.3 billion as at the reporting date, consisting of central financial investments amounting to €2.3 billion plus a syndicated credit line of €2 billion. The Group's liquidity is therefore sound in the short and medium terms. Moreover, the Group enjoys open access to the capital markets on account of its good ratings within the industry, and is well positioned to secure long-term capital requirements.

The Group's net debt amounted to €12.3 billion at the end of 2018. The share of financial liabilities with short-term interest rate lock-ins in the total financial liabilities of €16.5 billion was approximately 17%.

Further information on the Group's financial position and finance strategy as well as on the management of financial risks can be found in the report on the economic position and in [note 44 to the consolidated financial statements](#). Detailed information on risks and risk mitigation in relation to the Group's defined benefit retirement plans can be found in [note 39 to the consolidated financial statements](#).

Opportunities and risks arising from corporate strategy

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

In the observation period shown, risks arising from the current corporate strategy, which extends over a long-term period, are considered to be of low relevance for the Group. The divisions face the following special situations, however:

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

In the Express division, our future success depends above all upon general factors such as trends in the competitive environment, costs and quantities transported. We plan to keep growing our international business, and expect a further increase in shipment volumes. Based upon this assumption, we are investing in our network, our services, our employees and the DHL brand. Against the backdrop of the past trend and the overall outlook, we do not see any strategic opportunities or risks for the Express division that go significantly beyond those reported in the section on "Opportunities and risks arising from macroeconomic and industry-specific conditions".

In the Global Forwarding, Freight division, we purchase transport services from airlines, shipping companies and freight carriers rather than providing them ourselves. As a rule, outsourcing transport services should be more cost-effective for us,

giving us an opportunity to generate higher margins. In the worst-case scenario, we bear the risk of not being able to pass on all price increases to our customers. The extent of our opportunities and risks essentially depends on trends in the supply, demand and pricing of transport services as well as the duration of our contracts. Comprehensive knowledge in the area of brokering transport services helps us to capitalise on opportunities and minimise risk.

In the Supply Chain division, our success is highly dependent on our customers' business success. Since we offer customers a widely diversified range of products in different sectors all over the world, we are able to diversify our risk portfolio and thus counteract the incumbent risks. Our future success moreover depends on our ability to continuously improve our existing business, seamlessly integrate new business and grow in our most important markets and customer segments. We do not see any strategic opportunities or risks for the Supply Chain division that extend significantly beyond those reported in the section entitled "Opportunities and risks arising from macroeconomic and industry-specific conditions".

In financial year 2019, we plan to redesign our cross-border portfolio of e-commerce services and international parcel shipping. We established a new eCommerce Solutions division for this purpose effective as of 1 January 2019. Its productivity and profitability are expected to increase over the medium term. We counteract the fundamental risk of rising cost pressure by improving workflow standardisation, network efficiency and cost flexibility. For the new DHL division, we also do not see any strategic opportunities or risks that extend significantly beyond those reported in the section entitled "Opportunities and risks arising from macroeconomic and industry-specific conditions".

We currently do not see any specific corporate strategy opportunities or risks of material significance.

Opportunities and risks arising from internal processes

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

Logistics services are generally provided in bulk and require a complex operational infrastructure with high quality standards. To consistently guarantee reliability and punctual delivery, processes must be organised so as to proceed smoothly with no

We are focussing upon our core competencies.

technical or personnel-related glitches. Any weaknesses with regard to the tendering, sorting, transport, warehousing or delivery of shipments could seriously compromise our competitive position. To enable us to identify possible disruptions in our workflows and take the necessary countermeasures at an early stage, we have introduced a global security management system and developed a global IT platform known as Resilience 360 that depicts and integrates our global supply chains and locations. Near real-time information on incidents relevant to security flows into the system, which in cases of disruption also serves as a central communications platform. This offers a competitive advantage that has already met with a high degree of interest from both security agencies and customers.

Opportunities and risks arising from information technology

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

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

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

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

The European Union's General Data Protection Regulation (GDPR) prescribes a series of measures for the protection of personal data as well as immediate and extensive reactions and reporting obligations of data losses (unauthorised access by third parties). We have prepared ourselves for this and established implementation programmes for all divisions. Possible violations could be punished with fines by the data protection supervisory authorities.

Opportunities and risks arising from human resources

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

We use Strategic Resource Management to address the risks arising from an ageing population and the capacity shortages that may result from changing demographic and social structures. The experience gained is used to continuously improve strategic resource management as an analysis and planning instrument. The Generations Pact, [page 58](#), agreed upon with trade unions in Germany, also helps us to take advantage of the career experience of employees for as long as possible whilst, at the same time, offering young people long-term career perspectives.

Possible increases in both chronic and acute diseases pose another risk to sustaining our business operations. We address this risk with health management programmes, measures tailored to local requirements and cross-divisional co-operation.



CORPORATE GOVERNANCE

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83 CORPORATE GOVERNANCE REPORT

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

We faced considerable challenges in the 2018 financial year but also set the stage for the lasting business success of the Group in the future.

The Supervisory Board advised and oversaw the Board of Management in the management of the company, made decisions regarding Board of Management membership, consulted with the members of the Board of Management on the strategic direction of the company and shaping corporate policy, as well as participating in decisions that were material for the company.

The Board of Management informed us on an ongoing basis about the course of business and material transactions. Fundamental issues concerning business planning, profitability, maintaining competitiveness and business performance were thoroughly deliberated after the committees had laid the groundwork for these discussions.

Between meetings, I had discussions with the Chairman of the Board of Management (CEO), Frank Appel, regarding Board of Management issues and current developments. Stefan Schulte, Audit Committee Chair, also held regular conversations outside of scheduled meetings with Melanie Kreis, Board Member for Finance.

Only a few members were unable to attend all meetings. In cases where their absence was unavoidable, they generally participated in decisions by submitting their votes in writing. The overall attendance rate was around 95%. An overview of the meeting attendance records of individual members is provided on page 84.

Ten plenary Supervisory Board meetings and 26 committee meetings were held in the year under review. The members of the Board of Management participated in plenary meetings – unless decisions on Board of Management membership were taken – and reported on the business performance in the divisions for which they are responsible. The chairman, and the members of the Board of Management responsible for their relevant divisions, attended the committee meetings. Executives from the tier immediately below the Board of Management and representatives of the auditors were also invited to attend for individual agenda items.

Key topics addressed in plenary meetings

In our March 2018 meeting, we discussed the annual and consolidated financial statements, including the management reports and the separate combined non-financial report. Following the

report by the auditor regarding the findings of the audit, we approved the financial statements at the recommendation of the Finance and Audit Committee. We concurred with the Board of Management's proposed resolution on the appropriation of the net retained profit. Based upon the results of the audit, no objections were raised regarding the non-financial report.

We determined the annual bonus for active Board of Management members based upon the degree of target achievement and corresponding recommendations by the Strategy and Executive Committees.

The proposed resolutions for the 2018 Annual General Meeting, including the dividend proposal, were also approved at this meeting.

Additionally, we addressed the results of the efficiency review of our activities.

In early April, the main issue discussed was the division of responsibilities of the Board of Management. We agreed that innovations such as the development of Street Scooters should be combined in the new Corporate Incubations board department. The new department was initially assigned to Jürgen Gerdes, whilst Frank Appel assumed interim leadership of Post - eCommerce - Parcel.

After preparatory work was completed by the Finance and Audit Committee, we agreed to the purchase of 14 Boeing 777 cargo planes in early May to further renew the Express intercontinental fleet.

In June, we dealt with Jürgen Gerdes' departure from the Board of Management and transferred responsibility for the Corporate Incubations board department to Thomas Ogilvie, who is Board Member for Human Resources and Labour Director for the Group.

The focus of September's meeting was the attainment of the strategic goals assigned to Board of Management members as the basis for granting the long-term incentive component for 2018 and setting new ones for awarding the 2019 tranche.

In the closed meeting that followed, we discussed the progress made in implementing our Strategy 2020 as well as future strategic challenges, particularly digitalisation, together with the Board of Management, with the support of invited outside presenters. Subsequently, the Supervisory Board held a meeting without the members of the Board of Management.

In October, we approved the sale of the supply chain business in China, Hong Kong and Macao to S.F. Holding in the course of a strategic partnership.

At the last Supervisory Board meeting of the year in December, we approved the Group's business plan for 2019 and the targets for variable remuneration of the Board of Management for 2019, and agreed to again issue an unqualified Declaration of Conformity.

NIKOLAUS VON BOMHARD
Chairman



Key topics addressed in committee meetings

The primary duty of the six committees of the Supervisory Board is to prepare the decisions to be taken in the plenary meetings. They have also been tasked with taking the final decisions regarding a few matters, including approval for property transactions and secondary activities of Board of Management members. The committee chairs report extensively in the plenary meetings on the work of the committees. Details on the composition of the committees are provided on page 78.

The Executive Committee met six times and dealt mainly with Board of Management issues and preparatory work for Supervisory Board meetings.

The Personnel Committee held four meetings. Items discussed included human resources development, promoting women to executive positions, further developing the Group-wide initiatives and the results of the annual employee opinion survey.

The Finance and Audit Committee met eight times. It examined the financial statements and the management reports for the company and the Group. It discussed the quarterly financial reports and the half-yearly financial report, which were reviewed by the auditors, before their publication with the Board of Management and the auditors. In addition, it issued the audit engagement for the auditors elected by the Annual General Meeting and specified the key audit priorities. The committee also addressed the non-audit services provided by the auditors, the

accounting process and risk management, discussed the findings of internal audits. It obtained detailed reports from the Chief Compliance Officer on compliance and on updates to the compliance organisation and compliance management.

The Strategy Committee met six times, primarily addressing the business units' strategic positioning in their respective market segments and the implementation of our Strategy 2020. Particular areas of focus were the progress made in the digital transformation of the company and regular status updates by the divisions.

The Nomination Committee met twice. In March, it recommended that the Supervisory Board propose Günther Bräunig and Mario Daberkow to the Annual General Meeting as candidates to the Supervisory Board. In December, a resolution was passed to propose Heinrich Hiesinger to the 2019 Annual General Meeting as a Supervisory Board candidate.

The Mediation Committee did not meet in the year under review.

Changes to the Supervisory Board

Shareholder representatives Wulf von Schimmelmann and Ulrich Schröder stepped down from the Supervisory Board. Wulf von Schimmelmann, who was Chairman of the Supervisory Board for many years, did not make himself available for re-election after serving more than two full terms of office. Ulrich Schröder stepped down due to a serious illness. The 2018 Annual General

Meeting elected Günther Bräunig and Mario Daberkow as new members of the Supervisory Board, both for a term of office of five years.

Following the Annual General Meeting, the Supervisory Board elected me as chair and Andrea Kocsis as deputy chair.

Since the term of office of the employee representatives was close to expiring, in March 2018 the assembly of delegates (re-) elected the employee representatives to a five-year term beginning at the end of the 2018 Annual General Meeting. An overview of current Supervisory Board members is provided on page 77.

Changes to the Board of Management

Jürgen Gerdes, who laid down the leadership of Post - eCommerce - Parcel and assumed initial responsibility for the new Corporate Incubations board department in April, resigned from the Board of Management on 12 June 2018 due to differences of opinion regarding the company's strategic priorities. He left the company on 30 June 2018. After Frank Appel had assumed interim leadership of the Post - eCommerce - Parcel division in April, we transferred responsibility for Corporate Incubations to Thomas Ogilvie. As at 1 January 2019, responsibility for the newly created eCommerce Solutions division was assigned to Ken Allen. His contract was extended to July 2022. John Pearson was appointed to the Board of Management as successor for the Express board department as at 1 January 2019, initially for three years. In today's meeting we appointed Tobias Meyer as member of the Board of Management effective from 1 April 2019 for an initial period of three years and entrusted him with the management of the Post & Paket Deutschland division.

Managing conflicts of interest

Supervisory Board members do not hold positions on the governing bodies of, or provide consultancy services to, the Group's main competitors. The Supervisory Board was not informed of any conflicts of interest affecting individual members during the year under review.

Compliance with all recommendations of the German Corporate Governance Code

In December, the Board of Management and the Supervisory Board issued an unqualified Declaration of Conformity pursuant to section 161 of the *Aktengesetz* (AktG – German Stock Corporation Act), which was also published on the company's website. The declarations from previous years are also available there. The company also continued to comply with all recommendations of the Government Commission on the German Corporate Governance Code in the version dated 7 February 2017, which was published in the Federal Gazette on 24 April/19 May, following submission of the Declaration of Conformity in December 2017, and decided to continue to do so in the future. We have also

implemented all the suggestions made by the Government Commission, with the exception of broadcasting the full AGM on the internet. Further information regarding corporate governance within the company can be found in the Corporate Governance Report (page 83 ff.).

2018 annual and consolidated financial statements examined

The auditors elected by the AGM, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, audited the annual and consolidated financial statements for financial year 2018, including the respective management reports, and issued unqualified audit opinions. PwC also reviewed the quarterly financial reports and the half-yearly financial report and audited the non-financial report on behalf of the Finance and Audit Committee without issuing any objections.

Upon recommendation by the Finance and Audit Committee, the Supervisory Board in its meeting today focussed upon the annual and consolidated financial statements, including the Board of Management's proposal on the appropriation of the net retained profit, the management reports and the combined (consolidated) non-financial report for financial year 2018, and discussed these in depth with the Board of Management. The auditors reported on the results of their audit before the Finance and Audit Committee and plenary meeting and were available to answer questions and provide information. The Supervisory Board concurred with the results of the audit and approved the annual and consolidated financial statements for financial year 2018, as recommended by the Finance and Audit Committee. No objections were raised on the basis of the final outcome of the examination by the Supervisory Board and the Finance and Audit Committee of the annual and consolidated financial statements, the management reports and the proposal for the appropriation of the net retained profit. Similarly, no objections were raised with regard to the examination of the combined non-financial report. The Supervisory Board endorsed the Board of Management's proposal for the appropriation of the net retained profit and the payment of a dividend of €1.15 per share.

We would like to thank the members of the Board of Management and the employees of the company for their hard work in this challenging financial year.

Bonn, 6 March 2019
The Supervisory Board



Nikolaus von Bomhard
Chairman

SUPERVISORY BOARD

Members of the Supervisory Board

B.01

Shareholder representatives

Prof. Dr Wulf von Schimmelmann (Chair) (until 24 April 2018)
Former CEO of Deutsche Postbank AG

Dr Nikolaus von Bomhard (Chair since 24 April 2018)
Former Chair of the Board of Management, Münchener Rückversicherungs-Gesellschaft AG (Munich Re)

Dr Günther Bräunig (since 17 March 2018)
CEO of KfW Bankengruppe

Dr Mario Daberkow (since 24 April 2018)
Member of the Managing Board of Volkswagen Financial Services AG

Ingrid Deltenre
Former Director General of the European Broadcasting Union

Werner Gatzert
State Secretary, Federal Ministry of Finance (since 3 April 2018)
CEO of Deutsche Bahn Station & Service AG (from 1 January to 2 April 2018)

Prof. Dr Henning Kagermann
Former CEO of SAP AG

Simone Menne
Former member of the Board of Managing Directors, Boehringer Ingelheim GmbH

Roland Oetker
Managing Partner, ROI Verwaltungsgesellschaft mbH

Dr Ulrich Schröder (until 6 February 2018)
Former CEO of KfW Bankengruppe

Dr Stefan Schulte
Chair of the Executive Board of Fraport AG

Prof. Dr-Ing. Katja Windt
President/member of the Executive Board of Jacobs University Bremen gGmbH (until 14 January 2018)
SMS group GmbH (since 15 January 2018)
Member of the Managing Board of SMS group GmbH (since 1 April 2018)

Employee representatives

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

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

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

Gabriele Gülzau (since 24 April 2018)
Chair of the Works Council, Deutsche Post AG, Mail Branch, Hamburg

Thomas Held (since 24 April 2018)
Chair of the Central Works Council, Deutsche Post AG (since 27 June 2018)
Deputy Chair of the Central Works Council, Deutsche Post AG

Mario Jacobasch (since 24 April 2018)
Deputy Chair of the Group Works Council, Deutsche Post AG

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

Anke Kufalt (until 24 April 2018)
Chair of the Works Council, DHL Global Forwarding GmbH, Hamburg

Ulrike Lennartz-Pipenbacher
Deputy Chair of the Central Works Council, Deutsche Post AG

Andreas Schädler (until 24 April 2018)
Business Division Sales Post, Deutsche Post AG

Sabine Schielmann (until 24 April 2018)
Member of the Executive Board of the Central Works Council, Deutsche Post AG

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

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

Committees of the Supervisory Board

B.02

Executive Committee

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Dr Nikolaus von Bomhard
(Chair since 24 April 2018)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Ingrid Deltenre (since 24 April 2018)
Werner Gatzler
Thomas Held (since 24 April 2018)
Stefanie Weckesser (until 24 April 2018)

Personnel Committee

Andrea Kocsis (Chair)
Prof. Dr Wulf von Schimmelmann
(Deputy Chair) (until 24 April 2018)
Dr Nikolaus von Bomhard
(Deputy Chair) (since 24 April 2018)
Thomas Koczelnik
Roland Oetker

Finance and Audit Committee

Dr Stefan Schulte (Chair)
Stephan Teuscher (Deputy Chair)
Werner Gatzler
Thomas Koczelnik
Simone Menne
Stefanie Weckesser

Strategy Committee

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Dr Nikolaus von Bomhard
(Chair) (since 24 April 2018)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Prof. Dr Henning Kagermann
Thomas Koczelnik
Roland Oetker

Nomination Committee

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Dr Nikolaus von Bomhard
(Chair since 24 April 2018)
Ingrid Deltenre (since 24 April 2018)
Werner Gatzler

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

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Dr Nikolaus von Bomhard
(Chair) (since 24 April 2018)
Andrea Kocsis (Deputy Chair)
Rolf Bauermeister
Roland Oetker

Mandates held by the Supervisory Board**B.03****Shareholder representatives****Membership of supervisory boards required by law**

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Allianz Deutschland AG (until 2 March 2018)
Maxingvest AG

Dr Günther Bräunig (since 17 March 2018)
Deutsche Pfandbriefbank AG (Chair)
Deutsche Telekom AG (since 21 March 2018)

Werner Gatzert
DB Netz AG (from 1 January to 2 April 2018)
Flughafen Berlin Brandenburg GmbH
PD-Berater der öffentlichen Hand GmbH
(Chair)

Prof. Dr Henning Kagermann
Deutsche Bank AG (until 24 May 2018)
Münchener Rückversicherungs-
Gesellschaft AG (Munich Re)
KUKA AG

Simone Menne
BMW AG
Springer Nature KGaA (since 13 April 2018)

Dr Ulrich Schröder (until 6 February 2018)
Deutsche Telekom AG (until 6 February 2018)

Prof. Dr-Ing. Katja Windt
Fraport AG

Membership of comparable bodies

Prof. Dr Wulf von Schimmelmann
(Chair) (until 24 April 2018)
Thomson Reuters Corp., Canada
(Board of Directors)

Dr Nikolaus von Bomhard
(Chair since 24 April 2018)
Athora Holding Ltd., Bermuda
(Board of Directors, Chair)

Dr Mario Daberkow (since 24 April 2018)
Softbridge-Proyectos Tecnológicos S.A., Portugal¹
(Administrative Board) (since 18 April 2018)

Volkswagen Participações Ltda., Brazil
(Supervisory Board)¹

Volkswagen Holding Financière S.A., France
(Supervisory Board)¹

Volkswagen Finance Luxembourg II S.A.,
Luxembourg (Supervisory Board, Chair)¹
(renamed Volkswagen Payments S.A.
on 10 October 2018)

Volkswagen S.A., Institución de Banca
Múltiple, Mexico (Supervisory Board)¹
(since 1 October 2018)

VW Credit, Inc., USA (Board of Directors)¹
(since 1 October 2018)

Ingrid Deltenre

Givaudan SA, Switzerland (Board of Directors)

Banque Cantonale Vaudoise SA, Switzerland
(Board of Directors)

Agence France Presse, France (Board of Directors)

Sunrise Communications AG, Switzerland
(Board of Directors) (since 11 April 2018)

Roland Oetker

Rheinisch-Bergische Verlagsgesellschaft mbH
(Supervisory Board)

Simone Menne

Johnson Controls International plc, Ireland
(Board of Directors) (since 7 March 2018)

Russel Reynolds Associates Inc., USA
(Board of Directors) (since 30 January 2019)

Dr Ulrich Schröder

“Marguerite 2020”: European Fund for Energy,
Climate Change and Infrastructure, Luxem-
bourg (Supervisory Board) (until 6 Febru-
ary 2018)

Dr Stefan Schulte

Fraport Ausbau Süd GmbH (Supervisory
Board, Chair)²

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

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

Fraport Regional Airports of Greece Manage-
ment Company S.A., Greece (Board of Directors,
Chair)²

Fraport Brasil S.A. Aeroporto de Porto Alegre,
Brazil (Supervisory Board, Chair)²

Fraport Brasil S.A. Aeroporto de Fortaleza,
Brazil (Supervisory Board, Chair)²

Employee representatives**Membership of supervisory boards required by law**

Jörg von Dosky
PSD Bank München eG

Andreas Schädler (until 24 April 2018)
PSD Bank Köln eG (Chair)

Stephan Teuscher
DHL Hub Leipzig GmbH (Deputy Chair)

¹ Group mandates, Volkswagen AG.² Group mandates, Fraport AG.

BOARD OF MANAGEMENT

- 1 FRANK APPEL
- 2 THOMAS OGILVIE
- 3 MELANIE KREIS
- 4 TIM SCHARWATH
- 5 JOHN PEARSON
- 6 JOHN GILBERT
- 7 KEN ALLEN

1



4



5



2



3



6



7



Members of the Board of Management

B.04

Dr Frank Appel

Chief Executive Officer

Global Business Services

Also responsible for Post - eCommerce - Parcel (since 4 April 2018)

Born in 1961

Member since November 2002

CEO since February 2008

Appointed until October 2022

Ken Allen

Express (until 31 December 2018)

eCommerce Solutions (since 1 January 2019)

Born in 1955

Member since February 2009

Appointed until July 2022

John Gilbert

Supply Chain

Born in 1963

Member since March 2014

Appointed until March 2022

Melanie Kreis

Finance

Born in 1971

Member since October 2014

Appointed until June 2022

Dr Thomas Ogilvie

Human Resources

Corporate Incubations (since 12 June 2018)

Born in 1976

Member since September 2017

Appointed until August 2020

John Pearson

Express (since 1 January 2019)

Born in 1963

Member since January 2019

Appointed until December 2021

Tim Scharwath

Global Forwarding, Freight

Born in 1965

Member since June 2017

Appointed until May 2020

Left the company during the year under review

Dr h.c. Jürgen Gerdes

Post - eCommerce - Parcel (until 3 April 2018)

Corporate Incubations (from 4 April 2018 to 12 June 2018)

Born in 1964

Member from July 2007 to June 2018

Mandates held by the Board of Management

B.05

Membership of supervisory boards required by law

Dr Frank Appel
adidas AG

Membership of comparable bodies

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

¹ Group mandate.

CORPORATE GOVERNANCE REPORT

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

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

The Board of Management and the Supervisory Board follow the current initiatives and deliberations regarding the German Corporate Governance Code and in December 2018 once again issued an unqualified Declaration of Conformity pursuant to section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act):

“The Board of Management and the Supervisory Board of Deutsche Post AG declare that all recommendations of the Government Commission German Corporate Governance Code in the version dated 7 February 2017 and published in the Federal Gazette on 24 April/19 May 2017 have been complied with after issuance of the Declaration of Conformity in December 2017 and that all recommendations of the Code in the version dated 7 February 2017 and published in the Federal Gazette on 24 April/19 May 2017 shall also be complied with in the future.”

We also implement the suggestions made in the Code; however, the Annual General Meeting will only be broadcast on the internet up to the end of the CEO’s address. This helps ensure frank and open discussion during the shareholders’ debate.

The current Declaration of Conformity and those for the last five years can be viewed at [@ dpdhl.com/en/investors](https://www.dpdhl.com/en/investors).

Corporate governance principles and shared values

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

Our [@ Code of Conduct, dpdhl.com/en](https://www.dpdhl.com/en), is firmly established within the company and is applicable in all divisions and regions. The Code of Conduct is based upon the principles set out in the Universal Declaration of Human Rights and the United Nations (UN) Global Compact. It is consistent with recognised legal standards, including the applicable anti-corruption legislation and agreements.

The Code of Conduct also defines what we mean by diversity. Diversity and mutual respect are some of the core values that contribute to good co-operation within the Group and thus to

economic success. The key criteria for the recruitment and professional development of our employees are their skills and qualifications. Our Diversity Council discusses the strategic aspects of diversity management and divisional requirements. Its members comprise executives from the central functions and divisions and it is chaired by the Board Member for Human Resources. Members also act as ambassadors for, and promote, diversity in the divisions. The members of the Board of Management and the Supervisory Board support the Group’s diversity strategy, with a particular focus upon the goal of increasing the number of women in the Group.

Doing business responsibly includes using our expertise as a mail and logistics services group for the benefit of society and the environment, and we motivate our employees to engage in volunteer work.

Ensuring our interactions with business partners, shareholders and the public are conducted with integrity and within the bounds of the law is vital to maintaining our reputation. It is also the foundation of Deutsche Post DHL Group’s lasting business success. The goal of the compliance management system (CMS) is to ensure observance of the statutory provisions and internal policies applicable to the Group. Its effectiveness is reviewed on an on-going basis in order to adapt it if necessary to relevant developments and new legal requirements. The CMS’s individual components, the Code of Conduct, and information on diversity management and CSR issues are outlined in detail in the

[@ Corporate Responsibility Report, dpdhl.com/cr-report2018](https://www.dpdhl.com/cr-report2018).

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

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

The Board of Management’s rules of procedure set out the principles governing its internal organisation, management and representation, as well as co-operation between its individual members. Within this framework, Board members manage their departments independently and inform the rest of the Board about key developments at regular intervals. The Board of Management as a whole decides on matters of particular significance for the company or the Group, including all decisions that have to be presented to the Supervisory Board for approval, and all tasks that cannot be delegated to individual members of the Board. The Board of Management as a whole also decides on matters presented to it by individual members of the Board of Management for decision. When making decisions, members of the Board of Management may not act in their own personal interest or exploit corporate business opportunities for their own benefit. The Supervisory Board must be informed of any conflicts of inter-

est without delay. No member of the Board of Management is a member of more than two supervisory boards of non-Group listed companies or of other supervisory bodies with comparable requirements. D&O insurance for the members of the Board of Management provides for a deductible as set out in the AktG.

The Supervisory Board appoints, advises and oversees the Board of Management. It has established rules of procedure for itself containing the principles for its internal organisation, a catalogue of Board of Management transactions requiring its approval and the rules governing the work of the Supervisory Board committees. The chairman elected by the members from their ranks co-ordinates the work of the Supervisory Board and also represents the Supervisory Board publicly.

The Supervisory Board meets at least four times a year. Extraordinary Supervisory Board meetings are held whenever particular developments or measures need to be discussed or approved at short notice. In financial year 2018, Supervisory Board members held ten plenary meetings, 26 committee meetings and one closed meeting, as described in the [Report of the Supervisory Board, page 74 ff.](#) At 95%, the attendance rate remained very high in the year under review, as the following breakdown shows.

Attendance at plenary and committee meetings **B.06**

Board members	Attendance
Dr Nikolaus von Bomhard (Chair since 24 April 2018)	100
Prof. Dr Wulf von Schimmelmann (Chair until 24 April 2018)	100
Andrea Kocsis (Deputy Chair)	100
Rolf Bauermeister	100
Dr Günther Bräunig (since 17 March 2018)	56
Dr Mario Daberkow (since 24 April 2018)	88
Ingrid Deltenre	100
Jörg von Dosky	100
Werner Gatzler	73
Gabriele Gülzau (since 24 April 2018)	100
Thomas Held (since 24 April 2018)	100
Mario Jacubasch (since 24 April 2018)	100
Prof. Dr Henning Kagermann	94
Thomas Koczelnik	96
Anke Kufalt (until 24 April 2018)	100
Ulrike Lennartz-Pipenbacher	100
Simone Menne	94
Roland Oetker	95
Andreas Schädler (until 24 April 2018)	50
Sabine Schielmann (until 24 April 2018)	100
Dr Ulrich Schröder (until 6 February 2018)	100
Dr Stefan Schulte	100
Stephan Teuscher	100
Stefanie Weckesser	100
Prof. Dr-Ing. Katja Windt	100

The [Report of the Supervisory Board, page 74 ff.](#), can also be viewed at dpdhl.com/en/investors.

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

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

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

All Supervisory Board members are independent within the meaning of the German Corporate Governance Code. The number of independent Supervisory Board members therefore exceeds the target we had set ourselves of at least 75% of the Supervisory Board as a whole. In light of the European Commission's recommendation on the independence of non-executive or supervisory directors and the wide-ranging protection against summary dismissal and ban on discrimination contained in the *Betriebsverfassungsgesetz* (BetrVG – German Works Constitution Act) and the *Mitbestimmungsgesetz* (MitbestG – German Co-determination Act), being an employee of the company is not inconsistent with the requirement for independence as defined by the Code. The largest shareholder in the company, KfW Bankengruppe, currently holds approximately 21% of the shares in Deutsche Post AG and therefore does not exercise control. Accordingly, Werner Gatzler and Günther Bräunig are also independent within the meaning of the Code.

No former members of the Board of Management are members of the Supervisory Board.

No Supervisory Board members exceed the maximum service period of three terms of office or the age limit of 72.

Board of Management and Supervisory Board committees

The structure of the Board of Management committees applicable in the financial year included divisional executive committees that held meetings to prepare decisions to be taken by the full Board of Management and to take decisions on the matters delegated to them. Executives from the first and second tiers immediately below the Board of Management attended executive committee meetings that covered topics relevant to their fields. Since January 2019, the executive committees have been eliminated and the matters previously delegated to them are now being handled by the Board of Management.

Business review meetings continue to take place once a quarter. These meetings are part of the strategic performance dialogue between the divisions, the CEO, the Board Member for Finance or also the full Board of Management. The business review meetings discuss strategic initiatives, operational matters and the budgetary situation in the divisions. The  **members of the Board of Management and the mandates held by them** are listed on [page 82](#).

The primary duty of the members of the Supervisory Board committees is to prepare the resolutions to be taken in the plenary meetings.

The Executive Committee does the preparatory work for appointing members of the Board of Management, drawing up their contracts of service and determining their remuneration.

The Finance and Audit Committee oversees the company's accounts, its accounting process, the effectiveness of the internal control system, risk management and internal auditing, and the financial statement audit, and in particular the selection of the auditors and their independence. In addition, the committee is responsible for preparing the voluntary external audit of the separate non-financial report, including selecting and engaging the external auditor. It also approves the Board of Management's engagement of the auditor to perform non-audit services. The committee examines corporate compliance issues and discusses the half-yearly and quarterly financial reports with the Board of Management before publication. Based upon its own assessment, the committee submits proposals for the approval of the annual and consolidated financial statements by the Supervisory Board. The Chairman of the Finance and Audit Committee, Stefan Schulte, is an independent financial expert as defined in sections 100 (5) and 107 (4) of the AktG. He has no relationship with the company, its governing bodies or its shareholders that could cast doubt on his independence.

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

The Personnel Committee discusses human resources principles for the Group.

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

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

The Strategy Committee prepares the Supervisory Board's strategy discussions and regularly discusses the competitive position of the enterprise as a whole and of the individual divisions. In addition, it does preparatory work on corporate acquisitions and divestitures that require the Supervisory Board's approval.

Further information about the work of the Supervisory Board and its committees in financial year 2018 is contained in the  **Report of the Supervisory Board, page 74 ff**. Details on the members of the Supervisory Board and the composition of the Supervisory Board committees can be found in the section on the  **Supervisory Board, page 77 f**.

Targets for the Supervisory Board's composition and skills profile

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

- 1 When proposing candidates to the Annual General Meeting for election as Supervisory Board members, the Supervisory Board is guided purely by the best interests of the company. Subject to this requirement, the Supervisory Board aims to ensure that independent Supervisory Board members as defined in number 5.4.2 of the German Corporate Governance Code account for at least 75% of the Supervisory Board, and that at least 30% of the Supervisory Board members are women.

- 2 The company's international activities are already adequately reflected in the current composition of the Supervisory Board. The Supervisory Board aims to maintain this and its future proposals to the Annual General Meeting will therefore consider candidates whose origins, education or professional experience equip them with particular international knowledge and experience.
- 3 The Supervisory Board should be in a position to collectively provide competent advice to the Board of Management on fundamental future issues; in its opinion this includes, in particular, the digital transformation.
- 4 The Supervisory Board should collectively have sufficient expertise in the areas of accounting or financial statement audits. This includes knowledge of international developments in the field of accounting. Additionally, the Supervisory Board believes that the independence of its members helps guarantee the integrity of the accounting process and ensure the independence of the auditors.
- 5 Conflicts of interest affecting Supervisory Board members are an obstacle to providing independent and efficient advice to, and supervision of, the Board of Management. The Supervisory Board will decide how to deal with potential or actual conflicts of interest on a case-by-case basis, in accordance with the law and giving due consideration to the German Corporate Governance Code.
- 6 In accordance with the age limit adopted by the Supervisory Board and laid down in the rules of procedure for the Supervisory Board, proposals for the election of Supervisory Board members must ensure that their term of office ends no later than the close of the next Annual General Meeting to be held after the Supervisory Board member reaches the age of 72. As a general rule, Supervisory Board members should not serve more than three full terms of office.

The current Supervisory Board meets these targets and this skills profile.

Diversity

Diversity is important for the Supervisory Board, including when it comes to appointing members of the Board of Management. The company's success depends to a considerable extent upon the diversity of qualifications, personalities, skills and experience of the members of the Board of Management. All Board of Management members possess international expertise and experience. Long-term succession planning in all divisions aims to guarantee that there will be an adequate pipeline of qualified successors for

appointments to the Board of Management in the future. Particular attention is given to ensuring that women can advance within the company. They are supported when they join the company and candidates with potential are given opportunities for development.

The current target for the proportion of women on the Board of Management is 2:8, to be achieved by the date of Annual General Meeting in 2021. The previous target of 1:7, which was met, applied until the Annual General Meeting in 2018. The Board of Management has set target quotas for the proportion of women in the two executive tiers below the Board of Management of 20% for tier 1 and 30% for tier 2; these targets apply to the period between 1 January 2017 and 31 December 2019. The two executive tiers are defined on the basis of their reporting lines: tier 1 comprises executives assigned to the N-1 reporting line, whilst tier 2 consists of executives from the N-2 reporting line. The diversity criteria important to the Supervisory Board, including when considering its own composition, are outlined in the list of its goals. With seven women (35%), the Supervisory Board exceeds the statutory share of women of 30%.

Shareholders and General Meeting

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

Remuneration of the Board of Management and the Supervisory Board

The 2018 Annual General Meeting approved the current system of Board of Management remuneration with around 89% of the votes cast. An explanation of the remuneration system and information on the remuneration of the individual members of the Board of Management and Supervisory Board are provided in the

 [Remuneration Report, page 25 ff.](#)



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INCOME STATEMENT

1 January to 31 December

C.01

€ m

	Note	2017	2018
Revenue	11	60,444	61,550
Other operating income	12	1,971	1,914
Changes in inventories and work performed and capitalised ¹	13	168	87
Materials expense	14	-32,775	-31,673
Staff costs	15	-20,072	-20,825
Depreciation, amortisation and impairment losses	16	-1,471	-3,292
Other operating expenses	17	-4,526	-4,597
Net income from investments accounted for using the equity method	25	2	-2
Profit from operating activities (EBIT)		3,741	3,162
Financial income		89	201
Finance costs		-482	-750
Foreign currency losses		-18	-27
Net finance costs	18	-411	-576
Profit before income taxes		3,330	2,586
Income taxes	19	-477	-362
Consolidated net profit for the period		2,853	2,224
attributable to Deutsche Post AG shareholders		2,713	2,075
attributable to non-controlling interests		140	149
Basic earnings per share (€)	20	2.24	1.69
Diluted earnings per share (€)	20	2.15	1.66

¹ For reasons of transparency, changes in inventories and work performed and capitalised were transferred out of other operating income and presented separately.

STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

C.02

€ m

	Note	2017	2018
Consolidated net profit for the period		2,853	2,224
Items that will not be reclassified to profit or loss			
Change due to remeasurements of net pension provisions	39	378	191
Reserve for equity instruments without recycling		–	–4
Other changes in retained earnings		0	0
Income taxes relating to components of other comprehensive income	19	–28	–71
Share of other comprehensive income of investments accounted for using the equity method, net of tax		0	0
Total, net of tax		350	116
Items that may be reclassified subsequently to profit or loss			
IAS 39 revaluation reserve			
Changes from unrealised gains and losses		1	–
Changes from realised gains and losses		–1	–
IAS 39 hedging reserve			
Changes from unrealised gains and losses		37	–9
Changes from realised gains and losses		–14	–31
Currency translation reserve			
Changes from unrealised gains and losses		–736	74
Changes from realised gains and losses		–7	0
Income taxes relating to components of other comprehensive income	19	–8	13
Share of other comprehensive income of investments accounted for using the equity method, net of tax		–8	2
Total, net of tax		–736	49
Other comprehensive income, net of tax		–386	165
Total comprehensive income		2,467	2,389
attributable to Deutsche Post AG shareholders		2,344	2,243
attributable to non-controlling interests		123	146

BALANCE SHEET

C.03

€ m	Note	31 Dec. 2017	31 Dec. 2018
ASSETS			
Intangible assets	22	11,792	11,850
Property, plant and equipment	23	8,782	19,202
Investment property	24	21	18
Investments accounted for using the equity method	25	85	119
Non-current financial assets	26	733	730
Other non-current assets	27	231	353
Deferred tax assets	28	2,272	2,532
Non-current assets		23,916	34,804
Inventories	29	327	454
Current financial assets	26	652	943
Trade receivables	30	8,218	8,247
Other current assets	27	2,184	2,369
Income tax assets		236	210
Cash and cash equivalents	31	3,135	3,017
Assets held for sale	32	4	426
Current assets		14,756	15,666
TOTAL ASSETS		38,672	50,470
EQUITY AND LIABILITIES			
Issued capital	33	1,224	1,233
Capital reserves	34	3,327	3,469
Other reserves	35	-998	-947
Retained earnings	36	9,084	9,835
Equity attributable to Deutsche Post AG shareholders	37	12,637	13,590
Non-controlling interests	38	266	283
Equity		12,903	13,873
Provisions for pensions and similar obligations	39	4,450	4,348
Deferred tax liabilities	28	76	54
Other non-current provisions	40	1,421	1,655
Non-current provisions		5,947	6,057
Non-current financial liabilities	41	5,151	13,869
Other non-current liabilities	42	272	205
Non-current liabilities		5,423	14,074
Non-current provisions and liabilities		11,370	20,131
Current provisions	40	1,131	1,073
Current financial liabilities	41	899	2,593
Trade payables		7,343	7,422
Other current liabilities	42	4,402	4,432
Income tax liabilities		624	718
Liabilities associated with assets held for sale	32	0	228
Current liabilities		13,268	15,393
Current provisions and liabilities		14,399	16,466
TOTAL EQUITY AND LIABILITIES		38,672	50,470

CASH FLOW STATEMENT

1 January to 31 December
C.04
€ m

	Note	2017	2018
Consolidated net profit for the period attributable to Deutsche Post AG shareholders		2,713	2,075
Consolidated net profit for the period attributable to non-controlling interests		140	149
Income taxes		477	362
Net finance costs		411	576
Profit from operating activities (EBIT)		3,741	3,162
Depreciation, amortisation and impairment losses		1,471	3,292
Net income from disposal of non-current assets		-82	-18
Non-cash income and expense		-40	13
Change in provisions		-940	282
Change in other non-current assets and liabilities		-109	-75
Dividend received		3	2
Income taxes paid		-626	-579
Net cash from operating activities before changes in working capital		3,418	6,079
Changes in working capital			
Inventories		-75	-116
Receivables and other current assets		-1,032	-559
Liabilities and other items		986	392
Net cash from operating activities	43	3,297	5,796
Subsidiaries and other business units		316	14
Property, plant and equipment and intangible assets		236	151
Investments accounted for using the equity method and other investments		3	23
Other non-current financial assets		21	46
Proceeds from disposal of non-current assets		576	234
Subsidiaries and other business units		-54	-58
Property, plant and equipment and intangible assets		-2,203	-2,649
Investments accounted for using the equity method and other investments		-55	-39
Other non-current financial assets		-122	-10
Cash paid to acquire non-current assets		-2,434	-2,756
Interest received		52	52
Current financial assets		-285	-307
Net cash used in investing activities	43	-2,091	-2,777
Proceeds from issuance of non-current financial liabilities		1,464	1,314
Repayments of non-current financial liabilities		-821	-2,284
Change in current financial liabilities		11	-1
Other financing activities		-51	38
Cash paid for transactions with non-controlling interests		-45	-3
Dividend paid to Deutsche Post AG shareholders		-1,270	-1,409
Dividend paid to non-controlling interest shareholders		-120	-124
Purchase of treasury shares		-148	-44
Proceeds from issuing shares or other equity instruments		53	0
Interest paid		-160	-526
Net cash used in financing activities	43	-1,087	-3,039
Net change in cash and cash equivalents		119	-20
Effect of changes in exchange rates on cash and cash equivalents		-91	-65
Changes in cash and cash equivalents associated with assets held for sale		0	-33
Changes in cash and cash equivalents due to changes in consolidated group		0	0
Cash and cash equivalents at beginning of reporting period		3,107	3,135
Cash and cash equivalents at end of reporting period	31	3,135	3,017

STATEMENT OF CHANGES IN EQUITY

1 January to 31 December

C.05

Note			Other reserves				Retained earnings	Equity attributable to Deutsche Post AG share-holders		Total equity
	Issued capital	Capital reserves	IAS 39 revaluation reserve	IAS 39 hedging reserve	Reserve for equity instruments without recycling	Currency translation reserve		Post AG share-holders	Non-controlling interests	
Balance at 1 January 2017	1,211	2,932	11	3	–	–298	7,228	11,087	263	11,350
Capital transactions with owner										
Dividend							–1,270	–1,270	–120	–1,390
Transactions with non-controlling interests			0	0		0	–8	–8	–3	–11
Changes in non-controlling interests due to changes in consolidated group								0	3	3
Issue/retirement of treasury shares	0	80					–27	53	0	53
Purchase of treasury shares	–4						51	47		47
Differences between purchase and issue prices of treasury shares (share-based payment schemes)		5					–5	0		0
Convertible bonds	15	277						292		292
Share-based payment schemes (issuance)		92						92		92
Share-based payment schemes (exercise)	2	–59					57	0		0
								–794	–120	–914
Total comprehensive income										
Consolidated net profit for the period							2,713	2,713	140	2,853
Currency translation differences							–729	–729	–22	–751
Change due to remeasurements of net pension provisions							345	345	5	350
Other changes			–1	16			0	15	0	15
								2,344	123	2,467
Balance at 31 December 2017	1,224	3,327	10	19	–	–1,027	9,084	12,637	266	12,903
Balance at 1 January 2018	1,224	3,327	10	19	–	–1,027	9,084	12,637	266	12,903
Adjustments as a result of new IFRSs			–10		11	–1	–50	–50	–2	–52
Balance at 1 January 2018, adjusted	1,224	3,327	0	19	11	–1,028	9,034	12,587	264	12,851
Capital transactions with owner										
Dividend							–1,409	–1,409	–125	–1,534
Transactions with non-controlling interests				0	0	0	4	4	–4	0
Changes in non-controlling interests due to changes in consolidated group								0	2	2
Issue/retirement of treasury shares	3	26					0	29	0	29
Purchase of treasury shares	–1						–45	–46		–46
Differences between purchase and issue prices of treasury shares (share-based payment schemes)		7					–7	0		0
Convertible bonds	5	102						107		107
Share-based payment schemes (issuance)		99						99		99
Share-based payment schemes (exercise)	2	–92					66	–24		–24
								–1,240	–127	–1,367
Total comprehensive income										
Consolidated net profit for the period							2,075	2,075	149	2,224
Currency translation differences							80	80	–4	76
Change due to remeasurements of net pension provisions							117	117	1	118
Other changes				–26	–3		0	–29	0	–29
								2,243	146	2,389
Balance at 31 December 2018	1,233	3,469	–	–7	8	–948	9,835	13,590	283	13,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF DEUTSCHE POST AG

Basis of preparation

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

1 Basis of accounting

As a listed company, Deutsche Post AG prepared its consolidated financial statements in accordance with section 315e of the *Handelsgesetzbuch* (HGB – German Commercial Code) (“consolidated financial statements in accordance with International Financial Reporting Standards”) in compliance with International Financial Reporting Standards (IFRSs) and related Interpretations of the International Accounting Standards Board (IASB) as adopted in the European Union in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards.

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

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

The accounting policies and the explanations and disclosures in the notes to the IFRS consolidated financial statements for financial year 2018 are fundamentally based on the same accounting policies used in the 2017 consolidated financial statements. Exceptions to this are the changes described in [note 4](#) due to the initial application of IFRSs 9, 15 and 16 and the changes in international financial reporting under IFRSs described in [note 5](#) that have been required to be applied by the Group since 1 January 2018. The accounting policies are explained in [note 7](#).

These consolidated financial statements were authorised for issue by a resolution of the Board of Management of Deutsche Post AG dated 15 February 2019.

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

2 Consolidated group

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

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

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

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

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

Consolidated group

	2017	2018
Number of fully consolidated companies (subsidiaries)		
German	129	127
Foreign	600	616
Number of joint operations		
German	1	1
Foreign	0	0
Number of investments accounted for using the equity method		
German	0	1
Foreign	14	18

2.1 Acquisitions in 2018

In the reporting period, a total of €75 million was paid for companies acquired in 2018. €5 million was paid for companies acquired in previous years. The purchase price for the companies acquired was paid by transferring cash funds.

Acquisitions, 2018

Name	Country	Segment	Share of capital %	Acquisition date
Suppla Cargo S.A.S.	Colombia	Supply Chain	99.99	20 April 2018
Serviceuticos Ltda.	Colombia	Supply Chain	99.99	20 April 2018
Agencia de Aduanas Suppla S.A.S.	Colombia	Supply Chain	100	20 April 2018
Suppla S.A.	Colombia	Supply Chain	99.99	20 April 2018

Insignificant acquisitions

Name	Country	Segment	Share of capital %	Acquisition date
Delivered on Time (DOT)	United Kingdom	Global Forwarding, Freight	100	6 March 2018
Transportes Alfonso Zamorano S.L.U.	Spain	PeP	100	3 May 2018
Transportes Martí Serra, S.L.U.	Spain	PeP	100	3 May 2018
Guinet Transit Service SARL	France	Global Forwarding, Freight	100	1 August 2018

In the second quarter of 2018, Deutsche Post DHL Group acquired Colombian companies Suppla Cargo S.A.S., Serviceuticos Ltda., Agencia de Aduanas Suppla S.A.S. and Suppla S.A. (referred to in the following as the Suppla Group). The companies provide transport, warehousing and packaging services. The acquisition enables DHL Supply Chain to expand its business in Latin America.

Of the total purchase price of €62 million, €12 million is variable and contingent upon the companies' future earnings; [note 2.2](#). A payment of €48 million was made in April 2018. The contingent consideration was adjusted in the fourth quarter of 2018.

Suppla Group

€ m	Carrying amount	Adjustment	Fair value
20 April 2018			
Non-current assets	34	9	43
Customer relationship	–	8	8
Brand name	–	1	1
Current assets	31	–	31
Cash and cash equivalents	17	–	17
ASSETS	82	9	91
Non-current provisions and liabilities	20	3	23
Deferred taxes	–	3	3
Current provisions and liabilities	29	–	29
EQUITY AND LIABILITIES	49	3	52
Net assets			39
Purchase price			62
Goodwill			23

The final purchase price allocation resulted in non-tax-deductible goodwill of €23 million. The figure is attributable to the synergies and network effects expected from the Latin America transport business, in particular. Customer relationships are amortised over a period of ten years. The brand name has a useful life of three years. Current assets include trade receivables of €26 million. There were no differences between the gross amount and the carrying amount.

Since their consolidation, the companies have contributed €58 million to consolidated revenue and €4 million to consolidated EBIT. If the companies had already been consolidated as at 1 January 2018, they would have provided an additional €27 million in consolidated revenue and an additional €2 million in consolidated EBIT. Transaction costs were €1 million and are reported in other operating expenses.

Insignificant acquisitions

Entities were acquired by 31 December 2018 which neither individually nor in the aggregate had a material effect on the net assets, financial position and results of operations.

The UK company Delivered on Time Limited (DOT) provides motor sports logistics solutions. Existing Formula 1 and Formula E services will benefit from synergy effects generated by the acquisition.

The two Spanish transport companies acquired by DHL Parcel Iberia will play an important role in the development of the Spanish B2C market.

Guinet Transit Service SARL, a company acquired in the third quarter of 2018, specialises in charter and transport services.

Insignificant acquisitions, 2018

€ m	
1 January to 31 December	Fair value ¹
Non-current assets	8
Current assets	8
Cash and cash equivalents	2
ASSETS	18
Non-current provisions and liabilities	6
Current provisions and liabilities	7
EQUITY AND LIABILITIES	13
Net assets	5
Purchase price	24
Goodwill	19

¹ Corresponds to the carrying amount.

Since their consolidation, the companies have contributed €6 million to consolidated revenue and €1 million to consolidated EBIT. If the companies had already been consolidated as at 1 January 2018, they would have provided an additional €5 million in consolidated revenue and an additional €1 million in consolidated EBIT.

2.2 Contingent consideration

Variable purchase prices were agreed for certain acquisitions:

Contingent consideration

Company	Basis	Period for financial years from/to	Results range from/to	Fair value of total obligation at the acquisition date	Remaining payment obligation at 31 Dec. 2017	Remaining payment obligation at 31 Dec. 2018
Mitsafetrans S.r.l.	EBITDA	2016 to 2018	€0 to 19 million	€15 million	€10 million	€5 million
Suppla Group	EBITDA	2018 to 2019	€0 to 10 million ¹	€12 million	–	€10 million

¹ Adjusted during the year due to reassessments.

2.3 Disposal and deconsolidation effects in 2018

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

PeP

In the fourth quarter of 2018, Deutsche Post DHL Group sold the online supermarket business All you need GmbH to Delticom AG, Hanover. This will enable the Group to consistently continue to focus its activities upon the German Post and Parcel business. The assets and liabilities had previously been reclassified as assets held for sale and liabilities associated with assets held for sale. The most recent measurement of assets and liabilities led to an impairment loss of €10 million.

Express

In December 2018, the 40% interest in AHK Air Hong Kong Limited, China, (AHK) was sold to Cathay Pacific; AHK is now a wholly owned subsidiary of Cathay Pacific. The investment was previously reported under assets held for sale. The most recent remeasurement prior to reclassification did not result in an impairment loss. Furthermore, DHL Express continued to cooperate with AHK and signed a 15-year block space agreement. The new agreement, under which Air Hong Kong provides DHL Express with a specified volume of transport capacity in return for compensation, entered into force on 1 January 2019.

Supply Chain

In September, 50% of the interest in UK-based Flexible Lifestyle Employment Company Limited (Flexible Lifestyle) was sold. The company is a start-up specialising in digital solutions for staff recruitment in the logistics sector and is now being operated together with the buyer as a joint venture.

Corporate Functions

At the end of October 2018, 48% of the interest in the start-up company DHL Resilience360 GmbH was sold to Columbia Capital, USA. DHL Resilience360 GmbH specialises in cloud-based risk management solutions for supply chains. Due to contractual arrangements, the remaining interest is now included in the consolidated financial statements of Deutsche Post DHL Group as an investment accounted for using the equity method.

Disposal and deconsolidation effects

€ m	
1 January to 31 December 2018	Total
Non-current assets	13
of which goodwill	2
Current assets	7
Cash and cash equivalents	3
ASSETS	23
Non-current provisions and liabilities	12
Current provisions and liabilities	8
EQUITY AND LIABILITIES	20
Net assets	3
Cash consideration received	12
Fair value of the interest retained	18
Deconsolidation gain	27

2.4 Joint operations

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

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

3 Significant transactions

In addition to the acquisition of Colombia-based Suppla Group described in [note 2](#), the following significant transactions were carried out in financial year 2018:

In the first quarter of 2018, Deutsche Post AG modified its occupational retirement arrangement in Germany. The added payment option of receiving one lump sum instead of lifelong monthly benefit payments has now also been granted to certain groups of hourly workers and salaried employees (e.g., former hourly workers and salaried employees with fully vested entitlements), for whom it had previously not been available. Past service gains of €108 million were recognised as a result.

In early June, the Board of Management decided upon measures to secure sustainable earnings growth in the Post - eCommerce - Parcel division. The measures decided upon are designed to further improve productivity, indirect costs and yield management in the Post and Parcel business. By 31 December 2018, an expense of €400 million had been recognised for an early retirement programme launched in this context. The related provisions and liabilities amounted to €352 million and €36 million, respectively, as at the reporting date. A total of €12 million has been paid to date.

In September 2018, Deutsche Post AG issued promissory note loans in six tranches for a total nominal amount of €500 million, [note 41](#).

At the end of October 2018, Deutsche Post DHL Group entered into an agreement with logistics provider S.F. Holding, China, to sell its Supply Chain business in China, Hong Kong and Macao to S.F. Holding, [note 32](#).

On 5 December 2018, Deutsche Post AG issued a ten-year bond with an annual coupon of 1.625% in the amount of €750 million, [note 41](#).

4 Adjustment of opening balances

The adjustments to the opening balances resulted from the initial application of IFRS 9 and IFRS 15, and of IFRS 16 which the Group decided to apply early as at 1 January 2018. The prior-period amounts were not adjusted. The effects of the transition were recognised directly in equity as retained earnings.

Adjusted opening balance at 1 Jan. 2018

€ m	31 Dec. 2017	Adjustment as a result of			Total	1 Jan. 2018
		IFRS 9	IFRS 15	IFRS 16		
ASSETS						
Property, plant and equipment	8,782			9,093	9,093	17,875
Non-current financial assets	733	-14	-12	77	51	784
Deferred tax assets	2,272	2	4		6	2,278
Other non-current assets	231	10	18		28	259
Current financial assets	652	0		4	4	656
Trade receivables	8,218	-42			-42	8,176
Other current assets	2,184		39	-58	-19	2,165
EQUITY AND LIABILITIES						
Retained earnings	9,084	-42	-13	5	-50	9,034
Non-controlling interests	266	-2			-2	264
Deferred tax liabilities	76			2	2	78
Other non-current provisions	1,421			-23	-23	1,398
Non-current financial liabilities	5,151			9,229	9,229	14,380
Other non-current liabilities	272			-13	-13	259
Current provisions	1,131		-173	8	-165	966
Trade payables	7,343		12	-3	9	7,352
Other current liabilities	4,402		223	-89	134	4,536

Effects of IFRS 9, Financial Instruments

The reclassification of financial instruments from the IAS 39 to the IFRS 9 categories depending on the applicable business model and the associated contractual cash flows did not materially affect the balance

sheet. As at 1 January 2018, impairment losses on receivables were recognised early in other comprehensive income in accordance with the expected loss model.

IFRS 9 classification and impact on equity

€ m	31 Dec. 2017	Reclassi- fication	Adjustment/ impairment losses	1. Jan. 2018
ASSETS				
Non-current financial assets				
Available-for-sale financial assets	59	-59		-
Loans and receivables	466	-464	-2	-
Assets at fair value through profit or loss	170	28		198
Lease receivables	38	-38		-
Assets at fair value through other comprehensive income	-	47		47
Financial assets measured at cost	-	476		476
Other non-current assets	231	10		241
Current financial assets				
Available-for-sale financial assets	500	-500		-
Loans and receivables	69	-69		-
Assets at fair value through profit or loss	76	500		576
Lease receivables	7	-7		-
Financial assets measured at cost	-	76		76
Trade receivables	8,218	0	-42	8,176
Adjusted total ASSETS	9,834	0	-44	9,790
EQUITY AND LIABILITIES				
Retained earnings	9,084	0	-42	9,042
Non-controlling interests	266	0	-2	264
Adjusted total EQUITY AND LIABILITIES	9,350	0	-44	9,306

The prior-year figures were not adjusted. Deutsche Post DHL Group continues to exercise the option under IFRS 9 to apply the requirements of IAS 39 governing hedge accounting.

Effects of IFRS 15, Revenue from Contracts with Customers

The timing of revenue and cost recognition has changed to an insignificant extent for certain types of contracts in the PeP, Express and Global Forwarding, Freight segments due to IFRS 15, because this revenue is now recognised over time rather than at a point in time. The Group introduced IFRS 15 based upon the modified retrospective method. The prior-year figures were not adjusted. Contract assets of €45 million, liabilities for outstanding supplier invoices of €12 million and contract liabilities of €50 million were recognised for the first time as at 1 January 2018. The effects of the transition as at 1 January 2018 in the amount of €–13 million were recognised in retained earnings, taking deferred taxes into account. Assuming a steady business volume, the effects of the change in recognition of revenue and expenses at the beginning and at the end of a financial year will almost fully offset each other. In addition, the change in determining whether an entity acts as a principal (gross revenue) or an agent (net revenue) reduced revenue on the one hand and, in the main, the materials expense by around €0.2 billion on the other.

Effects of IFRS 16, Leases

In the context of the transition to IFRS 16, right-of-use assets of €9.1 billion and lease liabilities of €9.2 billion were recognised as at 1 January 2018. Of these lease liabilities, €1.6 billion was due within one year. The Group transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior-year figures were not adjusted. As part of the initial application of IFRS 16, the Group chooses to apply the relief option, which allows it to adjust the right-of-use asset by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application. In addition, the Group has decided not to apply the new guidance to leases whose term will end within twelve months of the date of initial application. In such cases, the leases are accounted for as short-term leases and the lease payments associated with them are recognised as an expense from short-term leases. The following reconciliation to the opening balance for the lease liabilities as at 1 January 2018 is based upon the operating lease obligations as at 31 December 2017:

Reconciliation

€ m	1 Jan. 2018
Operating lease obligations at 31 December 2017	11,298
Minimum lease payments (notional amount) on finance lease liabilities at 31 December 2017	237
Relief option for short-term leases	–225
Relief option for low value asset leases	–27
Lease-type obligations (service components)	2
Other	50
Gross lease liabilities at 1 January 2018	11,335
Discounting	–1,919
Lease liabilities at 1 January 2018	9,416
Present value of finance lease liabilities at 31 December 2017	–181
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2018	9,235

The lease liabilities were discounted at the incremental borrowing rate as at 1 January 2018. The weighted average discount rate was 3.8%. In order to calculate the incremental borrowing rate, reference interest rates were derived – for a period of up to 15 years – from the yields of corporate bonds in major countries and/or currencies, provided there was a deep market for corporate bonds. By contrast, government bond yields were used for countries without a deep market for corporate bonds. The reference interest rates were supplemented by a leasing risk premium.

Leases are presented as follows in the income statement:

Leases in the income statement

€ m	2018
Revenue/other operating income	
Operating lease income	49
Sublease income	37
Income from sale and leaseback transactions	46
Materials expense	
Expenses from short-term leases	664
Expenses from low-value asset leases	46
Expenses from variable lease payments	33
Other lease expenses (incidental expenses)	56
Depreciation and impairment losses	
Depreciation of and impairment losses on right-of-use assets	1,862
Impairment losses on right-of-use assets	10
Net finance costs	
Interest expenses on lease liabilities	376
Currency translation gains on lease liabilities	27
Currency translation losses on lease liabilities	56

Disclosures regarding right-of-use assets and lease liabilities and other disclosures can be found under the relevant balance sheet items,

📌 notes 23, 41, 43 and 44.

📌 Note 7 contains a detailed presentation of the changes in accounting policies due to IFRSs 9, 15 and 16.

5 New developments in international accounting under IFRSs

New accounting standards required to be applied in financial year 2018

In addition to the newly applied Standards listed in 📌 note 4, the following additional Standards, changes to Standards and Interpretations must be applied from 1 January 2018:

Standard	Subject matter and significance
Amendments to IFRS 4, Insurance Contracts – Applying IFRS 9, Financial Instruments, with IFRS 4, Insurance Contracts	The objective of the amendments to IFRS 4 is to minimise the accounting impact of different effective dates for IFRS 9 and the future new Standard on accounting for insurance contracts (IFRS 17). The amendments had no effect on the consolidated financial statements.
Annual Improvements to IFRSs (2014–2016 Cycle)	The improvements relate to IFRS 1 and IAS 28. The amendments had no effect on the consolidated financial statements.
Amendments to IFRS 2, Share-based Payment – Clarifications of Classification and Measurement of Share-based Payment Transactions	The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition. The measurement rules follow the same approach as when accounting for equity-settled awards. An exception was also included for the classification of share-based payment transactions with net settlement features for withholding tax obligations. Such commitments are required to be classified in their entirety as equity-settled share-based payment transactions if they would have been classified in this way in the absence of the net settlement feature. The amendments further include clarifications regarding modifications of the terms and conditions of share-based payment arrangements that change their classification from cash-settled to equity-settled. The amendments had no effect on the consolidated financial statements.
IFRIC 22, Foreign Currency Transactions and Advance Consideration	IFRIC 22 clarifies the date to be used to determine the exchange rate for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation had no effect on the consolidated financial statements.
Amendments to IAS 40, Investment Property – Change in Use	The Standard was amended to clarify transfers to and from investment property. Property may only be transferred when there is evidence of a change in use of the property. The consolidated financial statements were not be affected.

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

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

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
Amendments to IFRS 9, Financial Instruments: Prepayment Features with Negative Compensation (12 October 2017)	1 January 2019	The amendment clarifies how certain financial instruments with prepayment features are classified according to IFRS 9. It is not expected to have significant effects on the Group.
IFRIC 23, Uncertainty over Income Tax Treatments (7 June 2017)	1 January 2019	IFRIC 23 clarifies the requirements for measuring and recognising uncertain income tax items. The Interpretation must be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. The amendment will not have a material influence on the consolidated financial statements.
Amendments to IAS 28, Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures (12 October 2017)	1 January 2019	The amendments to IAS 28 clarify that IFRS 9 must be applied to long-term interests that, in substance, form part of the net investment in an associate or joint venture to which the equity method is applied. The amendments are not expected to have an effect on the Group.

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

The IASB and the IFRIC issued further Standards, amendments to Standards and Interpretations in financial year 2018 and in previous years whose application is not yet mandatory for financial year 2018. The application of these IFRSs is dependent on their adoption by the EU.

Standard (issue date)	Effective for financial years beginning on or after	Subject matter and significance
IFRS 17, Insurance Contracts (18 May 2017)	1 January 2021	IFRS 17 outlines the principles governing the recognition, measurement, presentation and disclosure of insurance contracts. The objective of the Standard is to ensure that the reporting entity provides relevant information that faithfully represents those insurance contracts. This information gives users of financial statements better insights into the effects that insurance contracts have on an entity's net assets, financial position, results of operations and cash flows. The effects on the Group are currently being assessed.
Annual Improvements to IFRSs (2015–2017 Cycle) (12 December 2017)	1 January 2019	The amendments relate to IFRS 3, Business Combinations, and IFRS 11, Joint Arrangements, as well as IAS 12, Income Taxes, and IAS 23, Borrowing Costs. They are not expected to have significant effects on the Group.
Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement (7 Febru- ary 2018)	1 January 2019	The amendments specify the basis for determining the current service cost and the net interest expense (or income) for the period between a defined benefit retirement plan amendment, curtailment or settlement, and the end of the reporting period. The effects on the Group depend on future business transactions and assumptions.
Amendments to IFRS 3, Business Combinations – Definition of a Business (22 October 2018)	1 January 2020	The amendments relate to the definition of a business and include clearer guidelines for distinguishing between a business and a group of assets when applying IFRS 3. According to the amendments, the future definition of a business includes having both economic resources and at least a substantial process which together are capable of generating output. Output is deemed to be only the provision of goods and services and the generation of capital and other income. Alternatively, there is an option to apply a concentration test to assess whether an acquired set of activities and assets is not a business. The effects on the Group are currently being assessed.
Amendments to References to the Conceptual Framework in IFRS Standards (29 March 2018)	1 January 2020	The IASB has published a revised Conceptual Framework for Financial Reporting that will be used to develop new Standards and Interpretations in the future. In particular, the definitions of assets and liabilities as well as the guidance on measurement and derecognition, presentation and disclosures were amended. This has not resulted in any technical amendments to current Standards to date. The amendments merely update the references to the Conceptual Framework in existing Standards. The Conceptual Framework itself is not the subject of the endorsement procedure.
Amendments to IAS 1 and IAS 8 – Definition of Material (31 October 2018)	1 January 2020	The amendments to IAS 1 and IAS 8 clarify the definition of "material". Besides additional explanations, the definition of "material" in the Conceptual Framework as well as all Standards was aligned with the central definition now anchored in IAS 1.

6 Currency translation

The financial statements of consolidated companies prepared in foreign currencies are translated into euros (€) in accordance with IAS 21 using the functional currency method. The functional currency of foreign companies is determined by the primary economic environment in which they mainly generate and use cash. Within the Group, the functional currency is predominantly the local currency. In the consolidated financial statements, assets and liabilities are therefore translated at the closing rates, whilst periodic income and expenses are generally translated at the monthly closing rates. The resulting currency translation differences are recognised in other comprehensive income. In financial year 2018, currency translation differences amounting to €76 million (previous year: €-751 million) were recognised in other comprehensive income, [Statement of comprehensive income](#).

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

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

Currency	Country	Closing rates		Average rates	
		2017 EUR 1 =	2018 EUR 1 =	2017 EUR 1 =	2018 EUR 1 =
AUD	Australia	1.5352	1.6224	1.4791	1.5834
CNY	China	7.8161	7.8741	7.6501	7.8133
GBP	United Kingdom	0.8880	0.8947	0.8763	0.8860
HKD	Hong Kong	9.3752	8.9680	8.8649	9.2413
INR	India	76.6308	79.8994	73.7957	80.6204
JPY	Japan	135.0382	125.8064	127.3132	129.9766
SEK	Sweden	9.8332	10.2418	9.6447	10.2955
USD	USA	1.1997	1.1451	1.1372	1.1790

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

In accordance with IAS 21, receivables and liabilities in the financial statements of consolidated companies that have been prepared in local currencies are translated at the closing rate as at the reporting date. Currency translation differences are recognised in other operating income and expenses in the income statement. In financial year 2018, income of €213 million (previous year: €174 million) and expenses of €207 million (previous year: €181 million) resulted from currency translation differences. In contrast, currency translation differences relating to net investments in a foreign operation are recognised in other comprehensive income.

7 Accounting policies

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

Revenue and expense recognition

Deutsche Post DHL Group's normal business operations consist of the provision of logistics services comprising letter and parcel dispatch, express delivery, freight transport, supply chain management and e-commerce solutions. All income relating to normal business operations is recognised as revenue in the income statement. All other income is reported as other operating income.

Until 31 December 2017, revenue and other operating income were generally recognised when services were rendered, the amount of revenue and income could be reliably measured and, in all probability, the economic benefits from the transactions would flow to the Group.

Since 1 January 2018, revenue has been recognised when control over the goods or services transfers to the customer, i.e., when the customer has the ability to control the use of the transferred goods or services provided and generally derive their remaining benefits. The requirement is that a contract with enforceable rights and obligations exists and, amongst other things, the receipt of consideration is likely, taking into account the customer's credit quality. The revenue corresponds to the transaction price to which the Group is expected to be entitled. Variable consideration is included in the transaction price when it is highly probable that a significant reversal in the amount of revenue recognised will not occur and as soon as the uncertainty associated with the variable consideration no longer exists. The Group does not expect to have contracts where the period between the transfer of the promised goods and/or services to the customer and payment by the customer exceeds one year. Accordingly, the promised consideration is not adjusted for the time value of money. For each performance obligation, revenue is either recognised at a certain time or over a certain period of time. Revenue from the provision of transport services is generally recognised according to the straight-line method over a specified period. The revenue generated by providing other logistics services is recognised in the reporting period in which the service was rendered.

Operating expenses are recognised in income when the service is utilised or when the expenses are incurred.

Intangible assets

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

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

Intangible assets (excluding goodwill) are amortised using the straight-line method over their useful lives. Impairment losses are recognised in accordance with the principles described in the section headed Impairment. The useful lives of significant intangible assets are as follows:

Useful lives

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

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

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

Property, plant and equipment

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

Useful lives

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

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

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

Impairment

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

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

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

Leases

A lease is a contract in which the right to use an asset (the leased asset) is granted for an agreed-upon period in return for compensation.

Until 31 December 2017, a lease was defined as 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 was attributed to the lessee if the lessee substantially bore all risks and rewards incidental to ownership of the leased asset. To the extent that beneficial ownership was attributable to the Group as the lessee, the asset was capitalised at the date on which use started, either at fair value or at the present value of the minimum lease payments if this was less than the fair value. A lease liability in the same amount was recognised under non-current liabilities. The lease was subsequently measured at amortised cost using the effective interest method. The depreciation methods and estimated useful lives corresponded to those of comparable purchased assets.

Since 1 January 2018, the Group as lessee has recognised at present value assets for the right of use received and liabilities for the payment obligations entered into for all leases in the balance sheet. Lease liabilities include the following lease payments:

- fixed payments, less lease incentives offered by the lessor;
- variable payments linked to an index or interest rate;
- expected residual payments from residual value guarantees;
- the exercise price of call options when exercise is estimated to be sufficiently likely and
- contractual penalties for the termination of a lease if the lease term reflects the exercise of a termination option.

Lease payments are discounted at the implicit interest rate underlying the lease to the extent that this can be determined. Otherwise, discounting is at the incremental borrowing rate.

Right-of-use assets are measured at cost, which comprises the following:

- lease liability;
- lease payments made at or prior to delivery, less lease incentives received;
- initial direct costs and
- restoration obligations.

Right-of-use assets are subsequently measured at amortised cost. They are depreciated over the term of the lease using the straight-line method.

The Group will make use of the relief options provided for leases of low-value assets and short-term leases (shorter than twelve months) and expense the payments in the income statement according to the straight-line method. Furthermore, the new rules are not applied to leases on intangible assets. The Group also exercises the option available for contracts comprising lease components as well as non-lease components not to split these components, except in the case of real estate and aircraft leases. In addition, intra-group leases – in line with internal management – generally are and will continue to be presented according to IFRS 8 in segment reporting as operating leases in accordance with IAS 17.

Extension and termination options exist for a number of leases, particularly for real estate. Such contract terms offer the Group the greatest possible flexibility in doing business. In determining lease terms, all facts and circumstances offering economic incentives for exercising extension options or not exercising termination options are taken into account. Changes due to the exercise or non-exercise of such options are considered in determining the lease term only if they are sufficiently probable.

For operating leases, the Group reports the leased asset at amortised cost as an asset under property, plant and equipment where it is the lessor. The lease payments received in the period are shown under other operating income.

Where the Group is the lessor in a finance lease, it recognises the assets as lease receivables in the amount of the net investment in the balance sheet.

Investments accounted for using the equity method

Investments accounted for using the equity method cover associates and joint ventures. These are recognised using the equity method in accordance with IAS 28, Investments in Associates and Joint Ventures. Based on the cost of acquisition at the time of purchase of the investments, the carrying amount of the investment is increased or reduced annually to reflect the share of earnings, dividends distributed and other changes in the equity of the associates and joint ventures attributable to the investments of Deutsche Post AG or its consolidated subsidiaries. An impairment loss is recognised on investments accounted

for using the equity method, including the goodwill in the carrying amount of the investment, if the recoverable amount falls below the carrying amount. Gains and losses from the disposal of investments accounted for using the equity method, as well as impairment losses and their reversals, are recognised in other operating income or other operating expenses.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include in particular cash and cash equivalents, trade receivables, originated loans and receivables, and derivative financial assets. 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 leases, and derivative financial liabilities.

Measurement

Until 31 December 2017, the fair value option according to IAS 39 allowed financial assets or financial liabilities to be measured irrevocably at fair value through profit or loss on initial recognition if this eliminated or significantly reduced a measurement or recognition inconsistency (accounting mismatch). The Group made use of the option in order to avoid accounting mismatches.

As of 1 January 2018, the Group measures financial assets at fair value plus the transaction costs directly attributable to the acquisition of these assets on initial recognition if they are not subsequently measured at fair value through profit or loss. The transaction costs of assets measured at fair value through profit or loss are recognised as expenses. For financial liabilities measured according to the fair value option, the part of the change in fair value resulting from changes in the Group's own credit risk is recognised in other comprehensive income rather than in the income statement.

Classification

Until 31 December 2017, financial assets were accounted for in accordance with the provisions of IAS 39, which distinguished between four categories of financial instruments:

AVAILABLE-FOR-SALE FINANCIAL ASSETS

These financial instruments were non-derivative financial assets and were carried at their fair value, where this could be measured reliably. If a fair value could not be determined, they were carried at cost. Changes in fair value between reporting dates were generally recognised in other comprehensive income (revaluation reserve). The reserve was reversed to income either upon disposal or if the fair value fell below cost more than temporarily, i.e., the drop was significant or

prolonged. If, at a subsequent reporting date, the fair value of a debt instrument had increased objectively as a result of events occurring after the impairment loss was recognised, the impairment loss was reversed in the appropriate amount. Impairment losses recognised on equity instruments were not permitted to be reversed to income. If equity instruments were recognised at fair value, any reversals were required to be recognised in other comprehensive income. No reversals were permitted in the case of equity instruments that were recognised at cost. Available-for-sale financial instruments were allocated to non-current assets unless the intention was to dispose of them within twelve months of the reporting date. In particular, investments in unconsolidated subsidiaries, marketable securities and other equity investments were reported in this category.

HELD-TO-MATURITY FINANCIAL ASSETS

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

LOANS AND RECEIVABLES

These were non-derivative financial assets with fixed or determinable payments that were not quoted on an active market. Unless held for trading, they were recognised at cost or amortised cost at the reporting date. The carrying amounts of money market receivables corresponded approximately to their fair values due to their short maturity. Loans and receivables were considered current assets if they matured not more than twelve months after the reporting date; otherwise, they were recognised as non-current assets. If the recoverability of receivables was in doubt, they were recognised at amortised cost, less appropriate specific or aggregate specific valuation allowances. An impairment loss was recognised on trade receivables when there were objective indications that the amount of the outstanding receivable could not be collected in full. The impairment loss was recognised in the income statement via a valuation account.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

Since 1 January 2018, financial assets have been classified in the following measurement categories:

- debt instruments at amortised cost;
- debt instruments at fair value through other comprehensive income (FVOCI), with cumulative gains and losses on derecognition of the financial asset reclassified to profit or loss;
- debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL);
- equity instruments classified as FVOCI, with gains and losses on the sale of the financial assets reclassified from other comprehensive income to retained earnings (no recycling).

The classification of debt instruments depends on the business model of the Group for managing the financial assets and on the contractual cash flows.

As a rule, debt instruments are recognised by the Group at amortised cost. Interest income from these financial assets is reported in financial income according to the effective interest method. In the case of equity instruments, the Group decides irrevocably at initial recognition, whether they will be measured at fair value through other comprehensive income or at fair value through profit or loss. Most of the equity instruments that the Group invests in for strategic reasons are assigned to the FVOCI measurement category. The effects of a change in the fair value of these equity instruments must be recognised in other comprehensive income. On derecognition, these effects are not reclassified to profit or loss. Dividends from such instruments continue to be reported in other income in the income statement.

Impairment

Until 31 December 2017, the carrying amounts of financial assets not carried at fair value through profit or loss were tested for impairment at each reporting date and whenever there were indications of impairment. The amount of any impairment loss was determined by comparing the carrying amount and the fair value. If there were objective indications of impairment, an impairment loss was recognised in other operating expenses or net financial income/net finance costs in the income statement. Impairment losses were reversed if there were objective reasons arising after the reporting date indicating that the reasons for impairment no longer existed. The increased carrying amount resulting from the reversal of the impairment loss was not permitted to exceed the carrying amount that would have been determined (net of amortisation or depreciation) if the impairment loss had not been recognised. Impairment losses were recognised within the Group if the debtor was experiencing significant financial difficulties; it was highly probable that the debtor would be the subject of bankruptcy proceedings; there were material changes in the issuer's technological, economic, legal or market environment; or the fair value of a financial instrument fell below its amortised cost for a prolonged period.

As at 1 January 2018, the Group began making a forward-looking assessment of the expected credit losses associated with its debt instruments. The applicable impairment method depends on whether there is a significant increase in credit risk.

The Group applies the simplified impairment model to report the credit losses expected over the term of trade receivables and contract assets. Further details are presented in [note 44](#).

Derivatives and hedges

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

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

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

Net investment hedges in foreign entities are treated in the same way as cash flow hedges. The gain or loss from the effective portion of the hedge is recognised in other comprehensive income, whilst the gain or loss attributable to the ineffective portion is recognised directly in income. The gains or losses recognised in other comprehensive income remain there until the disposal or partial disposal of the net investment. Detailed information on hedging transactions can be found in [note 44](#).

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised at the settlement date, with the exception of derivatives in particular. A financial asset is derecognised when the rights to receive the cash flows from the asset have expired or have been transferred, and the Group has transferred essentially all risks and opportunities of ownership.

Financial liabilities are derecognised if the payment obligations arising from them have expired.

Investment property

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

Inventories

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

Government grants

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

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

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

Cash and cash equivalents

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

Non-controlling interests

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

Share-based payments to executives

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

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

Retirement plans

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

THE GROUP'S DEFINED BENEFIT RETIREMENT PLANS

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

DEFINED CONTRIBUTION RETIREMENT PLANS FOR CIVIL SERVANT EMPLOYEES IN GERMANY

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

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

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

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

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

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

Regarding these multi-employer plans in the USA, contributions are made based on collective agreements between the employer and the local union, with the involvement of the pension fund. There is no employer liability to any of the plans beyond the bargained contribution rates except in the event of a withdrawal meeting specified criteria. Such a withdrawal could involve liability for other entities' obligations as governed by US federal law. The expected employer contributions to the funds for 2019 are €50 million (actual employer contributions in the reporting period: €47 million, in the previous year: €41 million). Some of the plans in which Deutsche Post DHL Group participates are underfunded according to information provided by the funds. No information is available to the Group that would indicate any change from the contribution rates set by current collective agreements. Deutsche Post DHL Group does not represent a significant level to any fund in terms of contributions, with the exception of one fund where the Group represents the largest employer in terms of contributions.

For a multi-employer plan in the Netherlands, cost coverage-based contribution rates are set annually by the board of the pension fund with the involvement of the Central Bank of the Netherlands; the contribution rates are the same for all participating employers and employees. There is no liability for the employer towards the fund beyond the contributions set, even in the case of withdrawal or obligations not met by other entities. Any subsequent underfunding ultimately results in the rights of members being cut and/or no indexation of their rights. The expected employer contributions to the fund for 2019 are €23 million (actual employer contributions in the reporting period: €22 million, in the previous year: €21 million). As at 31 December 2018, the coverage degree of plan funding was above 100%, but below a required minimum of approximately 105%, according to information provided by the fund. Deutsche Post DHL Group does not represent a significant portion of the fund in terms of contributions.

Other provisions

Other provisions are recognised for all legal or constructive obligations to third parties existing at the reporting date that have arisen as a result of past events, that are expected to result in an outflow of future economic benefits and whose amount can be measured reliably. They represent uncertain obligations that are carried at the best estimate of the expenditure required to settle the obligation. Provisions with more than one year to maturity are discounted at market rates of interest that reflect the region and time to settlement of the obligation. The discount rates used in the financial year were between 0.0% and 11.50% (previous year: 0.0% and 9.50%). The effects arising from changes in interest rates are recognised in net financial income/net finance cost.

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

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

Financial liabilities

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

Disclosures on financial liabilities under leases can be found in the section headed Leases.

CONVERTIBLE BONDS ON DEUTSCHE POST AG SHARES

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

Liabilities

Trade payables and other liabilities are carried at amortised cost. Most of the trade payables have a maturity of less than one year. The fair value of the liabilities corresponds more or less to their carrying amount.

Deferred taxes

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

In compliance with IAS 12.24 (b) and IAS 12.15 (b), deferred tax assets or liabilities were only recognised for temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG where the differences arose after 1 January 1995. No deferred tax assets or liabilities are recognised for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG as at 1 January 1995. Further details on deferred taxes on tax loss carryforwards can be found in [note 28](#).

In accordance with IAS 12, deferred tax assets and liabilities are calculated using the tax rates applicable in the individual countries at the reporting date or announced for the time when the deferred tax assets and liabilities are realised. The tax rate applied to German Group companies was increased by 0.3 % to 30.5 % on the basis of a better estimate with regard to trade tax in the reporting period. It comprises the corporation tax rate plus the solidarity surcharge, as well as a municipal trade tax rate that is calculated as the average of the different municipal trade tax rates. Foreign Group companies use their individual income tax rates to calculate deferred tax items. The income tax rates applied for foreign companies amount to up to 39% (previous year: 40%).

Income taxes

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

Contingent liabilities

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the enterprise. Contingent liabilities also include certain obligations that will probably not lead to an outflow of resources embodying economic benefits, or where the amount of the outflow of resources embodying economic benefits cannot be measured with sufficient reliability. In accordance with IAS 37, contingent liabilities are not recognised as liabilities, [note 45](#).

8 Exercise of judgement in applying the accounting policies

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

Estimates and assessments made by management

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

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

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

Goodwill is regularly reported in the Group's balance sheet as a consequence of business combinations. When an acquisition is initially recognised in the consolidated financial statements, all identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. One of the important estimates this requires is the determination of the fair values of these assets and liabilities at the date of acquisition. Land, buildings and office equipment are generally valued by independent experts, whilst securities for which there is an active market are recognised at the quoted exchange price. If intangible assets are identified in the course of an acquisition, their measurement can be based on the opinion of an independent external expert valuer, depending on the type of intangible asset and

the complexity involved in determining its fair value. The independent expert determines the fair value using appropriate valuation techniques, normally based on expected future cash flows. In addition to the assumptions about the development of future cash flows, these valuations are also significantly affected by the discount rates used.

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

Pending legal proceedings in which the Group is involved are disclosed in [note 46](#). The outcome of these proceedings could have a significant effect on the net assets, financial position and results of operations of the Group. Management regularly analyses the information currently available about these proceedings and recognises provisions for probable obligations including estimated legal costs. Internal and external legal advisers participate in making this assessment. In deciding on the necessity for a provision, management takes into account the probability of an unfavourable outcome and whether the amount of the obligation can be estimated with sufficient reliability. The fact that an action has been launched or a claim asserted against the Group, or that a legal dispute has been disclosed in the notes, does not necessarily mean that a provision is recognised for the associated risk.

All assumptions and estimates are based on the circumstances prevailing and assessments made at the reporting date. For the purpose of estimating the future development of the business, a realistic assessment was also made at that date of the economic environment likely to apply in the future to the different sectors and regions in which the Group operates. Brexit could affect the Group's net assets, financial position and results of operations, for example, [Group Management Report, Opportunities and risks, page 69 f.](#) In the event of developments in this general environment that diverge from the assumptions made, the actual amounts may differ from the estimated amounts. In such cases, the assumptions made and, where necessary, the carrying amounts of the relevant assets and liabilities are adjusted accordingly.

At the date of preparation of the consolidated financial statements, there is no indication that any significant change in the assumptions and estimates made will be required, so that on the basis of the information currently available it is not expected that there will be significant adjustments in financial year 2019 to the carrying amounts of the assets and liabilities recognised in the financial statements.

9 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and the subsidiaries, joint operations and investments accounted for using the equity method included in the consolidated financial statements and prepared in accordance with uniform accounting policies as at 31 December 2018.

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

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

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

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

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

Segment reporting

10 Segment reporting

Segments by division

€ m	PeP ¹		Express		Global Forwarding, Freight		Supply Chain		Corporate Functions ¹		Consolidation ^{1,2}		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
1 Jan. to 31 Dec.	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
External revenue	18,009	18,344	14,693	15,775	13,689	14,063	13,958	13,201	95	167	0	0	60,444	61,550
Internal revenue	152	132	356	372	793	915	194	149	1,292	1,457	-2,787	-3,025	0	0
Total revenue	18,161	18,476	15,049	16,147	14,482	14,978	14,152	13,350	1,387	1,624	-2,787	-3,025	60,444	61,550
Profit/loss from operating activities (EBIT)	1,503	656	1,736	1,957	297	442	555	520	-350	-414	0	1	3,741	3,162
of which net income/loss from investments accounted for using the equity method	1	-3	-1	-1	0	1	2	1	0	0	0	0	2	-2
Segment assets ³	6,571	7,326	10,203	13,766	7,664	8,728	5,564	8,248	1,732	4,935	-73	-95	31,661	42,908
of which investments accounted for using the equity method	27	30	33	33	22	24	3	12	0	21	0	-1	85	119
Segment liabilities	3,034	2,899	3,604	3,635	3,046	3,105	3,037	3,229	1,556	1,520	-57	-74	14,220	14,314
Net segment assets/liabilities ³	3,537	4,427	6,599	10,131	4,618	5,623	2,527	5,019	176	3,415	-16	-21	17,441	28,594
Capex (assets acquired)	618	786	1,047	1,190	69	110	277	282	241	290	16	-10	2,268	2,648
Capex (right-of-use assets) ^{3,4}	4	176	2	739	1	158	0	805	2	518	0	1	9	2,397
Total capex ³	622	962	1,049	1,929	70	268	277	1,087	243	808	16	-9	2,277	5,045
Depreciation and amortisation ³	353	444	507	1,151	68	238	311	821	203	623	1	-1	1,443	3,276
Impairment losses	0	10	18	1	2	0	8	5	0	0	0	0	28	16
Total depreciation, amortisation and impairment losses ³	353	454	525	1,152	70	238	319	826	203	623	1	-1	1,471	3,292
Other non-cash income (-) and expenses (+)	317	556	304	273	54	66	178	204	71	74	1	-7	925	1,166
Employees ⁵	179,345	188,525	86,313	93,550	42,646	43,347	149,042	151,877	11,378	12,272	0	0	468,724	489,571

¹ Prior-period amounts adjusted.

² Including rounding.

³ Not comparable with prior year due to initial application of IFRS 16 in financial year 2018.

⁴ Prior-year figure includes investments in finance lease assets.

⁵ Average FTEs.

Adjustment of prior-period amounts

In the second quarter of 2018, StreetScooter GmbH was transferred from the PeP segment to the new Corporate Incubations board department within Corporate Functions. The prior-period amounts were adjusted accordingly.

Information about geographical regions

	Germany		Europe (excluding Germany)		Americas		Asia Pacific		Other regions		Group	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
1 Jan. to 31 Dec.												
External revenue	18,405	18,759	18,139	18,464	10,768	11,163	10,766	10,766	2,366	2,398	60,444	61,550
Non-current assets ¹	5,610	9,229	7,328	10,065	4,076	6,740	3,303	4,563	356	524	20,673	31,121
Capex ¹	964	1,658	614	1,333	487	1,333	165	594	47	127	2,277	5,045

¹ Not comparable with prior year due to the initial application of IFRS 16 in financial year 2018.

10.1 Segment reporting disclosures

Deutsche Post DHL Group reports four operating segments for financial year 2018; these are managed independently by the responsible segment management bodies in line with the products and services offered and the brands, distribution channels and customer profiles involved. Components of the entity are defined as a segment on the basis of the existence of segment managers with bottom-line responsibility who report directly to Deutsche Post DHL Group's top management.

External revenue is the revenue generated by the divisions from non-Group third parties. Internal revenue is revenue generated with other divisions. If comparable external market prices exist for services or products offered internally within the Group, these market prices or market-oriented prices are used as transfer prices (arm's length principle). The transfer prices for services for which no external market exists are generally based on incremental costs.

The expenses for services provided in the IT service centres are allocated to the divisions by their origin. The additional costs resulting from Deutsche Post AG's universal postal service obligation (nation-wide retail outlet network, delivery every working day), and from its obligation to assume the compensation structure as the legal successor to Deutsche Bundespost, are allocated to the PeP division.

As part of the central management of currency risk, Corporate Treasury is responsible for deciding on the central absorption of fluctuations between projected and actual exchange rates on the basis of division-specific agreements.

In keeping with internal reporting, capital expenditure (capex) is disclosed. Additions to intangible assets net of goodwill and to property, plant and equipment, including right-of-use assets, are reported in the capex figure. Depreciation, amortisation and impairment losses relate

to the segment assets allocated to the individual divisions. Other non-cash income and expenses relate primarily to expenses from the recognition of provisions.

The profitability of the Group's operating divisions is measured as profit from operating activities (EBIT).

10.2 Segments by division

Reflecting the Group's predominant organisational structure, the primary reporting format is based on the divisions. The Group distinguishes between the following divisions:

Post - eCommerce - Parcel

The Post - eCommerce - Parcel (PeP) division handles both domestic and international mail and is a specialist in dialogue marketing, nationwide press distribution services and all the electronic services associated with mail delivery. The division offers parcel and e-commerce services not only in Germany, but worldwide. It is divided into two business units: Post, and eCommerce - Parcel.

Express

The Express division offers time-definite courier and express services to business and private customers. The division comprises the Europe, Americas, Asia Pacific and MEA (Middle East and Africa) regions.

Global Forwarding, Freight

The activities of the Global Forwarding, Freight division comprise the transport of goods by road, air and sea. The division's business units are Global Forwarding and Freight.

Supply Chain

The Supply Chain division delivers customised supply chain solutions to its customers based on globally standardised modular components including warehousing, transport and value-added services.

In addition to the reportable segments given above, segment reporting comprises the following categories:

Corporate Functions

Corporate Functions comprises Corporate Center /Other and Corporate Incubations. Corporate Center /Other includes Global Business Services (GBS), the Corporate Center, non-operating activities and other business activities. The profit/loss generated by GBS is allocated to the operating segments, whilst its assets and liabilities remain with GBS (asymmetrical allocation). The Corporate Incubations board department

was created in financial year 2018 and functions as an incubator for mobility solutions, digital platforms, automation and other technological innovations.

Consolidation

The data for the divisions are presented following consolidation of interdivisional transactions. The transactions between the divisions are eliminated in the Consolidation column.

10.3 Information about geographical regions

The main geographical regions in which the Group is active are Germany, Europe, the Americas, Asia Pacific and Other regions. External revenue, non-current assets and capex are disclosed for these regions. Revenue, assets and capex are allocated to the individual regions on the basis of the domicile of the reporting entity. Non-current assets primarily comprise intangible assets, property, plant and equipment and other non-current assets.

10.4 Reconciliation of segment amounts

Reconciliation of segment amounts to consolidated amounts

Reconciliation to the income statement

€ m	Total for reportable segments ¹		Corporate Functions ¹		Reconciliation to Group/ Consolidation ^{1,2}		Consolidated amount	
	2017	2018	2017	2018	2017	2018	2017	2018
External revenue	60,349	61,383	95	167	0	0	60,444	61,550
Internal revenue	1,495	1,568	1,292	1,457	-2,787	-3,025	0	0
Total revenue	61,844	62,951	1,387	1,624	-2,787	-3,025	60,444	61,550
Other operating income	1,731	1,941	1,554	1,553	-1,314	-1,580	1,971	1,914
Changes in inventories and work performed and capitalised	-31	-175	70	70	129	192	168	87
Materials expense	-34,102	-33,455	-1,582	-1,336	2,909	3,118	-32,775	-31,673
Staff costs	-19,158	-19,849	-928	-986	14	10	-20,072	-20,825
Depreciation, amortisation and impairment losses	-1,267	-2,670	-203	-623	-1	1	-1,471	-3,292
Other operating expenses	-4,928	-5,166	-648	-716	1,050	1,285	-4,526	-4,597
Net income from investments accounted for using the equity method	2	-2	0	0	0	0	2	-2
Profit/loss from operating activities (EBIT)	4,091	3,575	-350	-414	0	1	3,741	3,162
Net finance costs							-411	-576
Profit before income taxes							3,330	2,586
Income taxes							-477	-362
Consolidated net profit for the period							2,853	2,224
of which attributable to								
Deutsche Post AG shareholders							2,713	2,075
Non-controlling interests							140	149

¹ Prior-period amounts adjusted.

² Including rounding.

The following table shows the reconciliation of Deutsche Post DHL Group's total assets to the segment assets. Financial assets, income tax assets, deferred taxes, cash and cash equivalents and other asset components are deducted.

Reconciliation to segment assets

€ m	2017	2018
Total equity and liabilities	38,672	50,470
Investment property	-21	-18
Non-current financial assets	-543	-582
Other non-current assets	-153	-260
Deferred tax assets	-2,272	-2,532
Income tax assets	-236	-210
Receivables and other current assets	-14	-13
Current financial assets	-637	-930
Cash and cash equivalents	-3,135	-3,017
Segment assets	31,661	42,908
of which Corporate Functions ¹	1,732	4,935
Total for reportable segments ¹	30,002	38,068
Consolidation ^{1,2}	-73	-95

¹ Prior-period amounts adjusted.

² Including rounding.

The following table shows the reconciliation of Deutsche Post DHL Group's total liabilities to the segment liabilities. Components of the provisions and liabilities as well as income tax liabilities and deferred taxes are deducted.

Reconciliation to segment liabilities

€ m	2017	2018
Total equity and liabilities	38,672	50,470
Equity	-12,903	-13,873
Consolidated liabilities	25,769	36,597
Non-current provisions	-4,836	-5,017
Non-current liabilities	-5,177	-13,892
Current provisions	-75	-193
Current liabilities	-1,461	-3,181
Segment liabilities	14,220	14,314
of which Corporate Functions ¹	1,556	1,520
Total for reportable segments ¹	12,721	12,868
Consolidation ^{1,2}	-57	-74

¹ Prior-period amounts adjusted.

² Including rounding.

Income statement disclosures

11 Revenue by business unit

€ m	2017	2018
PeP¹	18,009	18,344
Post	9,587	9,318
eCommerce - Parcel	8,336	8,937
Other	86	89
Express	14,693	15,775
Global Forwarding, Freight	13,689	14,063
Global Forwarding	10,080	10,430
Freight	3,609	3,633
Supply Chain	13,958	13,201
Corporate Functions¹	95	167
Total revenue	60,444	61,550

¹ Prior-period amounts adjusted.

Revenue includes performance obligations in the amount of €13 million settled in prior periods. The contract liabilities included in the opening balance as at 1 January 2018 resulted in revenue for 2018.

The change in revenue was due to the following factors:

Factors affecting revenue increase, 2018

€ m	
Organic growth	3,613
Changes in portfolio ¹	-1,041
Currency translation effects	-1,466
Total	1,106

¹  Note 2.

As in the prior-year period, there was no revenue in financial year 2018 that was generated on the basis of barter transactions.

The allocation of revenue to geographical regions is presented in the segment reporting.

12 Other operating income

€ m	2017	2018
Insurance income	208	219
Income from currency translation	174	213
Income from the reversal of provisions	214	200
Income from the remeasurement of liabilities	120	134
Income from fees and reimbursements	134	127
Reversals of impairment losses on receivables and other assets	94	125
Income from the disposal of assets	193	101
Commission income	126	99
Income from derivatives	80	62
Income from prior-period billings	60	54
Operating lease income	67	49
Sublease income	31	37
Income from loss compensation	23	27
Recoveries on receivables previously written off	11	17
Subsidies	15	16
Income from the derecognition of liabilities	19	15
Miscellaneous	402	419
Total	1,971	1,914

For reasons of transparency, changes in inventories and work performed and capitalised were transferred out of other operating income, where they had previously been recognised and presented in a separate income statement item, [note 13](#).

Other operating income declined year-on-year, in particular, due to lower gains on the disposal of assets. Subsidies relate to grants for the purchase or production of assets. The grants are reported as deferred income and recognised in the income statement over the useful lives of the assets.

Miscellaneous other operating income includes a large number of smaller individual items.

13 Changes in inventories and work performed and capitalised

€ m	2017	2018
Changes in inventories – income (+)/expense (-)	-65	-222
Work performed and capitalised	233	309
Total	168	87

For reasons of transparency, changes in inventories and work performed and capitalised were transferred out of other operating income where they had previously been recognised and presented in a separate income statement item, [note 12](#).

The changes in inventories relate primarily to property development projects. The increase in work performed and capitalised is largely attributable to the expanded production of electric vehicles by StreetScooter GmbH for Group companies.

14 Materials expense

€ m	2017	2018
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Aircraft fuel	1,102	1,478
Fuel	740	797
Packaging material	427	435
Goods purchased and held for resale	435	241
Spare parts and repair materials	117	113
Office supplies	66	71
Other expenses	252	379
	3,139	3,514
Cost of purchased services		
Transport costs	20,381	21,462
Cost of temporary staff and services	2,556	2,347
Maintenance costs	1,207	1,277
Lease expenses		
Non-cancellable leases	2,226	-
Cancellable leases	487	-
Rental agreements (incidental expenses)	347	-
Short-term leases	-	664
Leases (incidental expenses)	-	56
Low-value asset leases	-	46
Variable lease payments	-	33
Other	-	0
IT services	579	604
Commissions paid	574	590
Other purchased services	1,279	1,080
	29,636	28,159
Materials expense	32,775	31,673

The reduction in materials expense was a result, on the one hand, of positive exchange rate effects, and on the other hand, of the initial application of IFRS 16. The former operating lease payments, to the extent that they did not relate to payments under short-term or low-value asset leases or variable lease payments and incidental expenses, were replaced by depreciation and impairment losses as well as interest expenses. In contrast, transport costs increased for reasons including higher crude oil prices.

€257 million of the other expenses included in the cost of raw materials, consumables and supplies, and of goods purchased and held for resale, relates to the production of electric vehicles by StreetScooter GmbH.

The other expenses item includes a large number of individual items.

15 Staff costs/employees

€ m	2017	2018
Wages, salaries and compensation	16,192	16,840
Social security contributions	2,419	2,522
Retirement benefit expenses	891	846
Expenses for other employee benefits	570	617
Staff costs	20,072	20,825

Staff costs relate mainly to wages, salaries and compensation, as well as all other benefits paid to employees of the Group for their services in the financial year. The rise was largely due to salary increases and new hires as well as expenses for the early retirement programme in the Post - eCommerce - Parcel division.

Social security contributions relate, in particular, to statutory social security contributions paid by employers.

Retirement benefit expenses include the service cost related to the defined benefit retirement plans. These expenses also include contributions to defined contribution retirement plans for civil servant employees in Germany in the amount of €449 million (previous year: €461 million), as well as for the Group's hourly workers and salaried employees, totalling €307 million (previous year: €300 million), **note 7**. For the changes in retirement benefit expenses, see **note 39** in particular.

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

Employees

Headcount	2017	2018
Headcount (annual average)		
Hourly workers and salaried employees	477,251	499,943
Civil servants	30,468	28,718
Trainees	5,619	5,709
Total	513,338	534,370
Full-time equivalents		
As at 31 December ¹	472,208	499,018
Average for the year ²	468,724	489,571

¹ Excluding trainees.

² Including trainees.

The employees of companies acquired or disposed of during the financial year were included rateably. The number of full-time equivalents at joint operations included in the consolidated financial statements as at 31 December 2018 amounted to 276 on a proportionate basis (previous year: 254.)

16 Depreciation, amortisation and impairment losses

€ m	2017	2018
Amortisation of and impairment losses on intangible assets, excluding impairment of goodwill	287	195
Depreciation of and impairment losses on property, plant and equipment acquired		
Land and buildings	168	182
Technical equipment and machinery	314	319
Transport equipment	207	234
Aircraft	247	266
IT equipment	138	138
Operating and office equipment	85	86
Advance payments and assets under development	0	1
	1,159	1,226
Depreciation of and impairment losses on right-of-use assets ¹		
Land and buildings	14	1,325
Technical equipment and machinery	0	45
Transport equipment	1	195
Aircraft	0	304
IT equipment	8	1
Operating and office equipment	0	0
Advance payments and assets under development	0	0
	23	1,870
Depreciation of and impairment losses on investment property	2	1
Impairment of goodwill	0	0
Depreciation, amortisation and impairment losses	1,471	3,292

¹ Recognised as depreciation of and impairment losses on finance lease assets in the previous year.

The overall increase in depreciation, amortisation and impairment losses was mainly the result of the initial application of IFRS 16. The decrease in amortisation of and impairment losses on intangible assets is attributable to the reduction in the previous year of the useful lives of customer relationships in the Supply Chain segment and the disposal of the Williams Lea Tag Group.

The depreciation, amortisation and impairment losses item includes impairment losses totalling €16 million as follows at segment level:

Impairment

€ m	2017	2018
Post - eCommerce - Parcel		
Intangible assets	0	2
Property, plant and equipment acquired	0	2
Right-of-use assets	0	6
Express		
Property, plant and equipment acquired	18	1
Global Forwarding, Freight		
Investment property	2	0
Supply Chain		
Intangible assets	1	0
Property, plant and equipment acquired	7	1
Right-of-use assets	0	4
Impairment losses	28	16

Of the impairment losses, €10 million is attributable to the most recent measurement of the assets and liabilities of All you need GmbH before their reclassification as assets held for sale and liabilities associated with assets held for sale. In the previous year, the majority of the impairment losses (€18 million) related to aircraft for sale in the Express segment, for which a final impairment loss was recognised, writing the aircraft off in full, prior to their reclassification as assets held for sale.

17 Other operating expenses

€ m	2017	2018
Cost of purchased cleaning and security services	378	411
Expenses for advertising and public relations	437	374
Travel and training costs	341	348
Warranty expenses, refunds and compensation payments	305	346
Insurance costs	328	326
Other business taxes	279	263
Write-downs of current assets	211	239
Telecommunication costs	228	213
Currency translation expenses	181	207
Entertainment and corporate hospitality expenses	182	185
Office supplies	180	183
Services provided by the <i>Bundesanstalt für Post und Telekommunikation</i> (German federal post and telecommunications agency)	145	182
Customs clearance-related charges	163	134
Consulting costs (including tax advice)	144	132
Contributions and fees	106	106
Voluntary social benefits	91	103
Losses on disposal of assets	64	72
Legal costs	58	67
Monetary transaction costs	57	62
Commissions paid	65	56
Audit costs	37	34
Expenses from prior-period billings	19	30
Expenses from derivatives	62	29
Donations	22	22
Miscellaneous	443	473
Other operating expenses	4,526	4,597

Other operating expenses include €49 million attributable to negative effects from customer contracts in the Supply Chain division.

Taxes other than income taxes are either recognised in the related expense item or, if no specific allocation is possible, in other operating expenses.

Miscellaneous other operating expenses include a large number of smaller individual items.

18 Net finance costs

€ m	2017	2018
Financial income		
Interest income	55	64
Gains on changes in fair value of financial assets	–	29
Income from other equity investments and financial assets	1	–
Reversals of impairment losses on financial instruments	29	34
Other financial income	4	74
	89	201
Finance costs		
Interest expense from the unwinding of discounts on provisions	–130	–98
Interest expense on leases	–	–376
Other interest expenses	–152	–155
Losses on changes in fair value of financial assets	–	–39
Impairment losses on financial instruments	–113	–50
Other finance costs	–87	–32
	–482	–750
Foreign currency losses	–18	–27
Net finance costs	–411	–576

The deterioration in net finance costs is due mainly to interest expense on leases, an item recognised for the first time in financial year 2018 due to the initial application of IFRS 16. By contrast, financial income improved due to the changes in value of stock appreciation rights (SARs) as a result of fluctuations in the share price.

The expense from the unwinding of discounts on bonds resulting from the application of the effective interest method amounted to €12 million.

Interest income and interest expenses result from financial assets and liabilities that were not measured at fair value through profit or loss.

Information on the unwinding of discounted net pension provisions can be found in [note 39](#).

19 Income taxes

€ m	2017	2018
Current income tax expense	–727	–697
Current recoverable income tax	36	14
	–691	–683
Deferred tax income (previous year: expense) from temporary differences	–231	127
Deferred tax income from tax loss carryforwards	445	194
	214	321
Income taxes	–477	–362

The reconciliation to the effective income tax expense is shown below, based on consolidated net profit before income taxes and the expected income tax expense:

Reconciliation

€ m	2017	2018
Profit before income taxes	3,330	2,586
Expected income taxes	–1,006	–789
Deferred tax assets not recognised for initial differences	3	12
Deferred tax assets of German Group companies not recognised for tax loss carryforwards and temporary differences	700	337
Deferred tax assets of foreign Group companies not recognised for tax loss carryforwards and temporary differences	5	171
Effect from previous years on current taxes	–33	–34
Tax-exempt income and non-deductible expenses	–224	–149
Differences in tax rates at foreign companies	78	90
Income taxes	–477	–362

The difference from deferred tax assets not recognised for initial differences is due to differences between the carrying amounts in the opening tax accounts of Deutsche Post AG and the carrying amounts in the IFRS financial statements as at 1 January 1995 (initial differences). In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognise any deferred tax assets in respect of these temporary differences, which related mainly to property, plant and equipment as well as to provisions for pensions and similar obligations. The remaining temporary differences between the original IFRS carrying amounts, net of accumulated depreciation or amortisation, and the tax base amounted to €245 million as at 31 December 2018 (previous year: €285 million).

The effects from deferred tax assets of German Group companies not recognised for tax loss carryforwards and temporary differences relate primarily to Deutsche Post AG and members of its consolidated tax group. Effects from deferred tax assets of foreign companies not recognised for tax loss carryforwards and temporary differences relate primarily to the Americas region.

Effects from deferred tax assets not recognised for tax loss carryforwards and temporary differences in the amount of €4 million (previous year: €10 million) relate to the reduction of the effective income tax expense due to the utilisation of tax loss carryforwards and temporary differences, for which deferred tax assets had previously not been recognised. In addition, the recognition of deferred tax assets previously not recognised for tax loss carryforwards and of deductible temporary differences from a prior period (and resulting mainly from Germany) reduced the deferred tax expense by €526 million (previous year: €857 million). Effects from unrecognised deferred tax assets amounting to €13 million (previous year: €3 million) were due to a valuation allowance recognised for a deferred tax asset. Other effects from unrecognised deferred tax assets relate primarily to tax loss carryforwards for which no deferred taxes were recognised.

A deferred tax asset in the amount of €32 million was recognised in the balance sheet for companies that reported a loss in the previous year or in the current period as, based on tax planning, realisation of the tax asset is probable.

In financial year 2018, a tax rate change had no material effect at German Group companies. Tax rate changes in some tax jurisdictions abroad also had no material effects. The effective income tax expense includes prior-period tax expenses from German and foreign companies in the amount of €34 million (tax expense) (previous year: expense of €33 million).

The following table presents the tax effects on the components of other comprehensive income:

Other comprehensive income

€ m	Before taxes	Income taxes	After taxes
2018			
Change due to remeasurements of net pension provisions	191	-73	118
IAS 39 hedging reserve	-40	14	-26
Reserve for equity instruments without recycling	-4	1	-3
Currency translation reserve	74	0	74
Other changes in retained earnings	0	0	0
Share of other comprehensive income of investments accounted for using the equity method	2	0	2
Other comprehensive income	223	-58	165
2017			
Change due to remeasurements of net pension provisions	378	-28	350
IAS 39 revaluation reserve	0	-1	-1
IAS 39 hedging reserve	23	-7	16
Currency translation reserve	-743	0	-743
Other changes in retained earnings	0	0	0
Share of other comprehensive income of investments accounted for using the equity method	-8	0	-8
Other comprehensive income	-350	-36	-386

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 weighted average number of shares outstanding. Outstanding shares relate to issued capital less any treasury shares held. Basic earnings per share for financial year 2018 were €1.69 (previous year: €2.24).

Basic earnings per share

		2017	2018
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,713	2,075
Weighted average number of shares outstanding	number	1,210,097,823	1,230,118,545
Basic earnings per share	€	2.24	1.69

To compute diluted earnings per share, the weighted average number of shares outstanding is adjusted for the number of all potentially dilutive shares. This item includes the executives' rights to shares under the Performance Share Plan and Share Matching Scheme share-based payment systems (as at 31 December 2018: 3,810,357 shares; previous year: 13,532,321 shares) and the maximum number of ordinary shares that can be issued on exercise of the conversion rights under the convertible bond issued in December 2017. Consolidated net profit for the period attributable to Deutsche Post AG shareholders was increased by the amounts spent on the convertible bonds.

Diluted earnings per share in the reporting period were €1.66 (previous year: €2.15).

Diluted earnings per share

		2017	2018
Consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,713	2,075
Plus interest expense on the convertible bond	€m	2	8
Less income taxes	€m	0	1
Adjusted consolidated net profit for the period attributable to Deutsche Post AG shareholders	€m	2,715	2,082
Weighted average number of shares outstanding	number	1,210,097,823	1,230,118,545
Potentially dilutive shares	number	50,736,444	21,791,635
Weighted average number of shares for diluted earnings	number	1,260,834,267	1,251,910,180
Diluted earnings per share	€	2.15	1.66

21 Dividend per share

A dividend per share of €1.15 is being proposed for financial year 2018 (previous year: €1.15). Further details on the dividend distribution can be found in [note 37](#).

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 2017	1,311	506	1,006	1,686	12,791	91	17,391
Additions from business combinations	0	1	8	0	35	0	44
Additions	40	0	0	68	0	76	184
Reclassifications	38	0	0	76	0	-76	38
Disposals	-82	-32	-914	-151	-97	-24	-1,300
Currency translation differences	-4	-20	-57	-26	-490	-1	-598
Balance at 31 December 2017/1 January 2018	1,303	455	43	1,653	12,239	66	15,759
Additions from business combinations	0	1	8	3	45	0	57
Additions	50	0	0	69	0	98	217
Reclassifications	20	0	0	54	0	-54	20
Disposals	-37	0	-6	-83	-127	-5	-258
Currency translation differences	-1	-3	-1	3	79	0	77
Balance at 31 December 2018	1,335	453	44	1,699	12,236	105	15,872
Amortisation and impairment losses							
Balance at 1 January 2017	1,125	436	794	1,349	1,133	0	4,837
Additions from business combinations	0	0	0	0	0	0	0
Amortisation	76	3	72	136	0	0	287
Impairment losses	0	0	0	0	0	0	0
Reclassifications	-2	0	0	2	0	0	0
Reversals of impairment losses	0	0	0	0	0	0	0
Disposals	-66	0	-806	-139	-25	0	-1,036
Currency translation differences	-2	-14	-46	-21	-38	0	-121
Balance at 31 December 2017/1 January 2018	1,131	425	14	1,327	1,070	0	3,967
Additions from business combinations	0	0	0	2	0	0	2
Amortisation	64	1	6	122	0	0	193
Impairment losses	0	0	0	2	0	0	2
Reclassifications	0	0	0	-1	0	0	-1
Reversals of impairment losses	0	0	0	0	0	0	0
Disposals	-31	0	-2	-74	-32	0	-139
Currency translation differences	0	-4	0	3	-1	0	-2
Balance at 31 December 2018	1,164	422	18	1,381	1,037	0	4,022
Carrying amount at 31 December 2018	171	31	26	318	11,199	105	11,850
Carrying amount at 31 December 2017	172	30	29	326	11,169	66	11,792

The additions to goodwill relate mainly to the acquisitions of the Colombian Suppla Group (€23 million) and the transport companies in Spain (€17 million). Goodwill disposals of €92 million are mainly attributable to the planned sale of the supply chain business in China to S.F. Holding, [notes 2 and 32](#).

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.

22.2 Allocation of goodwill to CGUs

€ m	2017	2018
Post - eCommerce - Parcel¹	1,087	1,107
Express	3,911	3,910
Global Forwarding, Freight		
DHL Global Forwarding	3,891	3,950
DHL Freight	275	279
Supply Chain	1,991	1,939
Corporate Incubations¹	14	14
Total goodwill	11,169	11,199

¹ Prior-period amounts adjusted to reflect the creation of the new Corporate Incubations board department.

For the purposes of annual impairment testing in accordance with IAS 36, the Group determines the recoverable amount of a CGU on the basis of its value in use or its fair value less costs to sell. This calculation is based on projections of free cash flows that are initially discounted at a rate corresponding to the post-tax cost of capital. Pre-tax discount rates are determined iteratively.

The cash flow projections are based on the detailed planning for EBIT, depreciation/amortisation and investment planning adopted by

management, as well as changes in net working capital, and take both internal historical data and external macroeconomic data into account. From a methodological perspective, the detailed planning phase covers a three-year planning horizon from 2019 to 2021. By contrast, an extended planning phase of up to ten years is specified for the CGU Corporate Incubations. Planning is supplemented by a perpetual annuity representing the value added from 2022 onwards or the value added after the extended planning phase. This is calculated using a long-term growth rate, which is determined for each CGU separately and the amount of which – for CGUs whose carrying amounts are significant in comparison with the total carrying amount of goodwill – is shown in the table below. The growth rates applied are based on long-term real growth figures for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the CGUs operate. The cash flow forecasts are based both on past experience and on the effects of the anticipated future general market trend. In addition, the forecasts take into account growth in the respective geographical sub-markets and in global trade, and the ongoing trend towards outsourcing logistics activities. Cost trend forecasts for the transport network and services also have an impact on value in use. Another key planning assumption for the impairment test is the EBIT margin for the perpetual annuity.

The pre-tax cost of capital is based on the weighted average cost of capital. The (pre-tax) discount rates for the material CGUs and the growth rates assumed in each case for the perpetual annuity are shown in the following table:

%	Discount rates		Growth rates	
	2017	2018 ¹	2017	2018
Post - eCommerce - Parcel	8.0	8.0	0.5	0.5
Express	8.3	8.8	2.0	2.0
Global Forwarding, Freight				
DHL Global Forwarding	8.4	7.0	2.5	2.5
DHL Freight	8.6	7.2	2.0	2.0
Supply Chain	8.4	7.0	2.5	2.5

¹ In accordance with IFRS 16.

On the basis of these assumptions and the impairment tests carried out for the individual CGUs to which goodwill was allocated, it was established that the recoverable amounts for all CGUs exceed their carrying amounts. No impairment losses were recognised on goodwill in any of the CGUs as at 31 December 2018.

When performing the impairment test for the significant CGUs in accordance with IAS 36.134, Deutsche Post DHL Group conducted sensitivity analyses for the EBIT margin, the discount rate and the growth rate. These analyses – which included varying the essential valuation parameters within an appropriate range – did not reveal any risk of impairment to goodwill.

23 Property, plant and equipment

23.1 Overview of property, plant and equipment, including right-of-use assets

€ m	Land and buildings	Technical equipment and machinery	IT systems, operating and office equipment	Aircraft	Transport equipment	Advance payments and assets under development	Total
Cost							
Balance at 1 January 2017	4,836	5,390	2,670	2,082	2,407	654	18,039
Additions from business combinations	8	1	1	0	11	0	21
Additions	157	141	187	78	225	1,305	2,093
Reclassifications	157	372	72	397	125	-1,145	-22
Disposals	-495	-272	-344	-281	-203	-8	-1,603
Currency translation differences	-135	-148	-79	-58	-34	-31	-485
Balance at 31 December 2017/1 January 2018	4,528	5,484	2,507	2,218	2,531	775	18,043
IFRS 16 adjustment	7,418	128	2	1,000	543	2	9,093
Balance at 1 January 2018, adjusted	11,946	5,612	2,509	3,218	3,074	777	27,136
Additions from business combinations ¹	30	9	2	50	0	0	91
Additions	1,959	210	174	562	462	1,461	4,828
Reclassifications	286	374	91	357	208	-1,338	-22
Disposals	-578	-208	-291	-68	-194	-13	-1,352
Currency translation differences	-12	14	4	104	2	11	123
Balance at 31 December 2018	13,631	6,011	2,489	4,223	3,552	898	30,804
Depreciation and impairment losses							
Balance at 1 January 2017	2,319	3,249	2,012	879	1,191	0	9,650
Additions from business combinations	3	0	1	0	2	0	6
Depreciation	182	307	230	229	208	0	1,156
Impairment losses	0	7	1	18	0	0	26
Reclassifications	9	-12	2	0	1	0	0
Reversals of impairment losses	0	0	0	0	0	0	0
Disposals	-307	-245	-322	-273	-172	0	-1,319
Currency translation differences	-77	-86	-58	-16	-21	0	-258
Balance at 31 December 2017/1 January 2018	2,129	3,220	1,866	837	1,209	0	9,261
Additions from business combinations ¹	2	3	1	8	0	0	14
Depreciation	1,495	363	225	570	429	0	3,082
Impairment losses	12	1	0	0	0	1	14
Reclassifications	6	2	-8	0	0	0	0
Reversals of impairment losses	-3	-6	0	0	0	0	-9
Disposals	-178	-165	-266	-42	-144	-1	-796
Currency translation differences	14	9	3	14	-4	0	36
Balance at 31 December 2018	3,477	3,427	1,821	1,387	1,490	0	11,602
Carrying amount at 31 December 2018	10,154	2,584	668	2,836	2,062	898	19,202
Carrying amount at 31 December 2017	2,399	2,264	641	1,381	1,322	775	8,782

¹ Also includes a proportion change from joint operations.

The increase in property, plant and equipment was chiefly the result of the initial application of IFRS 16. Further details on right-of-use assets can be found in [note 23.2](#). Disposals relate partly to the planned sale of the supply chain business in China and disposals of right-of-use assets as a result of amended lease terms and terminations.

Advance payments relate only to advance payments on items of property, plant and equipment for which the Group has paid advances in connection with uncompleted transactions. Assets under development relate to items of property, plant and equipment in progress at the reporting date for whose production internal or third-party costs have already been incurred.

23.2 Leases – right-of-use assets

The right-of-use assets carried as non-current assets resulting from leases are presented separately in the following table:

Right-of-use assets

€ m	Land and buildings	Technical equipment and machinery	IT systems, operating and office equipment	Aircraft	Transport equipment	Advance payments and assets under development	Total
31 December 2018							
Cost	9,003	186	9	1,476	731	2	11,407
of which additions	1,801	52	1	341	201	1	2,397
Depreciation and impairment losses	1,311	54	7	334	198	0	1,904
Carrying amount	7,692	132	2	1,142	533	2	9,503
31 December 2017¹							
Cost	209	15	39	17	8	0	288
of which additions	2	0	6	0	0	0	8
Depreciation and impairment losses	56	14	27	17	5	0	119
Carrying amount	153	1	12	0	3	0	169

¹ Recognised as finance lease assets in the previous year.

In the real estate area, the Group primarily leases warehouses, office buildings and mail and parcel centres. The leased aircraft are predominantly deployed in the air network of the Express segment. Leased transport equipment also includes the leased vehicle fleet. The real estate leases in particular are long-term leases. The Group had around 65 real estate leases with remaining lease terms of more than twenty years as at 31 December 2018. Aircraft leases have remaining lease terms of up to eleven years. Leases may include extension and termination options, see note 7. The leases are negotiated individually and include a wide range of different conditions.

Information on the corresponding lease liabilities can be found under financial liabilities, see note 41.2.

24 Investment property

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

€ m	2017	2018
Cost		
Balance at 1 January	34	34
Additions	2	8
Reclassifications	0	-5
Disposals	-1	-8
Currency translation differences	-1	0
Balance at 31 December	34	29
Depreciation and impairment losses		
Balance at 1 January	11	13
Additions	0	1
Impairment losses	2	1
Disposals	0	-3
Reclassifications	0	-1
Currency translation differences	0	0
Balance at 31 December	13	11
Carrying amount at 31 December	21	18

Rental income for investment property amounted to €3 million (previous year: €2 million), whilst the related expenses were €1 million (previous year: €1 million). The fair value amounted to €48 million (previous year: €54 million).

25 Investments accounted for using the equity method

Investments accounted for using the equity method changed as follows:

€ m	Associates		Joint ventures		Total	
	2017	2018	2017	2018	2017	2018
Balance at 1 January	95	82	2	3	97	85
Additions	22	36	0	9	22	45
Disposals	-26	-9	0	0	-26	-9
Impairment losses	0	0	0	0	0	0
Changes in the Group's share of equity						
Changes recognised in profit or loss	1	-3	1	1	2	-2
Profit distributions	-2	-2	0	0	-2	-2
Changes recognised in other comprehensive income	-8	2	0	0	-8	2
Balance at 31 December	82	106	3	13	85	119

In 2018, interests were acquired mainly in Robotic Wares Private Limited, India, and Dunho WeiHeng (Zhuhai) Supply Chain Management Co., Ltd., China. The interest in Relais Colis SAS, France, which is accounted for using the equity method, was increased by a further 8.4%. Further additions are the result of the change in the method of consolidation for Resilience360 GmbH and Flexible Lifestyle, note 2. In the previous year, additions related to the interest in Israel-based Global-E Online Ltd, whilst disposals related exclusively to the reclassification of AHK

Air Hong Kong Limited, China, as assets held for sale and liabilities associated with assets held for sale, note 32.

25.1 Aggregate financial data

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

Aggregate financial data for associates and joint ventures

€ m	Associates		Joint ventures		Total	
	2017	2018	2017	2018	2017	2018
Carrying amount in the consolidated financial statements ¹	82	106	3	13	85	119
Profit after income taxes	1	-3	1	1	2	-2
Other comprehensive income	-8	2	0	0	-8	2
Total comprehensive income	-7	-1	1	1	-6	0

¹ Based on the interest held.

26 Financial assets

€ m	Non-current		Current		Total	
	2017	2018	2017	2018	2017	2018
Assets measured at cost	-	499	-	100	-	599
Assets at fair value through other comprehensive income	-	43	-	0	-	43
Assets at fair value through profit or loss	170	188	76	843	246	1,031
Available-for-sale financial assets	59	-	500	-	559	-
Loans and receivables	466	-	69	-	535	-
Lease receivables	38	-	7	-	45	-
Financial assets	733	730	652	943	1,385	1,673

Net impairment losses amounted to €–93 million (previous year: €–83 million).

Compared with the market rates of interest prevailing at 31 December 2018 for comparable non-current financial assets, most of the housing promotion loans are low-interest or interest-free loans. They are recognised in the balance sheet at a present value of €3 million (previous year: €3 million). The principal amount of these loans totals €3 million (previous year: €3 million).

Details on restraints on disposal are contained in [note 44.2](#).

27 Other assets

€ m	2017	2018
Prepaid expenses	604	646
Current tax receivables	466	474
Pension assets, non-current only	153	260
Income from cost absorption	113	125
Receivables from private postal agencies	116	124
Other assets from insurance contracts ¹	–	83
Contract assets ¹	–	59
Creditors with debit balances	44	49
Receivables from insurance business	37	40
Recoverable start-up costs, non-current only ¹	–	34
Receivables from employees	30	31
Receivables from loss compensation (recourse claims)	32	30
Receivables from cash on delivery	7	8
Receivables from asset disposals	16	3
Other assets, of which non-current: 59 (previous year: 78)	797	756
Other assets	2,415	2,722
of which current	2,184	2,369
non-current	231	353

¹ The items were presented separately as a result of the initial application of the new IFRSs, [note 4](#).

The increase in other assets is attributable mainly to actuarial gains on pension assets, [note 39](#).

No valuation allowances were recognised on contract assets. Of the tax receivables, €368 million (previous year: €356 million) relates to VAT, €70 million (previous year: €67 million) to customs and duties, and €36 million (previous year: €43 million) to other tax receivables. Miscellaneous other assets include a large number of individual items.

28 Deferred taxes

Breakdown by balance sheet item and maturity

€ m	2017		2018	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	12	88	15	96
Property, plant and equipment	52	52	54	1,723
Non-current financial assets	7	12	14	89
Other non-current assets	16	5	15	1
Other current assets	19	70	28	62
Provisions	449	43	620	20
Financial liabilities	74	19	1,708	17
Other liabilities	104	3	101	26
Tax loss carryforwards	1,755		1,957	
Gross amount	2,488	292	4,512	2,034
of which current	569	102	1,114	510
non-current	1,919	190	3,398	1,524
Netting	–216	–216	–1,980	–1,980
Carrying amount	2,272	76	2,532	54

Deferred taxes on tax loss carryforwards in the amount of €1,551 million (previous year: €1,486 million) relate to tax loss carryforwards in Germany and €406 million (previous year: €269 million) to foreign tax loss carryforwards.

No deferred tax assets were recognised for tax loss carryforwards of around €5.0 billion (previous year: €6.4 billion) and for temporary differences of around €2.2 billion (previous year: €2.6 billion), as it can be assumed that the Group will probably not be able to use these tax loss carryforwards and temporary differences in its tax planning.

Most of the tax loss carryforwards in Germany are attributable to Deutsche Post AG. It will be possible to utilise them for an indefinite period of time. In the case of the foreign companies, the significant tax loss carryforwards will not lapse before 2026.

Deferred tax assets on financial liabilities and deferred tax liabilities on property, plant and equipment rose significantly due to the initial application of IFRS 16.

Deferred taxes have not been recognised for temporary differences of €510 million (previous year: €505 million) relating to earnings of German and foreign subsidiaries, because these temporary differences will probably not reverse in the foreseeable future.

29 Inventories

€ m	2017	2018
Raw materials, consumables and supplies	179	233
Finished goods and goods purchased and held for resale	100	150
Work in progress	45	69
Advance payments	3	2
Inventories	327	454

Adequate valuation allowances were recognised.

30 Trade receivables

€ m	2017	2018
Trade receivables	7,558	7,581
Deferred revenue	660	666
Trade receivables	8,218	8,247

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

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

€ m	Assets		Liabilities	
	2017	2018	2017	2018
Sale of the supply chain business in China, Macao and Hong Kong (Supply Chain segment)	0	414	0	228
DHL Freight GmbH, Germany – property sale (Global Forwarding, Freight segment)	0	9	0	0
Exel Logistics Property Limited, UK – property sale (Supply Chain segment)	0	3	0	0
AHK Air Hong Kong Limited, China – equity interest (Express segment)	4	0	0	0
Other	0	0	0	0
Assets held for sale and liabilities associated with assets held for sale	4	426	0	228

On 26 October 2018, Deutsche Post DHL Group entered into an agreement with S.F. Holding, China, to sell its supply chain business in China, Hong Kong and Macao to S.F. Holding in a strategic partnership, with a view to growing local supply chain operations in China. Under the agreement, Deutsche Post DHL Group will receive a purchase price of RMB 5.5 billion (around €700 million) from S.F. Holding as a non-recurring payment. In addition, Deutsche Post DHL Group will receive an annual amount linked to revenue over the next ten years. The transaction is expected to be completed within the first quarter of 2019 following all the required regulatory approvals.

For information on impairment losses, default risk and maturity structures, see [note 44](#).

31 Cash and cash equivalents

€ m	2017	2018
Cash equivalents	1,342	1,116
Bank balances/cash in transit	1,717	1,801
Cash	18	16
Other cash and cash equivalents	58	84
Cash and cash equivalents	3,135	3,017

Of the €3,017 million in cash and cash equivalents, €977 million was not available for general use by the Group as at the reporting date (previous year: €973 million). Of this amount, €905 million (previous year: €895 million) was attributable to countries where exchange controls or other legal restrictions apply (mostly China, India and Thailand) and €72 million (previous year: €78 million) primarily to companies with non-controlling interest shareholders.

The corresponding assets and liabilities of the twelve consolidated companies reclassified as assets held for sale and liabilities associated with assets held for sale are presented in the table below. In addition, three associates which are accounted for using the equity method and recognised in the amount of €9 million are included in these amounts. The most recent remeasurement did not result in an impairment loss. An expense of €37 million is included in the currency translation reserve in equity.

Supply Chain business in China

€ m	31 Dec. 2018
Non-current assets	200
of which goodwill	92
Current assets	181
Cash and cash equivalents	33
ASSETS	414
Non-current provisions and liabilities	43
Current provisions and liabilities	185
EQUITY AND LIABILITIES	228

The two Chinese companies acquired as part of a property development project with the aim of resale and disclosed during the year were sold in December 2018, with income of €3 million reported in gains on the disposal of assets.

Furthermore, the 40% interest in AHK Air Hong Kong Limited, China, disclosed in the previous year was sold in December 2018,

 **note 2.**

Planned property sales were reported at €12 million.

The “other” item relates to legacy aircraft held for sale from the previous year. The aircraft with a carrying amount of €1.00 each were reclassified to this balance sheet item. The most recent measurement prior to reclassification led to an impairment loss of €18 million in the Express division in the previous year.

33 Issued capital and purchase of treasury shares

As at 31 December 2018, KfW Bankengruppe (KfW) held a 20.5% (previous year: 20.7%) interest in the share capital of Deutsche Post AG. The remaining 79.5% (previous year: 79.3%) of the shares were in free float. KfW holds the shares in trust for the Federal Republic of Germany.

33.1 Changes in issued capital

The issued capital amounts to €1,237 million. It is composed of 1,236,506,759 no-par value registered shares (ordinary shares) with a notional interest in the share capital of €1 per share and is fully paid up.

Changes in issued capital and treasury shares

€	2017	2018
Issued capital		
Balance at 1 January	1,240,915,883	1,228,707,545
Addition due to contingent capital increase (convertible bond)	15,091,662	5,379,106
Addition due to contingent capital increase (Performance Share Plan)	0	2,420,108
Capital reduction through retirement of treasury shares	-27,300,000	0
Balance at 31 December	1,228,707,545	1,236,506,759
Treasury shares		
Balance at 1 January	-29,587,229	-4,513,582
Purchase of treasury shares	-4,660,410	-1,284,619
Issue/sale of treasury shares	2,434,057	2,169,550
Capital reduction through retirement of treasury shares	27,300,000	0
Balance at 31 December	-4,513,582	-3,628,651
Total at 31 December	1,224,193,963	1,232,878,108

33.2 Authorised and contingent capital**Authorised / contingent capital at 31 December 2018**

	Amount € m	Purpose
Authorised Capital 2017	160	Increase in share capital against cash/non-cash contributions (until 27 April 2022)
Contingent Capital 2011	-	Issue of options/conversion rights (until 24 May 2016)
Contingent Capital 2014	38	Issue of Performance Share Units to executives (until 26 May 2019)
Contingent Capital 2017	75	Issue of options/conversion rights (until 27 April 2022)
Contingent Capital 2018/1	12	Issue of Performance Share Units to executives (until 23 April 2021)
Contingent Capital 2018/2	33	Issue of options/conversion rights (until 23 April 2021)

Authorised Capital 2017

As resolved by the Annual General Meeting on 28 April 2017, the Board of Management is authorised, subject to the consent of the Supervisory Board, to issue up to 160 million new, no-par value registered shares until 27 April 2022 in exchange for cash and/or non-cash contributions and thereby increase the company's share capital. The authorisation may be used in full or for partial amounts. Shareholders generally have pre-emptive rights. However, subject to the approval of the Supervisory Board, the Board of Management may disapply the shareholders' pre-emptive rights to the shares covered by the authorisation. No use was made of the authorisation in the reporting period.

Contingent Capital 2011

In its resolution dated 25 May 2011, the Annual General Meeting authorised the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds as well as profit participation certificates, or a combination thereof, in an aggregate principal amount of up to €1 billion, on one or more occasions until 24 May 2016, thereby granting options or conversion rights for up to 75 million shares with a proportionate interest in the share capital not to exceed €75 million. Full use was made of the authorisation in December 2012 by issuing a €1 billion convertible bond. The share capital was increased on a contingent basis by up to €75 million. From 2015 to 2018, 48.6 million subscription rights were issued. The outstanding bonds with a notional volume of €0.7 million were redeemed on 27 March 2018.

Contingent Capital 2014

In its resolution dated 27 May 2014, the Annual General Meeting authorised the Board of Management to contingently increase the share capital by up to €40 million through the issue of up to 40 million new no-par value registered shares. The contingent capital increase serves to grant Performance Share Units (PSUs) to selected Group executives. The contingent capital increase will only be implemented to the extent that shares are issued based on the PSUs granted and the company does not settle the PSUs by cash payment or delivery of treasury shares. The new shares participate in profit from the beginning of the financial year in which they are issued. The share capital was increased on a contingent basis by up to €40 million. Use was made of this authorisation in the third quarter of 2018 when the rights under the 2014 tranche of the Performance Share Plan were settled. The contingent capital increase resulted in 2.4 million new shares that were issued to executives in September 2018. Contingent Capital 2014 amounts to €37.6 million.

Contingent Capital 2017

In its resolution dated 28 April 2017, the Annual General Meeting authorised the Board of Management, subject to the consent of the Supervisory Board, to issue bonds with warrants, convertible bonds and/or income bonds as well as profit participation certificates, or a combination thereof, in an aggregate principal amount of up to €1.5 billion, on one or more occasions until 27 April 2022, thereby granting options or conversion rights for up to 75 million shares with a proportionate interest in the share capital not to exceed €75 million. The new shares participate in profit from the beginning of the financial year in which they are issued. The authorisation was exercised in part in December 2017, by issuing the convertible bond 2017/2025 in an aggregate principal amount of €1 billion. The share capital was increased on a contingent basis by up to €75 million.

Contingent Capital 2018/1

In its resolution dated 24 April 2018, the Annual General Meeting contingently increased the share capital by up to €12 million through the issue of up to 12 million no-par value registered shares. The contingent capital increase serves to grant PSUs to selected Group executives. The shares will be issued to beneficiaries based on the aforementioned authorisation resolution. The new shares participate in profit from the beginning of the financial year in which they are issued. No use was made of the authorisation in the reporting period.

Contingent Capital 2018/2

The share capital was contingently increased by up to €33 million through the issue of up to 33 million no-par value registered shares. The contingent capital increase serves to grant options or conversion rights or to settle conversion obligations and to grant shares in lieu of cash payments to the holders of bonds issued by the company or its Group companies in accordance with the authorisation resolution by the Annual General Meeting dated 24 April 2018. The new shares participate in profit from the beginning of the financial year in which they are issued. No use was made of the authorisation in the reporting period.

33.3 Authorisation to acquire treasury shares

By way of a resolution adopted by the Annual General Meeting on 28 April 2017, the company is authorised to acquire treasury shares in the period to 27 April 2022 of up to 10% of the share capital existing when the resolution was adopted. The authorisation permits the Board of Management to exercise it for every purpose permitted by law, and in particular to pursue the goals mentioned in the resolution by the Annual General Meeting. Treasury shares acquired on the basis of the authorisation, with shareholders' pre-emptive rights disapplying, may continue to be used for the purposes of listing on a stock exchange outside Germany. In addition, the Board of Management remains authorised to acquire treasury shares using derivatives.

Share buy-back programme 2016/2017

The share buy-back programme beginning in April 2016 and ending in March 2017 resulted in the acquisition of a total of 32.9 million treasury shares at a cost of €911 million and, based on the Board of Management resolution of 21 March 2017, the retirement by way of a capital reduction of 27.3 million treasury shares held.

Purchase and issuance of treasury shares

In March 2018, 1,284,619 shares were acquired for a total amount of €46 million (average price of €36.20 per share) in order to settle the 2017 tranche of the Share Matching Scheme. The shares were issued to the executives concerned in April 2018. The rights to matching shares under the 2013 tranche were also settled in April, with a further 870,551 shares issued to executives.

As at 31 December 2018, Deutsche Post AG held 3,628,651 treasury shares (previous year: 4,513,582 treasury shares).

33.4 Disclosures on corporate capital

In financial year 2018, the equity ratio was 27.5% (previous year: 33.4%). The company's capital is monitored using net gearing, which is defined as net debt divided by the total of equity and net debt.

Corporate capital

€ m	2017	2018
Financial liabilities	6,050	16,462
Operating financial liabilities ¹	-155	-199
Cash and cash equivalents	-3,135	-3,017
Current financial assets	-652	-943
Non-current derivative financial instruments	-170	0
Net debt	1,938	12,303
Plus total equity	12,903	13,873
Total capital	14,841	26,176
Net gearing (%)	13.1	47.0

¹ Relates to, e.g., liabilities from overpayments.

The change in the two indicators is due mainly to the recognition of lease liabilities in connection with the initial application of IFRS 16.

34 Capital reserves

€ m	2017	2018
Balance at 1 January	2,932	3,327
Share Matching Scheme		
Addition	67	73
Exercise	-59	-64
Total for Share Matching Scheme	8	9
Performance Share Plan		
Addition	25	26
Exercise	0	-28
Total for Performance Share Plan	25	-2
Retirement/issue of treasury shares	27	26
Differences between purchase and issue prices of treasury shares	5	7
Capital increase through exercise of conversion rights under convertible bond 2012/2019	286	102
Conversion right under convertible bond 2017/2025	53	0
Deferred taxes on conversion right under convertible bond 2017/2025	-9	0
Balance at 31 December	3,327	3,469

The rights to matching shares under the 2013 tranche were settled, and the rights to deferred incentive and investment shares under the 2017 tranche were granted in April 2018. In addition, in the third quarter of 2018, the rights under the 2014 tranche of the Performance Share Plan were settled.

35 Other reserves

Reserve for equity instruments without recycling

The application of IFRS 9 resulted in the recognition of a reserve for equity instruments without recycling. This reserve includes changes in the fair value of equity instruments that were classified at fair value through other comprehensive income.

36 Retained earnings

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

€ m	2017	2018
Purchase of treasury shares	51	-45
of which share buy-back under tranches I to III	-103	0
obligation from share buy-back under tranche III	195	0
purchase/sale of treasury shares Share Matching Scheme	-41	-45

The main factors in the previous year were the obligations arising from the share buy-back programme in addition to the Share Matching Scheme.

The changes in transactions with non-controlling interests relate mainly to the step acquisition of additional interests of 10% in Brazil-based company Olimpo Holding S.A.

37 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in financial year 2018 amounted to €13,590 million (previous year: €12,637 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the net retained profit of €5,653 million reported in Deutsche Post AG's annual financial statements in accordance with the HGB. The Board of Management is proposing a dividend of €1.15 per no-par value share carrying dividend rights. This corresponds to a total dividend of €1,419 million. The amount of €4,234 million remaining after deduction of the planned total dividend will be carried forward to new account. The final total dividend will be based on the number of shares carrying dividend rights at the time the Annual General Meeting resolves upon the appropriation of the net retained profit on the day the AGM convenes.

	Total dividend €m	Dividend per share €
Dividend distributed in financial year 2018 for the year 2017	1,409	1.15
Dividend distributed in financial year 2017 for the year 2016	1,270	1.05

As the dividend is paid in full from the tax-specific capital contribution account (*steuerliches Einlagekonto* as defined by section 27 of the *Körperschaftsteuergesetz* (KStG – German Corporation Tax Act)) (contributions not made to subscribed capital), payment will be made without the deduction of investment income tax or the solidarity surcharge.

The dividend is tax exempt for shareholders resident in Germany. It does not entitle recipients to a tax refund or a tax credit. In terms of taxation, the dividend distribution is considered as a repayment of contributions from the capital contribution account and – in the opinion of the tax authorities – serves to reduce the cost of acquiring the shares.

38 Non-controlling interests

This balance sheet item includes adjustments for the interests of non-Group shareholders in the consolidated equity from acquisition accounting, as well as their interests in profit or loss.

The following table shows the companies to which the non-controlling interests relate:

€ m	2017	2018
DHL Sinotrans International Air Courier Ltd., China	164	173
Blue Dart Express Limited, India	17	18
PT. Birotika Semesta, Indonesia	15	16
Exel Saudia LLC, Saudi Arabia	9	14
DHL Global Forwarding Abu Dhabi LLC, United Arab Emirates	10	8
Other companies	51	54
Non-controlling interests	266	283

Material non-controlling interests exist in the following two companies:

DHL Sinotrans International Air Courier Ltd., China, which is assigned to the Express segment, provides domestic and international express delivery and transport services. Deutsche Post DHL Group holds a 50% interest in the company. Blue Dart Express Limited (Blue Dart), India, is assigned to the PeP segment. Deutsche Post AG holds a 75% interest in Blue Dart, which is a courier service provider.

The following table gives an overview of the aggregated financial data of significant companies with non-controlling interests:

Financial data for material non-controlling interests

€ m	Sinotrans		Blue Dart	
	2017	2018	2017	2018
Balance Sheet				
ASSETS				
Non-current assets	97	131	72	109
Current assets	447	485	91	98
Total ASSETS	544	616	163	207
EQUITY AND LIABILITIES				
Non-current provisions and liabilities	8	31	14	37
Current provisions and liabilities	207	240	63	79
Total EQUITY AND LIABILITIES	215	271	77	116
Net assets	329	345	86	91
Non-controlling interests	164	173	17	18
Income statement				
Revenue	1,461	1,534	371	383
Profit before income taxes	316	340	30	20
Income taxes	80	86	12	8
Profit after income taxes	236	254	18	12
Other comprehensive income	-24	-9	-4	-3
Total comprehensive income	212	245	14	9
attributable to non-controlling interests	106	123	3	2
Dividend distributed to non-controlling interests	104	114	1	1
Consolidated net profit attributable to non-controlling interests	118	127	4	3
Cash flow statement				
Net cash from operating activities	250	293	23	29
Net cash used in/from investing activities	-6	-4	6	-1
Net cash used in financing activities	-207	-239	-32	-21
Net change in cash and cash equivalents	37	50	-3	7
Cash and cash equivalents at 1 January	214	235	22	18
Effect of changes in exchange rates on cash and cash equivalents	-16	-8	-1	0
Cash and cash equivalents at 31 December	235	277	18	25

The portion of other comprehensive income attributable to non-controlling interests largely relates to the currency translation reserve. The changes are shown in the following table:

€ m	2017	2018
Balance at 1 January	10	-12
Transaction with non-controlling interests	0	0
Total comprehensive income		
Changes from unrealised gains and losses	-22	-4
Changes from realised gains and losses	0	0
Currency translation reserve at 31 December	-12	-16

39 Provisions for pensions and similar obligations

The Group's most significant defined benefit retirement plans are in Germany and the UK. A wide variety of other defined benefit retirement plans in the Group are to be found in the Netherlands, Switzerland, the USA and a large number of other countries. There are specific risks associated with these plans along with measures to mitigate them.

39.1 Plan features

Germany

In Germany, Deutsche Post AG has an occupational retirement arrangement based on a collective agreement, which is open to new hourly workers and salaried employees. Depending on the weekly working hours and wage/salary group, retirement benefit components are calculated annually for each hourly worker and salaried employee, and credited to an individual pension account. A 2.5% increase on the previous year is included in every newly allocated component. When the statutory pension falls due, the hourly workers and salaried employees can choose whether to receive payment as a lump sum or in instalments, or lifelong monthly benefit payments that increase by 1% each year. Hourly workers and salaried employees who were already employed as at 31 December 2015 were transferred to this system as a rule. Since the first quarter of 2018, the added payment option of receiving one lump sum instead of lifelong monthly benefit payments has also been granted to certain groups of hourly workers and salaried employees (e.g., former hourly workers and salaried employees with fully vested entitlements), for whom it had previously not been available. The change resulted in past service gains. The large majority of Deutsche Post AG's obligations relates to older vested entitlements of hourly workers and salaried employees, and to legacy pension commitments towards former hourly workers and salaried employees who have left or retired from the company. In addition, retirement arrangements are available to executives below the Board of Management level and to specific employee groups through deferred compensation in particular. Details on the retirement benefit arrangements for the Board of Management can be found in [the Group Management Report, page 28 f.](#)

The prime source of external funding for Deutsche Post AG's respective retirement benefit obligations is a contractual trust arrangement, which also includes a pension fund. The trust is funded on a case-by-case basis in line with the Group's finance strategy. In the case of the pension fund, the regulatory funding requirements can, in principle, be met without additional employer contributions. Part of the plan assets consists of real estate that is leased out to the Group on a long-term basis. In addition, the *Versorgungsanstalt der Deutschen Bundespost* (VAP – Deutsche Bundespost institution for supplementary retirement pensions), a shared pension fund for successor companies to Deutsche Bundespost, is used for some of the legacy pension commitments.

Individual subsidiaries in Germany have retirement plans that were acquired in the context of acquisitions and transfers of operations and that are closed to new entrants. Contractual trust arrangements are available for three subsidiaries with a view to external financing.

United Kingdom

In the UK, the Group's defined benefit pension arrangements are largely closed to new entrants and for further service accrual. One exceptional arrangement exists which is open, until 31 March 2019, to further service accrual and a limited number of existing employees who have not yet joined this arrangement. It will then also be closed to new entrants and future service accrual. The relevant decision was made in the reporting period and had no effect on pension obligations. In October 2018, a High Court ruling took place on equalisation of guaranteed minimum pensions (GMP) requiring all affected plans to equalise GMP between male and female plan members. This has led to an increased allowance in pension obligations at 31 December 2018 through past service cost.

The Group's defined benefit pension arrangements in the UK have mainly been consolidated into a group plan with different sections for the participating divisions. These are funded mainly via a group trust. The amount of the employer contributions must be negotiated with the trustee in the course of funding valuations. Employee beneficiaries are currently making their own funding contributions in the case of the single open defined benefit arrangement.

Other

In the Netherlands, collective agreements require that those employees who are not covered by a sector-specific plan participate in a dedicated defined benefit retirement plan. The dedicated plan provides for annual accruals which are subject to a pensionable salary cap. The plan provides for monthly benefit payments that are indexed in line with the agreed wage and salary increases, on the one hand, and the funds available for such indexation, on the other. In Switzerland, employees receive an occupational pension in line with statutory requirements, where pension payments depend on the contributions paid, an interest rate that is fixed each year, certain annuity factors and any pension increases specified. A separate plan providing for lump-sum payments instead of lifelong pension payments exists for specific higher wage components. In the USA, the companies' defined benefit retirement plans have been closed to new entrants and accrued entitlements have been frozen.

The Group companies primarily fund their dedicated defined benefit retirement plans in these three countries by using the respective joint funding institutions. In the Netherlands and in Switzerland, both employers and employees contribute to plan funding. In the USA no regular contributions are currently made in this regard.

39.2 Financial performance of the plans and determination of balance sheet items

The present value of defined benefit obligations, the fair value of plan assets and net pension provisions changed as follows:

€ m	Present value of defined benefit obligations		Fair value of plan assets		Net pension provisions	
	2017	2018	2017	2018	2017	2018
	Balance at 1 January	17,723	17,381	12,286	13,084	5,437
Current service cost, excluding employee contributions	187	193	–	–	187	193
Past service cost	–8	–113	–	–	–8	–113
Settlement gains (-)/losses (+)	–60	–1	–	–	–60	–1
Other administration costs in accordance with IAS 19.130	–	–	–11	–11	11	11
Service cost¹	119	79	–11	–11	130	90
Interest cost on defined benefit obligations	414	401	–	–	414	401
Interest income on plan assets	–	–	291	303	–291	–303
Net interest cost	414	401	291	303	123	98
Income and expenses recognised in the income statement	533	480	280	292	253	188
Actuarial gains (-)/losses (+) – changes in demographic assumptions	–95	100	–	–	–95	100
Actuarial gains (-)/losses (+) – changes in financial assumptions	338	–261	–	–	338	–261
Actuarial gains (-)/losses (+) – experience adjustments	35	–286	–	–	35	–286
Return on plan assets excluding interest income	–	–	656	–256	–656	256
Remeasurements recognised in the statement of comprehensive income	278	–447	656	–256	–378	–191
Employer contributions	–	–	701	65	–701	–65
Employee contributions	32	33	18	19	14	14
Benefit payments	–736	–737	–465	–585	–271	–152
Settlement payments	–139	–10	–139	–8	0	–2
Transfers	0	0	0	0	0	0
Acquisitions/divestitures	–7	0	1	0	–8	0
Currency translation effects	–303	–4	–254	–3	–49	–1
Balance at 31 December	17,381	16,696	13,084	12,608	4,297	4,088

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

As at 31 December 2018, the effects of asset ceilings amounted to €2 million; an expedient was applied to their recognition by deducting this amount from the fair value of plan assets (1 January 2018/31 December 2017: €3 million; 1 January 2017: €2 million).

In the reporting period, the past service gains were attributable mainly to plan amendments in Germany at Deutsche Post AG in connection with the lump-sum payment option amounting to €108 million. The past service gains were limited by opposite effects of €44 million resulting from the court ruling in the UK. Experience adjustments were made chiefly as a result of a new funding valuation in the UK. Employer

contributions include the contribution of a property to the trust in Germany. The proportion of benefit payments paid out of plan assets in Germany increased. In the previous year, a lump-sum settlement programme was executed for retirees in Germany, which led to settlement payments and the discontinuation of pension obligations. In addition, employer contributions were impacted by two special measures.

Total payments amounting to €273 million are expected with regard to net pension provisions in 2019. Of this amount, €233 million is attributable to the Group's expected direct benefit payments and €40 million to expected employer contributions to pension funds.

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

€ m	Germany	UK	Other	Total
2018				
Present value of defined benefit obligations at 31 December	9,371	4,747	2,578	16,696
Fair value of plan assets at 31 December	-5,512	-4,914	-2,182	-12,608
Net pension provisions at 31 December	3,859	-167	396	4,088
Reported separately				
Pension assets at 31 December	0	167	93	260
Provisions for pensions and similar obligations at 31 December	3,859	0	489	4,348
2017				
Present value of defined benefit obligations at 31 December	9,554	5,240	2,587	17,381
Fair value of plan assets at 31 December	-5,748	-5,112	-2,224	-13,084
Net pension provisions at 31 December	3,806	128	363	4,297
Reported separately				
Pension assets at 31 December	0	46	107	153
Provisions for pensions and similar obligations at 31 December	3,806	174	470	4,450

In the Other area, the Netherlands, Switzerland and the USA account for a share in the corresponding present value of the defined benefit obligations of 43%, 21% and 12%, respectively (previous year: 44%, 20% and 13%).

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

39.3 Additional information on the present value of defined benefit obligations

The significant financial assumptions are as follows:

%	Germany	UK	Other	Total
31 December 2018				
Discount rate (defined benefit obligations)	2.30	2.70	2.35	2.42
Expected annual rate of future salary increase	2.50	3.25	2.30	2.47
Expected annual rate of future pension increase	2.00	2.85	1.27	2.17
31 December 2017				
Discount rate (defined benefit obligations)	2.25	2.50	2.23	2.32
Expected annual rate of future salary increase	2.50	3.25	2.05	2.43
Expected annual rate of future pension increase	2.00	2.85	1.26	2.18

The discount rates for defined benefit obligations in the euro zone and the UK were each derived from a yield curve comprising the yields of AA-rated corporate bonds and taking membership composition as well as duration into account in each case. For other countries, the discount rate for defined benefit obligations was determined in a similar way, provided there was a deep market for AA-rated (or, in some cases, AA and AAA-rated) corporate bonds. By contrast, government bond yields were used for countries without a deep market for such corporate bonds. As at 31 December 2018, discount rates were rounded to full 0.10 percentage points instead of the previous 0.25 percentage points. Absent of this change, the discount rate for defined benefit obligations as at 31 December 2018 would have been somewhat lower overall at 2.40%.

For the annual pension increase in Germany, fixed rates in particular must be taken into account, in addition to the assumptions shown. The effective weighted average therefore amounts to 1.00% (previous year: 1.00%).

The most significant demographic assumptions made relate to life expectancy and/or mortality. For the German Group companies, these were based on the HEUBECK RICHTTAFELN 2018 G mortality tables as at 31 December 2018. Application of the Richtttafeln 2018 G tables resulted in actuarial losses of €105 million. Life expectancy for the retirement plans in the UK as at 31 December 2018 was mainly based on the S2PMA/S2PFA tables of the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries adjusted to reflect plan-specific mortality according to the new funding valuation. Current projections of future mortality improvements were taken into account by using the CMI core projection model. Country-specific current standard mortality tables were used for other countries.

If one of the significant financial assumptions were to change, the present value of the defined benefit obligations would change as follows:

	Change in assumption Percentage points	Change in present value of defined benefit obligations %			
		Germany	UK	Other	Total
31 December 2018					
Discount rate (defined benefit obligations)	1.00	-12.37	-14.20	-14.01	-13.14
	-1.00	15.70	18.29	18.25	16.82
Expected annual rate of future salary increase	0.50	0.18	0.08	0.95	0.27
	-0.50	-0.17	-0.08	-0.88	-0.25
Expected annual rate of future pension increase	0.50	0.43	5.44	6.23	2.74
	-0.50	-0.39	-5.36	-4.52	-2.43
31 December 2017					
Discount rate (defined benefit obligations)	1.00	-12.52	-14.92	-14.51	-13.53
	-1.00	15.81	19.39	19.02	17.36
Expected annual rate of future salary increase	0.50	0.18	0.08	0.95	0.26
	-0.50	-0.17	-0.08	-0.90	-0.25
Expected annual rate of future pension increase	0.50	0.42	5.63	6.39	2.87
	-0.50	-0.38	-5.53	-4.71	-2.57

These are effective weighted changes in the respective present value of the defined benefit obligations, e.g., taking into account the largely fixed nature of the pension increase for Germany.

A one-year increase in life expectancy for a 65-year-old beneficiary would increase the present value of the defined benefit obligations by 4.59% in Germany (previous year: 4.55%) and by 3.60% in the UK (previous year: 4.25%). The corresponding increase for other countries would be 2.80% (previous year: 2.93%) and the total increase 4.04% (previous year: 4.22%).

When determining the sensitivity disclosures, the present values were calculated using the same methodology used to calculate the present values at the reporting date. The presentation does not take

into account interdependencies between the assumptions; rather, it supposes that the assumptions change in isolation. This would be unusual in practice, since assumptions are often correlated.

The weighted average duration of the Group's defined benefit obligations at 31 December 2018 was 14.2 years in Germany (previous year: 14.3 years) and 16.4 years in the UK (previous year: 18.0 years). In the other countries it was 17.0 years (previous year: 17.6 years), and in total it was 15.3 years (previous year: 15.9 years).

A total of 30.6% (previous year: 30.0%) of the present value of the defined benefit obligations was attributable to active beneficiaries, 18.4% (previous year: 17.2%) to terminated beneficiaries and 51.0% (previous year: 52.8%) to retirees.

39.4 Additional information on the fair value of plan assets

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

€ m	Germany	UK	Other	Total
31 December 2018				
Equities	550	415	668	1,633
Fixed income securities	1,717	3,825	907	6,449
Real estate	1,511	255	298	2,064
Alternatives ¹	372	379	30	781
Insurances	546	0	127	673
Cash	806	40	46	892
Other	10	0	106	116
Fair value of plan assets	5,512	4,914	2,182	12,608
31 December 2017				
Equities	1,044	765	819	2,628
Fixed income securities	1,956	3,685	826	6,467
Real estate	1,609	187	273	2,069
Alternatives ¹	415	432	31	878
Insurances	554	0	127	681
Cash	163	33	50	246
Other	7	10	98	115
Fair value of plan assets	5,748	5,112	2,224	13,084

¹ Primarily includes absolute return products.

Quoted market prices in an active market exist for around 73% (previous year: 79%) of the total fair values of plan assets. The remaining assets for which no such quoted market prices exist are mainly attributable as follows: 14% (previous year: 14%) to real estate, 5% (previous year: 5%) to insurances, 6% (previous year: 1%) to fixed income securities and 2% (previous year: 1%) to alternatives. The majority of the investments on the active markets are globally diversified, with certain country-specific focus areas.

The real estate included in plan assets in Germany with a fair value of €1,424 million (previous year: €1,590 million) is occupied by Deutsche Post DHL Group.

Hedging measures were taken due to developments on the capital markets. In the fourth quarter, they resulted in a decrease in the equity holding, whilst the proportion of the cash holding increased. Asset-liability studies are performed at regular intervals in Germany, the UK and, amongst other places, the Netherlands, Switzerland and the USA to examine the match between assets and liabilities; the strategic allocation of plan assets is adjusted in line with this.

39.5 Risk

Specific risks are associated with the defined benefit retirement plans. This can result in a (negative or positive) change in Deutsche Post DHL Group's equity through other comprehensive income, whose overall

relevance is classed as medium to high. In contrast, a low relevance is attached to the short-term effects on staff costs and net finance costs. Potential risk mitigation is applied depending on the specifics of the plans.

INTEREST RATE RISK

A decrease (increase) in the respective discount rate would lead to an increase (decrease) in the present value of the total obligation and would in principle be accompanied by an increase (decrease) in the fair value of the fixed income securities contained in the plan assets. Further hedging measures are applied, in some cases using derivatives.

INFLATION RISK

Pension obligations – especially final salary schemes or schemes involving increases during the pension payment phase – can be linked directly or indirectly to inflation. The risk of increasing inflation rates with regard to the present value of the defined benefit obligations has been mitigated in the case of Germany, for example, by switching to a component-based retirement benefit system and, in the case of the UK, by largely closing the defined benefit arrangements. In addition, fixed rates of increase have been set or increases partially capped and/or lump-sum payments provided for. There is also a positive correlation with interest rates.

INVESTMENT RISK

The investment is in principle subject to a large number of risks; in particular, it is exposed to the risk that market prices may change. This is managed primarily by ensuring broad diversification and the use of hedging instruments.

LONGEVITY RISK

Longevity risk may arise in connection with the benefits payable in the future due to a future increase in life expectancy. This is mitigated in

particular by using current standard mortality tables when calculating the present value of the defined benefit obligations. The mortality tables used in Germany and the UK, for example, include an allowance for expected future increases in life expectancy.

40 Other provisions

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

€ m	Non-current		Current		Total	
	2017	2018	2017	2018	2017	2018
Other employee benefits	521	789	141	205	662	994
Technical reserves (insurance)	411	415	231	237	642	652
Aircraft maintenance	155	160	35	58	190	218
Tax provisions	–	–	163	130	163	130
Restructuring provisions	54	25	49	48	103	73
Postage stamps ¹	–	–	173	–	173	–
Miscellaneous provisions	280	266	339	395	619	661
Other provisions	1,421	1,655	1,131	1,073	2,552	2,728

¹ Due to the initial application of IFRS 15, the provision for postage stamps was reclassified to other liabilities as at 1 January 2018.

40.1 Changes in other provisions

€ m	Other employee benefits	Restructuring provisions	Technical reserves (insurance)	Aircraft maintenance	Postage stamps ¹	Tax provisions	Miscellaneous provisions	Total
Balance at 1 January 2018	662	103	642	190	173	163	619	2,552
Adjustments as a result of new IFRSs ²	–	–34	–	22	–173	–	–3	–188
Balance at 1 January 2018, adjusted	662	69	642	212	–	163	616	2,364
Changes in consolidated group	0	0	0	0	–	0	–5	–5
Utilisation	–362	–33	–33	–22	–	–55	–196	–701
Currency translation differences	16	0	3	4	–	–1	–5	17
Reversal	–22	–3	–34	–36	–	–34	–71	–200
Unwinding of discount/changes in discount rate	–2	0	0	0	–	0	4	2
Reclassification	3	0	0	0	–	0	0	3
Addition	699	40	74	60	–	57	318	1,248
Balance at 31 December 2018	994	73	652	218	–	130	661	2,728

¹ Due to the initial application of IFRS 15, the provision for postage stamps was reclassified to other liabilities as at 1 January 2018.

² [Note 4.](#)

The provision for other employee benefits primarily covers workforce reduction expenses (severance payments, transitional benefits, partial retirement, etc.), stock appreciation rights (SARs) and jubilee payments. It increased largely as a result of the addition made in respect of the early retirement programme, [note 3.](#)

The restructuring provisions comprise mainly costs from the closure of terminals and outstanding obligations to employees regarding post-employment benefits.

Technical reserves (insurance) consist mainly of outstanding loss reserves and IBNR reserves; further details can be found in [note 7.](#)

The provision for aircraft maintenance relates to obligations for major aircraft and engine maintenance by third-party companies.

The provision for postage stamps was reported in other provisions until 31 December 2017. Due to the application of IFRS 15, the provision for postage stamps was reclassified to other liabilities as at 1 January 2018.

Of the tax provisions, €53 million (previous year: €57 million) relates to VAT, €31 million (previous year: €62 million) to customs and duties, and €46 million (previous year: €44 million) to other tax provisions.

40.2 Miscellaneous provisions

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

€ m	2017	2018
Litigation costs, of which non-current: 54 (previous year: 71)	117	104
Risks from business activities, of which non-current: 6 (previous year: 10)	42	40
Miscellaneous other provisions, of which non-current: 206 (previous year: 199)	460	517
Miscellaneous provisions	619	661

40.3 Maturity structure

The maturity structure of the provisions recognised in financial year 2018 is as follows:

€ m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years	Total
2018							
Other employee benefits	205	205	119	96	81	288	994
Technical reserves (insurance)	237	191	117	46	24	37	652
Aircraft maintenance	58	58	27	3	5	67	218
Tax provisions	130	0	0	0	0	0	130
Restructuring provisions	48	6	3	3	4	9	73
Miscellaneous provisions	395	117	33	26	31	59	661
Total	1,073	577	299	174	145	460	2,728

41 Financial liabilities

€ m	Non-current		Current		Total	
	2017	2018	2017	2018	2017	2018
Bonds	4,835	5,463	515	9	5,350	5,472
Amounts due to banks	39	84	117	180	156	264
Lease liabilities	159	7,756	22	2,103	181	9,859
Liabilities at fair value through profit or loss	9	1	35	37	44	38
Other financial liabilities	109	565	210	264	319	829
Financial liabilities	5,151	13,869	899	2,593	6,050	16,462

The amounts due to banks mainly comprise current overdraft facilities due to various banks.

The amounts reported under financial liabilities at fair value through profit or loss mainly relate to the negative fair values of derivative financial instruments.

41.1 Bonds

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

Significant bonds

	Nominal coupon %	Issue volume €m	Issuer	2017		2018	
				Carrying amount €m	Fair value €m	Carrying amount €m	Fair value €m
Bond 2012/2022	2.950	500	Deutsche Post Finance B.V.	498	561	498	546
Bond 2012/2020	1.875	300	Deutsche Post AG	299	317	299	311
Bond 2012/2024	2.875	700	Deutsche Post AG	698	806	698	784
Bond 2013/2018	1.500	500	Deutsche Post AG	503	507	–	–
Bond 2013/2023	2.750	500	Deutsche Post AG	497	566	497	553
Bond 2016/2021	0.375	750	Deutsche Post AG	746	757	747	755
Bond 2016/2026	1.250	500	Deutsche Post AG	497	517	497	506
Bond 2017/2027	1.000	500	Deutsche Post AG	494	494	495	483
Bond 2018/2028	1.625	750	Deutsche Post AG	–	–	741	757
Convertible bond 2012/2019 ¹	0.600	1,000	Deutsche Post AG	108	112	–	–
Convertible bond 2017/2025 ²	0.050	1,000	Deutsche Post AG	946	940	953	938

¹ Fair value of the debt component; the fair value of the convertible bond 2012/2019 amounted to €215 million in the previous year.

² Fair value of the debt component; the fair value of the convertible bond 2017/2025 is €956 million (previous year: €1,057 million).

The bond 2013/2018 was repaid in October. A traditional bond (2018/2028) was placed in December 2018.

CONVERTIBLE BONDS

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

In addition, Deutsche Post AG was granted call options allowing it to repay the bonds early at face value plus accrued interest if Deutsche Post AG's share price more than temporarily exceeds 130% of the conversion price applicable at that time.

The convertible bonds have a debt component and an equity component. In subsequent years, interest will be added to the carrying amount of the bonds, up to the issue amount, using the effective interest method and recognised in profit or loss.

Convertible bonds

	2012/2019	2017/2025
Issue date	6 Dec. 2012	13 Dec. 2017
Issue volume	€1 billion	€1 billion
Outstanding volume	–	€1 billion
Exercise period, conversion right	16 Jan. 2013 to 22 Nov. 2019	13 Dec. 2020 to 13 June 2025 ¹
Exercise period, call option	6 Dec. 2017 to 16 Nov. 2019	2 Jan. 2023 to 10 June 2025
Value of debt component at issue date ²	€920 million	€946 million
Value of equity component at issue date ³	€74 million	€53 million
Transaction costs (debt/equity component)	€5.8/0.5 million	€4.7/0.3 million
Conversion price at issue	€20.74	€55.69
Conversion price after adjustment ⁴		
in 2014	€20.69	–
in 2015	€20.63	–
in 2016	€20.60	–
in 2017	€20.47	–
in 2018	–	€55.61
Conversions to date (number of new shares) ⁵		
in 2015	5 thousand	–
in 2016	28 million	–
in 2017	15 million	–
in 2018	5 million	–

¹ Excluding possible contingent conversion periods according to the bond terms.

² Including transaction costs and call option granted.

³ Recognised in capital reserves.

⁴ After dividend payment.

⁵ Carrying dividend rights for the respective financial year.

On 7 March 2018, Deutsche Post AG exercised its right to call the outstanding notional volume of the convertible bond 2012/2019 early. The bonds amounting to €0.7 million still outstanding after the relevant deadline were redeemed on 27 March 2018.

41.2 Lease liabilities

Due to the initial application of IFRS 16 as at 1 January 2018, additional liabilities from leases were recognised. Only finance lease liabilities in accordance with IAS 17 were recognised in the previous year.

€1,722 million in financial liabilities under leases was repaid and €376 million in interest on leases was paid in financial year 2018, [note 43](#). Future cash outflows amounted to €12 billion as at the reporting date, [note 44.1](#).

Possible future cash outflows amounting to €1.3 billion were not included in the lease liability because it is not sufficiently likely that the leases will be extended (or not terminated).

Leases that the Group has entered into as a lessee but that have not yet begun will possibly result in future payment outflows totalling €0.4 billion.

Lease assets with a carrying amount of €9,503 million (previous year: €169 million and reported as finance lease assets) are recognised in property, plant and equipment.

41.3 Other financial liabilities

The largest item, in the amount of €499 million, relates to the promissory note loans issued by Deutsche Post AG in September 2018, divided into six tranches for a total nominal amount of €500 million. The fair value of all of the tranches amounted to €501 million as at 31 December 2018.

42 Other liabilities

€ m	2017	2018
Tax liabilities	1,123	1,196
Incentive bonuses	688	616
Wages, salaries, severance payments	389	384
Compensated absences	352	347
Payables to employees and members of executive bodies	199	229
Contract liabilities, of which non-current: 4	–	227
Social security liabilities	172	171
Debtors with credit balances	124	144
Postage stamps (contract liabilities)	–	137
Deferred income, of which non-current: 61 (previous year: 100)	356	129
Overtime claims	115	97
Liabilities from the sale of residential building loans, of which non-current: 67 (previous year: 86)	105	85
COD liabilities	68	62
Insurance liabilities	33	31
Liabilities from cheques issued	35	28
Other compensated absences	28	28
Accrued rentals	40	19
Liabilities from loss compensation	12	10
Accrued insurance premiums for damages and similar liabilities	12	8
Miscellaneous other liabilities, of which non-current: 73 (previous year: 86)	823	689
Other liabilities	4,674	4,637
of which current	4,402	4,432
non-current	272	205

As a result of the initial application of IFRS 15, the postage stamp obligation formerly reported under provisions was reclassified to other liabilities, as this item is a contract liability for a service paid for but not yet provided. An amount of €162 million was reclassified from current deferred income to contract liabilities.

Of the tax liabilities, €629 million (previous year: €590 million) relates to VAT, €399 million (previous year: €371 million) to customs and duties, and €168 million (previous year: €162 million) to other tax liabilities.

The liabilities from the sale of residential building loans relate to obligations of Deutsche Post AG to pay interest subsidies to borrowers to offset the deterioration in borrowing terms in conjunction with the assignment of receivables in previous years, as well as pass-through obligations from repayments of principal and interest for residential building loans sold.

Miscellaneous other liabilities include a large number of individual items.

42.1 Maturity structure

€ m		
	2017	2018
Up to 1 year	4,402	4,432
More than 1 year to 2 years	122	95
More than 2 years to 3 years	45	36
More than 3 years to 4 years	32	22
More than 4 years to 5 years	22	14
More than 5 years	51	38
Other liabilities	4,674	4,637

There is no significant difference between the carrying amounts and the fair values of the other liabilities due to their short maturities or market interest rates. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

Cash flow disclosures

43 Cash flow disclosures

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

Liabilities arising from financing activities

€ m					
	Bonds	Amounts due to banks	Lease liabilities	Other financial liabilities ²	Total
Balance at 31 December 2016/1 January 2017	4,990	158	209	418	5,775
Cash changes	668	49	-26	-37	654
Non-cash changes ¹					
Leases	0	0	7	0	7
Currency translation	-5	-23	-2	-8	-38
Fair value adjustment	0	-27	0	-8	-35
Other changes	-303	-1	-7	-200	-511
Balance at 31 December 2017	5,350	156	181	165	5,852
Adjustment as a result of new IFRSs	0	0	9,235	0	9,235
Adjusted at 1 January 2018	5,350	156	9,416	165	15,087
Cash changes	228	91	-1,722	432	-971
Non-cash changes ¹					
Leases	0	0	2,078	0	2,078
Currency translation	0	-2	89	-1	86
Fair value adjustment	0	0	0	1	1
Other changes	-106	19	-2	33	-56
Balance at 31 December 2018	5,472	264	9,859	630	16,225

¹ Includes reclassifications of cash to other cash flow items

² Differences from financial liabilities, note 41, are due to cash-related factors presented in other cash flow items, e.g., changes in cash and cash equivalents resulting from earn-outs or derivatives.

€-110 million of the other non-cash changes relate to the non-cash exercise of the convertible bond 2012/2019.

As at the reporting date, there were no hedges attributable solely to the liabilities arising from financing activities. The effects on the cash flows from portfolio hedges and from net investment hedges are presented in the other financing activities cash flow item in the amount of €38 million.

In financial year 2018, as in the prior year, non-cash transactions were entered into which were not included in the cash flow statement in accordance with IAS 7.43 and 7.44. They related mainly to a property that was contributed to Deutsche Post Pensions-Treuhand GmbH & Co. KG (previous year: 18 properties). Although income was recognised as a result of the contribution, no cash or cash equivalents were received.

43.1 Net cash from operating activities

Net cash from operating activities improved, due mainly to the initial application of IFRS 16. The former operating lease payments are now shown in net cash used in financing activities, provided they do not relate to payments under short-term or low-value asset leases. Whilst the previous year was influenced by the funding of pension obligations in the UK amounting to €495 million, the 2018 financial year saw a year-on-year increase of €162 million in the cash outflow from changes in working capital.

Non-cash income and expenses are as follows:

Non-cash income and expenses

€ m	2017	2018
Expense from the remeasurement of assets	102	96
Income from the remeasurement of liabilities	-131	-140
Income from the disposal of assets	-54	-2
Staff costs relating to equity-settled share-based payments	49	57
Other	-6	2
Non-cash income (-) and expenses (+)	-40	13

43.2 Net cash used in investing activities

Net cash used in investing activities increased from €2,091 million to €2,777 million. Whereas proceeds from the disposal of subsidiaries grew in the previous year due to the sale of Williams Lea Tag Group in particular, cash paid to acquire property, plant and equipment and intangible assets rose sharply, by €446 million to €2,649 million, in the reporting period.

Details on the Group's acquisitions can be found in [note 2](#).

43.3 Net cash used in financing activities

Net cash used in financing activities increased substantially year-on-year, rising by €1,952 million to €3,039 million.

The placement of a bond and a convertible bond resulted in issuing proceeds of €1.5 billion in the previous year, whilst in the reporting period the issuance of promissory note loans and a bond produced issuing proceeds in the amount of €1.2 billion. Cash outflows from the repayment of financial liabilities increased by €1.5 billion, influenced principally by the initial recognition of lease liabilities.

Further details on the cash flow statement and free cash flow can be found in [the Group Management Report, page 47 f.](#)

Other disclosures

44 Risks and financial instruments of the Group

44.1 Risk management

As a result of its operating activities, the Group is exposed to financial risks that may arise from changes in exchange rates, commodity prices and interest rates. Deutsche Post DHL Group manages these risks centrally through the use of non-derivative and derivative financial instruments. Derivatives are used exclusively to mitigate non-derivative financial risks, and fluctuations in their fair value should not be assessed separately from the underlying transaction.

The Group's internal risk guidelines govern the universe of actions, responsibilities and necessary controls regarding the use of derivatives. Financial transactions are recorded, assessed and processed using proven risk management software, which also regularly documents the effectiveness of hedging relationships. Portfolios of derivatives are regularly reconciled with the banks concerned.

To limit counterparty risk from financial transactions, the Group may only enter into this type of contract with prime-rated banks. The conditions for the counterparty limits individually assigned to the banks are reviewed on a daily basis. The Group's Board of Management is informed internally at regular intervals about existing financial risks

and the hedging instruments deployed to mitigate them. Financial instruments are accounted for and measured in accordance with IFRS 9. The Group exercised the option to continue to apply hedge accounting in accordance with IAS 39.

Disclosures regarding risks associated with the Group's defined benefit retirement plans and their mitigation can be found in [note 39.5](#).

Liquidity management

The ultimate objective of liquidity management is to secure the solvency of Deutsche Post DHL Group and all Group companies. Consequently, liquidity in the Group is centralised as much as possible in cash pools and managed in the Corporate Center.

The centrally available liquidity reserves (funding availability), consisting of central short-term financial investments and committed credit lines, are the key control parameter. The target is to have at least €2 billion available in a central credit line.

As at 31 December 2018, the Group had central liquidity reserves of €4.3 billion (previous year: €4.2 billion), consisting of central financial investments amounting to €2.3 billion plus a syndicated credit line of €2 billion.

The maturity structure of non-derivative financial liabilities within the scope of IFRS 7 based on cash flows is as follows:

Maturity structure of financial liabilities

€ m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years
At 31 December 2018						
Non-current financial liabilities ¹	85	616	846	730	761	3,583
Non-current lease liabilities	0	1,821	1,449	1,222	958	4,466
Other non-current financial liabilities	0	15	12	10	8	21
Non-current financial liabilities	85	2,452	2,307	1,962	1,727	8,070
Current financial liabilities	468					
Current lease liabilities	2,137					
Trade payables	7,422					
Other current financial liabilities	0					
Current financial liabilities	10,027					
At 31 December 2017						
Non-current financial liabilities ¹	86	287	403	839	591	3,430
Other non-current financial liabilities	0	1	2	1	1	81
Non-current financial liabilities	86	288	405	840	592	3,511
Current financial liabilities	877					
Trade payables	7,343					
Other current financial liabilities	337					
Current financial liabilities	8,557					

¹ All of the convertible bond 2017/2025 was shown in the "More than 5 years" range.

The maturity structure of the derivative financial instruments based on cash flows is as follows:

Maturity structure of derivative financial instruments

€ m	Up to 1 year	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years to 4 years	More than 4 years to 5 years	More than 5 years
At 31 December 2018						
Derivative receivables – gross settlement						
Cash outflows	-1,853	-1	0	0	0	0
Cash inflows	1,900	1	0	0	0	0
Net settlement						
Cash inflows	4	0	0	0	0	0
Derivative liabilities – gross settlement						
Cash outflows	-1,231	-20	-11	-10	-7	0
Cash inflows	1,211	20	11	10	7	0
Net settlement						
Cash outflows	-3	-1	0	0	0	0
At 31 December 2017						
Derivative receivables – gross settlement						
Cash outflows	-2,421	-312	0	0	0	0
Cash inflows	2,489	325	0	0	0	0
Net settlement						
Cash inflows	13	2	0	0	0	0
Derivative liabilities – gross settlement						
Cash outflows	-922	-87	0	0	0	0
Cash inflows	898	84	0	0	0	0
Net settlement						
Cash outflows	-17	-5	0	0	0	0

Derivative financial instruments entail both rights and obligations. The contractual arrangement defines whether these rights and obligations can be offset against each other and therefore result in a net settlement, or whether both parties to the contract will have to perform their obligations in full (gross settlement).

CURRENCY RISK AND CURRENCY MANAGEMENT

The international business activities of Deutsche Post DHL Group expose it to currency risks from recognised or planned future transactions:

Accounting-related currency risks arise from the measurement and settlement of items in foreign currencies that are recognised if the exchange rate on the measurement or settlement date differs from the rate on recognition. The resulting foreign exchange differences directly impact on profit or loss. In order to mitigate this impact as far as possible, all significant accounting-related currency risks within the Group are centralised at Deutsche Post AG through the in-house bank function. The centralised risks are aggregated by Corporate Treasury to calculate a net position per currency, and hedged externally based on value-at-risk limits. The currency-related value at risk (95%/one-month holding period) for the portfolio totalled €5 million (previous year: €5 million) at the reporting date; the current limit was a maximum of €5 million.

The notional amount of the currency forwards and currency swaps used to manage accounting-related currency risks amounted to €2,293 million at the reporting date (previous year: €1,630 million); the fair value was €23 million (previous year: €10 million). For simplification purposes, fair value hedge accounting was not applied to the derivatives used, which are reported as trading derivatives instead.

Currency risks arise from planned foreign currency transactions if the future foreign currency transactions are settled at exchange rates that differ from the rates originally planned or calculated. These currency risks are captured and quantified centrally in Corporate Treasury. The rule-based, rolling hedging programme in place to date for these risks was discontinued in the course of 2017. Most of the existing hedges for 2018/2019 were closed out with reversing trades. Currency risks from planned transactions and transactions with existing contracts will only be hedged in selected cases in the future. The relevant hedging transactions are recognised using cash flow hedge accounting,

📌 note 44.3.

The following table shows the net open hedging positions at the reporting date in the currency pairs with the highest net positions and their weighted hedge rate.

Notional volume of hedging instruments

€ m	Total notional volume		Remaining term			Average hedge rate
	31 Dec. 2017	31 Dec. 2018	Up to 1 year	1 to 5 years	More than 5 years	31 Dec. 2018
Hedging of currency risk						
Currency forwards purchase EUR/CNY	4	340	340	0	0	8.09
Currency forwards sale EUR/CZK	-322	-177	-131	-46	0	26.39
Currency forwards purchase USD/TWD	0	105	105	0	0	29.83

Currency risks also result from translating assets and liabilities of foreign operations into the Group's currency (translation risk). No hedges were in place for currency translation risks at the end of 2018.

In total, currency forwards and currency swaps in a notional amount of €3,363 million (previous year: €4,321 million) were outstanding at the reporting date. The corresponding fair value was €23 million (previous year: €56 million). As at the reporting date, there were no currency options or cross-currency swaps.

Of the unrealised gains or losses from currency derivatives recognised in equity as at 31 December 2018, €2 million (previous year: €36 million) is expected to be recognised in income in the course of 2019.

IFRS 7 requires the disclosure of quantitative risk data showing how profit or loss and equity are affected by changes in exchange rates at the reporting date. The impact of these changes in exchange rates on the portfolio of foreign currency financial instruments is assessed by means of a value-at-risk calculation (95% confidence/one-month holding period). It is assumed that the portfolio as at the reporting date is representative for the full year. Effects of hypothetical changes in exchange rates on translation risk do not fall within the scope of IFRS 7. The following assumptions are used as a basis for the sensitivity analysis:

Primary financial instruments in foreign currencies used by Group companies are hedged by Deutsche Post AG's in-house bank, with Deutsche Post AG setting and guaranteeing monthly exchange rates. Exchange rate-related changes therefore have no effect on the profit or loss and equity of the Group companies. Where, in individual cases, Group companies are not permitted to participate in in-house banking for legal reasons, their currency risks from primary financial instruments are fully hedged locally through the use of derivatives. They therefore have no impact on the Group's risk position.

Hypothetical changes in exchange rates have an effect on the fair values of Deutsche Post AG's external derivatives that is reported in profit or loss; they also affect the foreign currency gains and losses from remeasurement at the closing date of the in-house bank balances,

balances from external bank accounts as well as internal and external loans extended by Deutsche Post AG. The foreign currency value at risk of the foreign currency items concerned was €5 million at the reporting date (previous year: €5 million). In addition, hypothetical changes in exchange rates affect equity and the fair values of those derivatives used to hedge unrecognised firm commitments and highly probable forecast currency transactions, which are designated as cash flow hedges. The foreign currency value at risk of this risk position was €11 million as at 31 December 2018 (previous year: €7 million). The total foreign currency value at risk was €12 million at the reporting date (previous year: €9 million). The total amount is lower than the sum of the individual amounts given above, owing to interdependencies.

INTEREST RATE RISK AND INTEREST RATE MANAGEMENT

No interest rate hedging instruments were recognised as at the reporting date. The proportion of financial liabilities with short-term interest lock-ins, [note 41](#), amounts to 17% (previous year: 14%) of the total financial liabilities as at the reporting date. The effect of potential interest rate changes on the Group's financial position remains insignificant.

The quantitative risk data relating to interest rate risk required by IFRS 7 is presented in the form of a sensitivity analysis. This method determines the effects of hypothetical changes in market interest rates on interest income, interest expense and equity as at the reporting date. The following assumptions are used as a basis for the sensitivity analysis:

Primary variable-rate financial instruments are subject to interest rate risk and must therefore be included in the sensitivity analysis. Fixed-income financial instruments measured at amortised cost are not subject to interest rate risk.

If the market interest rate level as at 31 December 2018 had been 100 basis points higher, net finance costs would have increased by €2 million (previous year: €0 million). All interest rate derivatives had expired or been unwound at the reporting date. No interest rate risk with an impact on equity was determined.

MARKET RISK

As in the previous year, most of the risks arising from commodity price fluctuations, in particular fluctuating prices for kerosene and marine diesel fuels, were passed on to customers via operating measures. However, the impact of the related fuel surcharges is delayed by one to two months, so that earnings may be affected temporarily if there are significant short-term fuel price variations.

In addition, a small number of commodity swaps for diesel and marine diesel fuel were used to control residual risks. The principal amount of these commodity swaps totalled €14 million (previous year: €8 million); the fair value was €–3 million (previous year: €1 million).

IFRS 7 requires the disclosure of a sensitivity analysis, presenting the effects of hypothetical commodity price changes on profit or loss and equity.

Changes in commodity prices affect the fair values of the derivatives used to hedge highly probable forecast commodity purchases (cash flow hedges) and the hedging reserve in equity. No cash flow hedges for commodity prices were outstanding at the reporting date. For this reason, commodity price movements would have had no effect on the hedging reserve in equity, as in the previous year.

In the interests of simplicity, the commodity price hedges are not recognised as cash flow hedges. For these derivatives, commodity price movements affect the fair values of the derivatives and, consequently, the income statement. As in the previous year, if the underlying commodity prices had been 10% higher at the reporting date, this would have increased the fair values in question and, consequently, operating profit by €1 million. A corresponding decline in the commodity prices would have reduced the fair values of the derivatives and operating profit by €1 million.

CREDIT RISK

Credit risk is incurred by the Group from operating activities and from financial transactions. In an effort to minimise credit risk from operating activities and financial transactions, each counterparty is assigned individual limits, the utilisation of which is regularly monitored. The Group only enters into transactions with prime-rated counterparties. A test is performed at the reporting dates to establish whether an impairment loss needs to be charged on the positive fair values due to the individual counterparties' credit quality. This was not the case for any of the counterparties as at 31 December 2018. The Group's heterogeneous customer structure means that there is no risk concentration. The aggregate carrying amount of financial assets represents the maximum default risk.

As a rule, the expected credit loss associated with financial assets must be determined in accordance with the expected credit loss impairment model in IFRS 9. Expected credit loss (ECL) within the meaning of IFRS 9 is an estimate of credit loss over the expected lifetime of a financial instrument, weighted for the probability of default. A credit loss is the difference between the contractual cash flows to which the Group is entitled and the cash flows expected by the Group. Since the expected credit loss takes into account the amount and timing of payments, a credit loss may also occur if the Group expects payment to be made in full, but later than the contractually agreed date.

The Group distinguishes between two types of financial assets both of which are subject to the new expected credit loss model: trade receivables and contract assets, on the one hand, and debt instruments measured at amortised cost, on the other. Cash and cash equivalents are also subject to the IFRS 9 impairment rules. However, the impairment loss identified is not material.

ECL is generally measured at the level of individual items; in exceptional cases, such as groups of receivables with the same credit risk characteristics, it is measured collectively at portfolio level. The Standard stipulates the three-stage "general approach" to determining credit loss for this process. This does not include trade receivables and contract assets, for which a simplified approach is applied.

In accordance with the three-stage model, debt instruments measured at amortised cost are initially recognised in Stage 1. The expected loss is equal to the loss that may occur due to possible default events in the twelve months following the reporting date. Financial assets that have experienced a significant increase in credit risk of the counterparty since initial recognition are transferred from Stage 1 to Stage 2. A "significant increase" includes situations in which debtors are no longer able to meet their payment obligations at short notice or when it appears that the debtor has experienced an actual or expected deterioration in business performance. The credit risk can then be measured using the probability of default (PD) over the instrument's lifetime (lifetime PD). The impairment loss is equivalent to the loss that may occur due to possible default events during the remaining term of the financial asset. Assets must be transferred from Stage 1 to Stage 2 when the contractual payments are more than 30 days past due. If there is objective evidence that a financial asset is impaired, it must be transferred to Stage 3. In cases where payments are more than 90 days past due, there is reason to believe that the debtor is experiencing significant financial difficulties. This constitutes objective evidence of a credit loss. The financial asset must therefore be transferred to Stage 3.

All debt instruments measured at amortised cost are considered to be at low risk of default. The impairment loss recognised in the period was therefore limited to the twelve-month expected credit loss. Management considers listed bonds to meet the criteria for a low risk of default when they have been assigned an investment-grade rating by at least one major rating agency. Other instruments qualify for the low-default-risk category if the risk of non-performance is low and the debtor is at all times in a position to meet contractual payment obligations at short notice.

The impairment model is applicable to non-current and current debt instruments as well as lease receivables. Debt instruments comprise mainly deposits, collateral provided and loans to third parties.

The gross amounts of financial assets subject to the three-stage model are presented in the following table:

Stage 1 – twelve-month ECL

€ m	Gross carrying amount	Loss allowance	Net carrying amount
Balance at 1 January 2018	987	-27	960
Newly originated financial assets	667	-	667
Impairment loss	-17	-	-17
Disposal	-572	-	-572
Repayment	-	-	-
Reversal of loss allowance	-	17	17
Increase in loss allowance	-	-16	-16
Currency translation differences	1	-	1
Reclassifications	-66	-	-66
Changes in consolidated group	-9	-	-9
Balance at 31 December 2018	991	-26	965

In the financial year, no cash flows from debt instruments were modified and no changes were made to the model for determining risk parameters. As a result, the input parameters were not remeasured.

All debt instruments and lease receivables were recognised in Stage 1 at the reporting date; they were neither past due nor impaired. As at the reporting date, no indications pointed to poor performance of the debt instruments and lease receivables. There was no reclassification between the stages in the financial year.

At the reporting date, trade receivables from customer relationships amounting to €8,247 million (previous year: €8,218 million) were due within one year. They are held primarily with the aim of collecting the principal amount of the receivables. These items are therefore assigned to the “held to collect contractual cash flows” business model and measured at amortised cost.

Trade receivables changed as follows:

Changes in receivables

€ m	2017	2018
Gross receivables		
Balance at 1 January	8,133	8,365
Changes	232	88
Balance at 31 December	8,365	8,453
Loss allowances		
Balance at 1 January	-168	-147
Adjustment as a result of IFRS 9	0	-42
Adjusted balance at 1 January	-168	-189
Changes	21	-17
Balance at 31 December	-147	-206
Carrying amount at 31 December	8,218	8,247

The Group applies the simplified approach provided for in IFRS 9 to determine the credit risk from the Group’s operating activities applicable to trade receivables and contract assets. Trade receivables and contract assets are generally short-term in nature and contain no significant financing components. According to the simplified impairment approach, a loss allowance in an amount equal to the lifetime expected credit losses must be recognised for all instruments, regardless of their credit quality.

The Group calculates the expected loss using impairment tables for the individual divisions. The loss estimate, documented by way of loss rates, encompasses all of the available information, including historical data, current economic conditions and reliable forecasts of future economic conditions (macroeconomic factors).

The following table provides an overview of loss rates by age band that were used in the Group for the financial year under review:

Loss rates by age band

%	
	2018
1 to 60 days	0.1–0.4
61 to 120 days	0.4–5.0
121 to 180 days	3.0–20.0
181 to 360 days	20.0–60.0
More than 360 days	80.0–100.0

The following table shows the loss allowances calculated based on the loss rates as at 1 January 2018 or 31 December 2018:

Loss allowances

€ m	1 January 2018			31 December 2018		
	Gross carrying amount			Gross carrying amount		
	Receivables ¹	Contract assets	Loss allowance	Receivables ¹	Contract assets	Loss allowance
1 to 60 days	7,273	45	17	7,208	59	17
61 to 120 days	725		14	824		14
121 to 180 days	111		15	111		13
181 to 360 days	76		33	103		44
More than 360 days	180		110	207		118
Total	8,365	45	189	8,453	59	206

¹ Receivables relate exclusively to trade receivables.

Contract assets relate to goods and services not yet invoiced with essentially the same risk profile as trade receivables.

Trade receivables and contract assets are derecognised when a reasonable assessment indicates they are no longer recoverable. The relevant indicators include a delay in payment of more than 360 days. The average maturity of receivables is 50 days.

Impairment losses on trade receivables and contract assets are presented in other operating expenses. Gains on the reversal of impairment losses are recognised in other operating income.

In financial year 2018, factoring agreements were in place on the basis of which the banks are obliged to purchase existing and future trade receivables. The banks' purchase obligations are limited to a maximum portfolio of receivables of €655 million. Deutsche Post DHL Group

can decide freely whether, and to what extent, the revolving notional volume is utilised. The risks relevant to the derecognition of the receivables include credit risk and the risk of delayed payment (late payment risk).

Credit risk represents primarily all the risks and rewards associated with ownership of the receivables. This risk is transferred in full to the bank against payment of a fixed fee for doubtful accounts. A significant late payment risk does not exist. The receivables are therefore derecognised in their entirety. In financial year 2018, the Group recognised programme fees (interest, allowances for doubtful accounts) of €2 million (previous year: €2 million) as an expense in the context of its continuing exposure. The notional volume of receivables factored as at 31 December 2018 amounted to €420 million.

44.2 Collateral

Collateral provided

€ m	2017	2018
Non-current financial assets, of which	169	187
for assets for the settlement of residential building loans	87	74
for sureties paid	76	84
Current financial assets, of which	39	43
for US cross-border lease (QTE lease) transactions	7	7
for sureties paid	14	12

The collateral provided mainly relates to other financial assets.

44.3 Derivative financial instruments

FAIR VALUE HEDGES

There were no fair value hedges as at 31 December 2018, as in the previous year. At the reporting date, the unwinding of interest rate swaps resulted in carrying amount adjustments of €21 million (previous year: €32 million) which are included in non-current financial liabilities. The adjustments in the carrying amount will be amortised using the effective interest method over the remaining term of the liabilities (until 2022) and will reduce the interest expense in future.

CASH FLOW HEDGES

The Group uses currency forwards and currency swaps to hedge the cash flow risk from future foreign currency operating revenue and expenses. At the reporting date, the fair values of currency forwards and currency swaps amounted to €0 million (previous year: €46 million). The hedged items will have an impact on cash flow by 2023.

As in the previous year, no cash flow hedges for interest and commodity risks were outstanding at the reporting date.

The gains and losses on open hedging instruments recognised in equity at the reporting date amounted to €0 million. No ineffective portions of hedges were recognised. In the financial year, realised gains of €61 million and realised losses of €26 million from cash flow hedges on currency risks were recognised in other comprehensive income, due to the recognition of the hedged item in profit or loss. In addition, €5 million in realised losses was recognised in materials expense.

Cash flow hedging reserve

€ m	2017	2018
Balance at 1 January	11	33
Gains and losses on effective hedges	36	-15
Reclassification due to the recognition of hedged items	-14	-30
Reclassification to the currency translation reserve	0	6
Balance at 31 December	33	-6

The carrying amounts of the cash flow hedges and the changes in fair value relevant to the determination of ineffectiveness during the period are as follows:

Hedging currency risk

€ m	Carrying amount	Change in fair value for determination of ineffectiveness	Notional volume
31 December 2018			
Currency forwards			
Derivative assets ¹	14	4	525
Derivative liabilities ²	-14	-14	546

¹ Assets at fair value through profit or loss.

² Liabilities at fair value through profit or loss.

No ineffectiveness was identified, as the changes in value of the underlying transactions (€10 million) and the hedging transactions (€-10 million) offset each other:

Information on hedging transactions

€ m	Change in value of the period of the hedging transaction for determination of ineffectiveness	Level of the hedging reserve	
		Active hedges	Terminated hedges
31 December 2018			
Hedging of currency risk (cash flow hedges)			
Designated components	10	0	-6
Non-designated components			

NET INVESTMENT HEDGES

Currency risks resulting from the translation of foreign operations were no longer hedged as at the end of 2018. At the reporting date, there was still a positive amount of €25 million from terminated net investment hedges in the currency translation reserve.

44.4 Additional disclosures on the financial instruments used in the Group

The Group classifies financial instruments in line with the respective balance sheet items. The following table reconciles the financial instruments from the IAS 39 categories as at 31 December 2017 to the IFRS 9 categories in the opening balance at 1 January 2018, as well as in the closing balance at 31 December 2018, and their respective fair values as at the reporting date:

Reconciliation of carrying amounts in accordance with IFRS 9

€ m

	31 December 2017			
	Carrying amount	IAS 39 carrying amount	Other financial instruments outside IAS 39 ¹	IFRS 7 fair value
ASSETS				
At cost	12,317	12,272	45	518
Loans and receivables	12,303	12,258	45	504
Non-current financial assets	504	466	38	504
Trade receivables	8,218	8,218		n.a.
Current financial assets	76	69	7	n.a.
Other current assets	370	370		n.a.
Less cash and cash equivalents	3,135	3,135		n.a.
Available-for-sale financial assets ²	14	14		14
Non-current financial assets	14	14		14
Assets measured at cost				
Non-current financial assets				
Current financial assets				
Other current assets				
At fair value	791	791		791
Available-for-sale financial assets ²	545	545		545
Non-current financial assets	45	45		45
Current financial assets	500	500		500
Assets at fair value through profit or loss	246	246		246
Non-current financial assets	170	170		170
Debt instruments				
Equity instruments				
Fair value option	156	156		156
Derivatives designated as hedges	14	14		14
Current financial assets	76	76		76
Debt instruments	0	0		0
Trading	16	16		16
Derivatives designated as hedges	60	60		60
Assets at fair value through other comprehensive income				
Not IFRS 7	2,045			n.a.
Other current assets	1,814			n.a.
Other non-current assets	231			n.a.
TOTAL ASSETS	15,153	13,063	45	

¹ Relates to lease receivables or liabilities.

² The fair value is assumed to be equal to the carrying amount.

Reconciliation to IFRS 9			31 December 2018			
Reclassification	Adjustment/ impairment loss	1 January 2018 Carrying amount	Carrying amount	IFRS 9 carrying amount	Other financial instruments outside IFRS 9 ¹	IFRS 7 fair value
-40	-44	12,233	12,288	12,181	107	
-950	-42	11,311	11,264	11,264		
-504						
	-42	8,176	8,247	8,247		n.a.
-76						
-370						
		3,135	3,017	3,017		n.a.
-14						
-14						
924	-2	922	1,024	917	107	493
478	-2	476	499	404	95	493
76		76	100	88	12	n.a.
370		370	425	425		
30		821	1,074	1,074		1,074
-545						
-45						
-500						
528		774	1,031	1,031		1,031
28		198	188	188		188
183		183	187	187		187
1		1	1	1		1
-156		0				
		14				
500		576	843	843		843
500		500	800	800		800
		16	29	29		29
		60	14	14		14
47		47	43	43		43
10		2,055	2,297			n.a.
		1,814	1,944			n.a.
10		241	353			n.a.
0	-44	15,109	15,659	13,255	107	

Reconciliation of carrying amounts in accordance with IFRS 9

€ m

	31 December 2017			
	Carrying amount	IAS 39 carrying amount	Other financial instruments outside IAS 39 ¹	IFRS 7 fair value
EQUITY AND LIABILITIES				
At cost	13,454	13,273	181	6,576
Other financial liabilities	13,454	13,273	181	6,576
Non-current financial liabilities ²	5,142	4,983	159	5,622
Other non-current liabilities	86	86		86
Current financial liabilities	864	842	22	868
Trade payables	7,343	7,343		n.a.
Other current liabilities	19	19		n.a.
Liabilities at fair value	44	44		44
Earn-out obligation	10	10		10
Non-current financial liabilities ²	6	6		6
Current financial liabilities	4	4		4
Trading	6	6		6
Non-current financial liabilities				
Current financial liabilities	6	6		6
Derivatives designated as hedges	28	28		28
Non-current financial liabilities ²	3	3		3
Current financial liabilities	25	25		25
Not IFRS 7	4,569			n.a.
Other non-current liabilities	186			n.a.
Other current liabilities	4,383			n.a.
TOTAL EQUITY AND LIABILITIES	18,067	13,317	181	–

¹ Relates to lease receivables or liabilities.

² The Deutsche Post AG and Deutsche Post Finance B.V. bonds included in non-current financial liabilities are carried at amortised cost. Where required, the carrying amounts of unwound interest rate swaps were adjusted. One of the Deutsche Post Finance B.V. bonds was designated as a fair value hedge as at the reporting date. A basis adjustment was recognised for the effective portion of the hedge in accordance with IAS 39. The bond is therefore not recognised fully at either fair value or amortised cost. The convertible bond issued by Deutsche Post AG in December 2017 had a fair value of €956 million as at the reporting date. The fair value of the debt component at the reporting date was €938 million.

If there is an active market for a financial instrument (e.g. a stock exchange), its fair value is determined by reference to the market or quoted exchange price at the reporting date. If no fair value is available in an active market, the quoted prices in an active market for similar instruments or recognised valuation techniques are used to determine fair value. The valuation techniques used incorporate the key factors determining the fair value of the financial instruments using valuation parameters that are derived from the market conditions as at the reporting date. Counterparty risk is analysed on the basis of the current credit default swaps signed by the counterparties. The fair values of other non-current receivables correspond to the present values of the payments related to the assets, taking into account current interest rate parameters.

Cash and cash equivalents, trade receivables and other receivables have predominantly short remaining maturities. As a result, their carrying amounts as at the reporting date are approximately equivalent to their fair values. Trade payables and other liabilities also have short remaining maturities; the recognised amounts approximately represent their fair values.

The available-for-sale financial assets measured at fair value up to 31 December 2017 related to equity and debt instruments. They were reclassified to the new IFRS 9 categories as at 1 January 2018:

- Money market funds of €500 million that are available on a daily basis were assigned to the hold-to-collect-and-sell business model and thus to the category for debt instruments at fair value through profit or loss (FVTPL), as it is uncertain whether they meet the SPPI criterion.
- Investments in equity instruments in the amount of €48 million were assigned to the categories for equity instruments at fair value through profit or loss (FVTPL) and equity instruments at fair value through other comprehensive income (FVOCI). No material equity instruments were sold during the financial year. Further details are presented in [note 7](#).

Reconciliation to IFRS 9			31 December 2018			
Reclassification	Adjustment/ impairment loss	1 January 2018 Carrying amount	Carrying amount	IFRS 9 carrying amount	Other financial instruments outside IFRS 9 ¹	IFRS 7 fair value
			24,322	14,463	9,859	6,406
			24,322	14,463	9,859	
			13,868	6,112	7,756	6,339
			67	67		67
			2,556	453	2,103	n.a.
			7,422	7,422		n.a.
			409	409		n.a.
			38	38		38
			15	15		15
			15	15		15
			9	9		9
			1	1		1
			8	8		8
			14	14		14
			0	0		0
			14	14		14
			4,161			n.a.
			138			n.a.
			4,023			n.a.
			28,521	14,501	9,859	-

Up to 31 December 2017, financial assets measured at fair value through profit or loss included securities to which the fair value option was applied, in order to avoid accounting inconsistencies. An active market exists for the assets, and they were recognised at fair value. As at 1 January 2018, these instruments were assigned to the IFRS 9 category for debt instruments measured at fair value through profit or loss (FVTPL).

The table below presents financial instruments recognised at fair value and financial instruments whose fair value is required to be disclosed. Each class is presented by the level in the fair value hierarchy to which it is assigned.

The simplification option under IFRS 7.29a was exercised for cash and cash equivalents, trade receivables, other assets, trade payables and other liabilities with predominantly short maturities. Their carrying amounts as at the reporting date are approximately equivalent to their fair values.

Financial assets and liabilities

€ m				
Class	Level 1 ¹	Level 2 ²	Level 3 ³	Total
31 December 2018				
Non-current financial assets	231	398	0	629
Current financial assets	800	43	0	843
Financial assets	1,031	441	0	1,472
Non-current financial liabilities	5,687	652	0	6,339
Current financial liabilities	9	21	15	45
Financial liabilities	5,696	673	15	6,384
31 December 2017				
Non-current financial assets	201	480	0	681
Current financial assets	500	76	0	576
Financial assets	701	556	0	1,257
Non-current financial liabilities	5,315	151	6	5,472
Current financial liabilities	519	31	4	554
Financial liabilities	5,834	182	10	6,026

¹ Quoted prices for identical instruments in active markets.

² Inputs other than quoted prices that are directly or indirectly observable for instruments.

³ Inputs not based upon observable market data.

Level 1 comprises mainly equity and debt instruments measured at fair value and debt instruments measured at amortised cost whose fair values can be determined based on quoted market prices.

In addition to financial assets and financial liabilities measured at amortised cost, commodity, interest rate and currency derivatives are reported under Level 2. The fair values of the derivatives are measured on the basis of discounted expected future cash flows, taking into account forward rates for currencies, interest rates and commodities (market approach). For this purpose, price quotations observable in the market (exchange rates, interest rates and commodity prices) are imported from standard market information platforms into the treasury management system. The price quotations reflect actual transactions involving similar instruments on an active market. If currency

options are used, they are measured using the Black-Scholes option pricing model. All significant inputs used to measure derivatives are observable on the market.

Level 3 comprises mainly the fair values of equity investments and subsequent payments associated with M&A transactions. They are measured using recognised valuation models, taking plausible assumptions into account. Financial ratios strongly influence the fair values of assets and liabilities. Increasing financial ratios lead to higher fair values, whilst decreasing financial ratios result in lower fair values.

No financial instruments were transferred between levels in financial year 2018. The following table shows the effect on net gains and losses of the financial instruments categorised within level 3 as at the reporting date:

Unobservable inputs (Level 3)

€ m	2017			2018		
	Assets		Liabilities	Assets		Liabilities
	Equity instruments	Debt instruments	Derivatives, of which equity derivatives	Equity instruments	Debt instruments	Derivatives, of which equity derivatives
At 1 January	0	15	0	0	10	0
Gains and losses (recognised in profit or loss)	0	0	0	0	0	0
Gains and losses (recognised in OCI)	0	0	0	0	0	0
Additions	0	0	0	0	12	0
Disposals	0	-5	0	0	-7	0
Currency translation effects	0	0	0	0	0	0
At 31 December	0	10	0	0	15	0

The net gains and losses on financial instruments classified in accordance with the individual IAS 39 measurement categories were as follows in 2017:

Net gains and losses by measurement category

€ m	2017
Loans and receivables	-147
Available-for-sale financial assets	
Net gains (+)/losses (-) recognised in OCI	2
Net gains (+)/losses (-) reclassified to profit or loss	1
Net gains (+)/losses (-) recognised in profit or loss	-7
Financial assets and liabilities at fair value through profit or loss	
Trading	-1
Fair value option	0
Other financial liabilities	-5

From 2018, the net gains and losses on financial instruments are presented per IFRS 9 category:

Net gains and losses by measurement category

€ m	2018
Net gains and losses on financial assets	
Debt instruments at amortised cost	
Net gains (+)/losses (-) recognised in profit or loss	-138
Debt instruments at fair value through profit or loss (FVTPL)	
Net gains (+)/losses (-) recognised in profit or loss	-11
Net gains/losses on financial liabilities	
Debt instruments at fair value through profit or loss (FVTPL)	
Net gains (+)/losses (-) recognised in profit or loss	0
Debt instruments at amortised cost	
Net gains (+)/losses (-) recognised in profit or loss	9

The net gains and losses mainly include the effects of the fair value measurement, impairment and disposals (disposal gains/losses) of financial instruments. Dividends and interest are not taken into account for the financial instruments measured at fair value through profit or loss. Income and expenses from interest and commission agreements of the financial instruments not measured at fair value through profit or loss are explained in the income statement disclosures.

The following tables show the impact of netting agreements based on master netting arrangements or similar agreements on financial assets and financial liabilities as at the reporting date:

Offsetting – assets

			Recognised net amount of assets set off	Assets and liabilities not set off in the balance sheet		Total
	Gross amount of assets	Gross amount of liabilities set off		Liabilities that do not meet offsetting criteria	Collateral received	
At 31 December 2018						
Derivative financial assets ¹	43	0	43	9	0	34
Trade receivables	8,382	135	8,247	0	0	8,247
Funds	579	579	0	0	0	0
At 31 December 2017						
Derivative financial assets ¹	89	0	89	34	0	55
Trade receivables	8,301	83	8,218	0	0	8,218
Funds	871	871	0	0	0	0

¹ Excluding derivatives from M&A transactions.

Offsetting – liabilities

			Recognised net amount of liabilities set off	Assets and liabilities not set off in the balance sheet		Total
	Gross amount of liabilities	Gross amount of assets set off		Assets that do not meet offsetting criteria	Collateral received	
At 31 December 2018						
Derivative financial liabilities ¹	23	0	23	9	0	14
Trade payables	7,557	135	7,422	0	0	7,422
Funds	588	579	9	0	0	9
At 31 December 2017						
Derivative financial liabilities ¹	34	0	34	34	0	0
Trade payables	7,426	83	7,343	0	0	7,343
Funds	877	871	6	0	0	6

¹ Excluding derivatives from M&A transactions.

Financial assets and liabilities are set off on the basis of netting agreements (master netting arrangements) only if an enforceable right of set-off exists and settlement on a net basis is intended as at the reporting date.

If the right of set-off is not enforceable in the normal course of business, the financial assets and liabilities are recognised in the balance sheet at their gross amounts as at the reporting date. The master netting arrangement creates a conditional right of set-off that can only be enforced by taking legal action.

To hedge cash flow and fair value risks, Deutsche Post AG enters into financial derivative transactions with a large number of financial services institutions. These contracts are subject to a standardised master agreement for financial derivative transactions. This agreement provides for a conditional right of set-off, resulting in the recognition of the gross amount of the financial derivative transactions at the reporting date. The conditional right of set-off is presented in the table.

Settlement processes arising from services related to postal deliveries are subject to the Universal Postal Convention and the Interconnect Remuneration Agreement – Europe (IRA-E). These agreements, particularly the settlement conditions, are binding on all public postal operators for the specified contractual arrangements. Imports and exports between the parties to the agreement during a calendar year are summarised in an annual statement of account and presented on a net basis in the final annual statement. Receivables and payables covered by the Universal Postal Convention and the IRA-E agreement are presented on a net basis at the reporting date. In addition, funds are presented on a net basis if a right of set-off exists in the normal course of business. The tables show the receivables and payables before and after offsetting.

45 Contingent liabilities and other financial obligations

In addition to provisions and liabilities, the Group has contingent liabilities and other financial obligations. Operating lease obligations have been reported in accordance with the requirements of IFRS 16 since 1 January 2018, [note 4](#). The contingent liabilities are broken down as follows:

Contingent liabilities

€ m	2017	2018
Guarantee obligations	92	102
Warranties	95	21
Liabilities from litigation risks	96	304
Other contingent liabilities	644	561
Total	927	988

During the year, a tax-related obligation was reclassified from other contingent liabilities to liabilities from litigation risks.

Other contingent liabilities also include a potential obligation to make settlement payments in the USA, which had arisen mainly in 2014 as a result of a change in the estimated settlement payment obligations assumed in the context of the restructuring measures in the USA, and other tax-related obligations, [note 46](#).

Other financial obligations such as the purchase obligation for investments in non-current assets amounted to €1,366 million (previous year: €254 million).

46 Litigation

Many of the postal services rendered by Deutsche Post AG and its subsidiaries are subject to sector-specific regulation by the *Bundesnetzagentur* (German federal network agency) pursuant to the *Postgesetz* (PostG – German Postal Act). As the regulatory authority, the *Bundesnetzagentur* approves or reviews such prices, formulates the terms of downstream access and has special supervisory powers to combat market abuse. This general regulatory risk could lead to a decline in revenue and earnings in the event of negative decisions.

Legal risks may arise, amongst other things, from pending administrative court appeals by an association against the price-cap parameter decision handed down, and the price approval granted, by the *Bundesnetzagentur* under the price cap procedure for 2016 to 2018. The complaints were dismissed by the Cologne Administrative Court, the court of first instance, by way of rulings handed down on 4 December 2018. The claimant has applied to the Federal Administrative Court for a “leapfrog appeal”, asserting that both of the decisions by the *Bundesnetzagentur* are unlawful for various reasons. The *Bundesnetzagentur* and Deutsche Post AG do not share the claimant’s opinion.

In its decision dated 14 June 2011, the *Bundesnetzagentur* concluded that First Mail Düsseldorf GmbH, a subsidiary of Deutsche Post AG, and Deutsche Post AG had contravened the discounting and discrimination prohibitions under the *Postgesetz*. The companies were instructed to remedy the breaches that had been identified. Both companies appealed against the ruling. Furthermore, First Mail Düsseldorf GmbH filed an application to suspend the execution of the ruling until a decision was reached in the principal proceedings. The Cologne Administrative Court and the Münster Higher Administrative Court both dismissed this application. First Mail Düsseldorf GmbH discontinued its mail delivery operations at the end of 2011 and retracted its appeal on 19 December 2011. Deutsche Post AG continues to pursue its appeal against the *Bundesnetzagentur* ruling; oral proceedings are scheduled for 26 March 2019 at the Cologne Administrative Court.

In its ruling of 30 April 2012, the *Bundesnetzagentur* determined that Deutsche Post AG had contravened the discrimination prohibition under the *Postgesetz* by charging different fees for the transport of identical invoices and invoices containing different amounts. Deutsche Post AG was requested to discontinue the discrimination determined immediately, but no later than 31 December 2012. The ruling was implemented on 1 January 2013. Deutsche Post AG does not share the legal opinion of the *Bundesnetzagentur* and appealed the ruling.

In its ruling of 28 June 2016, the *Bundesnetzagentur* determined that the prices for the Dialogpost “Impulspost” product did not meet the pricing standards of the *Postgesetz*. The agency ordered the prices to be adjusted immediately (adjustment request). According to the *Bundesnetzagentur*, the prices did not cover the cost of efficiently providing the service and had anti-competitive effects. On 26 July 2016, the *Bundesnetzagentur* barred Deutsche Post from charging these prices and declared the prices invalid (prohibitive order), since at this time Deutsche Post AG had not yet complied with the adjustment request. Deutsche Post AG does not share the legal opinion of the *Bundesnetzagentur* and filed an appeal with the Cologne Administrative Court against the orders issued by the agency.

In a judgement dated 14 July 2016, the General Court of the European Union (EGC) set aside the European Commission's state aid decision dated 25 January 2012 in an action brought by the Federal Republic of Germany; further details can be found in the 2015 and 2016 Annual Reports in the notes under Litigation. The EGC's judgement is legally effective. The state aid decision of the European Commission is therefore null and void with final effect and there are no longer any grounds for the obligation to repay the alleged state aid under the state aid decision. The amount of €378 million that had been deposited in a trustee account for the purpose of implementing the state aid decision was released. The action brought by Deutsche Post AG against the 2011 "extension decision" (*Ausweitungsbeschluss*) is still pending. That action is based on procedural matters involving the validity of the European Commission's 2011 decision to extend the state aid proceedings. In the pending action, the European Commission advanced the legal argument that the state aid proceedings initiated in 1999 remain open on some counts and that it could therefore issue a new final decision, bringing the proceedings to a close. The European Commission gave no particulars regarding the possible substance of the decision. In the legal opinion of Deutsche Post AG, however, the proceedings initiated in 1999 were resolved in full by way of the European Commission's state aid ruling of 19 June 2002. The European Court of Justice expressly confirmed that opinion in its ruling of 24 October 2013. The European Commission's state aid decision of 25 January 2012 remains null and void with final effect.

Since 1 July 2010, as a result of the revision of the relevant tax exemption provisions, the VAT exemption has only applied to those specific universal services in Germany that are not subject to individually negotiated agreements or provided on special terms (discounts, etc.). Deutsche Post AG and the tax authorities hold different opinions on the VAT treatment of certain products. In the interest of resolving these issues, proceedings have been initiated by Deutsche Post AG and competitors and are pending at German tax courts and the European Court of Justice, [note 45](#).

On 30 June 2014, DHL Express France received a statement of objections from the French competition authority alleging anti-competitive conduct with regard to fuel surcharges and price fixing in the domestic express business, a business which had been divested in June 2010. The French competition authority made its decision on 15 December 2015. The decision to fine DHL was confirmed by the Paris Court of Appeals on 19 July 2018 and DHL Express France is appealing it before the *Cour de Cassation* (Supreme Court).

In view of the ongoing or announced legal proceedings mentioned above, no further details are given on their presentation in the financial statements.

47 Share-based payment

Assumptions regarding the price of Deutsche Post AG's shares and assumptions regarding employee fluctuation are taken into account when measuring the value of share-based payments for executives. All assumptions are reviewed on a quarterly basis. The staff costs are recognised pro rata in profit or loss to reflect the services rendered as consideration during the vesting period (lock-up period).

47.1 Share-based payment for executives (Share Matching Scheme)

Under the share-based payment system for executives (Share Matching Scheme), certain executives receive part of their variable remuneration for the financial year in the form of shares of Deutsche Post AG in the following year (deferred incentive shares). All Group executives can specify an increased equity component individually by converting a further portion of their variable remuneration for the financial year (investment shares). After a four-year lock-up period during which the executive must be employed by the Group, they again receive the same number of Deutsche Post AG shares (matching shares). Assumptions are made regarding the conversion behaviour of executives with respect to their relevant bonus portion. Share-based payment arrangements are entered into each year, with 1 December (from financial year 2015; until 2014: 1 January) of the respective year and 1 April of the following year being the grant dates for each year's tranche. Whereas incentive shares and matching shares are classified as equity-settled share-based payments, investment shares are compound financial instruments and the debt and equity components must be measured separately. However, in accordance with IFRS 2.37, only the debt component is measured due to the provisions of the Share Matching Scheme. The investment shares are therefore treated as cash-settled share-based payments.

Of the expenses under the Share Matching Scheme, €34 million (previous year: €30 million) relates to equity-settled share-based payments and €31 million (previous year: €25 million) to the deferral of the associated matching shares.

Additional information on granting and settlement of these rights can be found in [notes 33 and 34](#).

Share Matching Scheme

		2013 tranche	2014 tranche	2015 tranche	2016 tranche	2017 tranche	2018 tranche
Grant date of incentive shares and associated matching shares		1 Jan. 2013	1 Jan. 2014	1 Dec. 2015	1 Dec. 2016	1 Dec. 2017	1 Dec. 2018
Grant date of matching shares awarded for investment shares		1 April 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018	1 April 2019
Term	months	63	63	52	52	52	52
End of term		March 2018	March 2019	March 2020	March 2021	March 2022	March 2023
Share price at grant date (fair value)							
Incentive shares and associated matching shares	€	17.02	25.91	27.12	29.04	39.26	28.78
Matching shares awarded for investment shares	€	27.18	29.12	23.98	31.77	34.97	33.00 ¹
Number of deferred incentive shares	thousands	337	332	366	320	256	211 ²
Number of matching shares expected							
Deferred incentive shares	thousands	n. a.	299	329	288	230	190
Investment shares	thousands	n. a.	596	848	901	864	733
Matching shares issued	thousands	871					

¹ Estimated provisional amount, will be determined on 1 April 2019.

² Expected number.

47.2 Long-Term Incentive Plan (2006 LTIP) for members of the Board of Management

Since financial year 2006, the company has granted members of the Board of Management cash remuneration linked to the company's long-term share price performance through the issue of stock appreciation rights (SARs) as part of a Long-Term Incentive Plan (LTIP). Participation in the LTIP requires Board of Management members to make a personal investment of 10% of their annual base salary by the grant date of each tranche, primarily in shares.

The SARs granted can be exercised, in whole or in part, no earlier than after a four-year waiting period, provided the absolute or relative performance targets have been achieved at the end of that period. After expiration of the waiting period, the SARs must be exercised within a period of two years (exercise period); any SARs not exercised expire.

How many, if any, of the SARs granted can be exercised is determined in accordance with four (absolute) performance targets based on the share price and two (relative) performance targets based on a benchmark index. One-sixth of the SARs granted are earned each time the closing price of Deutsche Post shares exceeds the issue price by at least 10, 15, 20 or 25% at the end of the waiting period (absolute performance targets). Both relative performance targets are tied to the performance of the shares in relation to the STOXX Europe 600 Index (SXXP; ISIN EU0009658202). They are met if the share price equals the index performance or if it outperforms the index by more than 10%. Performance is determined by comparing the average price of Deutsche Post shares or the average index value during a reference and a performance period. The reference period comprises the last 20 consecutive trading days prior to the issue date. The performance period is the last 60 trading days before the end of the waiting period. The average (closing) price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system. If the absolute or relative performance targets are not met by the end of the waiting period, those SARs expire without replacement or compensation. Each SAR exercised entitles the Board of Management member to receive a cash settlement equal to the difference between the aver-

age closing price of Deutsche Post shares for the five trading days preceding the exercise date and the exercise price of the SAR.

2006 LTIP

	Issue date	Issue price €	Waiting period expires
2013 tranche	1 August 2013	20.49	31 July 2017
2014 tranche	1 September 2014	24.14	31 August 2018
2015 tranche	1 September 2015	25.89	31 August 2019
2016 tranche	1 September 2016	28.18	31 August 2020
2017 tranche	1 September 2017	34.72	31 August 2021
2018 tranche	1 September 2018 ¹	31.08	31 August 2022

¹ On the grant date of 1 November 2018 (John Gilbert), the issue price was €28.69; the waiting period ends on 31 October 2022.

The Board of Management members received a total of 1,191,840 SARs (previous year: 2,003,970 SARs) with a total value, at the time of issue, of €5.43 million (previous year: €7.19 million). Further disclosures on share-based payment for members of the Board of Management can be found in [note 48.2](#).

47.3 SAR Plan for executives

From July 2006 to August 2013, selected executives received annual tranches of SARs under the SAR Plan. This allowed them to receive a cash payment within a defined period in the amount of the difference between the respective price of Deutsche Post shares and the fixed issue price if demanding performance targets are met (see disclosures on the 2006 LTIP for members of the Board of Management). Due to the strong share price performance since SARs were issued in 2013, all of the related performance targets were met on expiry of the waiting period on 31 July 2017. All SARs under this tranche were therefore able to be exercised. Most executives exercised them as early as 2017. Starting in 2014, SARs were no longer issued to executives under the SAR Plan. The Performance Share Plan (PSP) for executives replaces the

SAR Plan. More details on the tranches still existing are shown in the following table:

SAR Plan

	2012 tranche	2013 tranche
Issue date	1 July 2012	1 August 2013
Issue price	€13.26	€20.49
Waiting period expires	30 June 2016	31 July 2017
Exercise period expires	30 June 2018	31 July 2019

The fair value of the SAR Plan and the 2006 LTIP was determined using a stochastic simulation model. As a result, income of €50 million (previous year: expense of €73 million) and a provision of €8 million (previous year: €73 million) were recognised as at the reporting date. €6 million (previous year: €63 million) of the provision was attributable to the Board of Management. A portion of €5 million (previous year: €32 million) of the total provision relates to rights due to the Board of Management that are exercisable as at the reporting date.

47.4 Performance Share Plan for executives

The Annual General Meeting on 27 May 2014 resolved to introduce the Performance Share Plan (PSP) for executives. This plan replaces the former share-based payment system (SAR Plan) for executives. Whereas the SAR Plan involved cash-settled share-based payments, under the PSP shares are issued to participants at the end of the waiting period. Under the PSP, the granting of the shares at the end of the waiting period is also linked to the achievement of demanding performance targets. The performance targets under the PSP are identical with the performance targets under the LTIP for members of the Board of Management.

Performance Share Units (PSUs) were issued to selected executives under the PSP for the first time on 1 September 2014. It is not planned that members of the Board of Management will participate in the PSP. The Long-Term Incentive Plan (2006 LTIP) for members of the Board of Management remains unchanged.

In the consolidated financial statements as at 31 December 2018, a total of €26 million (previous year: €25 million) has been added to capital reserves for the purposes of the plan, with an equal amount recognised in staff costs.

The value of the PSP is measured using actuarial methods based on option pricing models (fair value measurement).

Performance Share Plan

	2014 tranche	2015 tranche	2016 tranche	2017 tranche	2018 tranche
Grant date	1 September 2014	1 September 2015	1 September 2016	1 September 2017	1 September 2018
Exercise price	€24.14	€25.89	€28.18	€34.72	€31.08
Waiting period expires	31 August 2018	31 August 2019	31 August 2020	31 August 2021	31 August 2022
Risk-free interest rate	0.11 %	-0.10 %	-0.62 %	-0.48 %	-0.39 %
Initial dividend yield of Deutsche Post shares	3.52 %	3.28 %	3.73 %	3.31 %	3.70 %
Yield volatility of Deutsche Post shares	23.46 %	24.69 %	23.94 %	23.03 %	22.39 %
Yield volatility of Dow Jones EURO STOXX 600 Index	10.81 %	16.40 %	16.83 %	16.34 %	16.29 %
Covariance of Deutsche Post shares to Dow Jones EURO STOXX 600 Index	1.74 %	2.94 %	2.93 %	2.78 %	2.66 %
Quantity					
Rights outstanding at 1 January 2018	3,779,940	3,802,410	3,619,692	3,053,046	0
Rights granted	0	0	0	0	3,344,166
Rights lapsed	1,335,404	196,638	177,384	117,372	24,858
Rights settled at the end of the waiting period	2,444,536	-	-	-	-
Rights outstanding at 31 December 2018	0	3,605,772	3,442,308	2,935,674	3,319,308

Future dividends were taken into account, based on a moderate increase in dividend distributions over the respective measurement period.

The average remaining maturity of the outstanding PSUs as at 31 December 2018 was 25 months.

48 Related party disclosures

48.1 Related party disclosures (companies and Federal Republic of Germany)

All of the companies below that are controlled by the Group or over which the Group can exercise significant influence are recorded in the list of shareholdings, which can be accessed online at [dpdhl.com/en/investors](https://www.dpdhl.com/en/investors).

Deutsche Post AG maintains a variety of relationships with the Federal Republic of Germany (Federal Republic) and other companies controlled by the Federal Republic of Germany.

The Federal Republic is a customer of Deutsche Post AG and as such uses the company's services. Deutsche Post AG has direct business relationships with the individual public authorities and other government agencies as independent individual customers. The services provided for these customers are insignificant in respect of Deutsche Post AG's overall revenue.

RELATIONSHIPS WITH KfW

KfW supports the Federal Republic in continuing to privatise companies such as Deutsche Post AG or Deutsche Telekom AG. In 1997, KfW, together with the Federal Republic, developed a "placeholder model" as a tool to privatise government-owned companies. Under this model, the Federal Republic sells all or part of its investments to KfW with the aim of fully privatising these state-owned companies. On this basis, KfW has purchased shares of Deutsche Post AG from the Federal Republic in several stages since 1997 and executed various capital market transactions using these shares. KfW's current interest in Deutsche Post AG's share capital is 20.5%. Deutsche Post AG is thus considered to be an associate of the Federal Republic.

RELATIONSHIPS WITH BUNDESANSTALT FÜR POST UND TELEKOMMUNIKATION

The *Bundesanstalt für Post und Telekommunikation* (BAnt PT) is a government agency and falls under the technical and legal supervision of the German Federal Ministry of Finance. The BAnt PT continues to manage the social facilities such as the postal civil servant health insurance fund, the recreation programme, the *Postbeamtenversorgungskasse* (PVK – Postal civil servant pension fund), the *Versorgungsanstalt der Deutschen Bundespost* (VAP – Deutsche Bundespost institution for supplementary retirement pensions) and the welfare service for Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG. Tasks are performed on the basis of agency agreements. In 2018, Deutsche Post AG was invoiced for €129 million (previous year: €114 million) in instalment payments relating to services provided by the BAnt PT. Further disclosures on the PVK and the VAP can be found in [notes 7 and 39](#).

RELATIONSHIPS WITH THE GERMAN FEDERAL MINISTRY OF FINANCE

In financial year 2001, the German Federal Ministry of Finance and Deutsche Post AG entered into an agreement that governs the terms and conditions of the transfer of income received by Deutsche Post AG from the levying of the settlement payment under the *Gesetze über den Abbau der Fehlsubventionierung im Wohnungswesen* (German Acts on

the Reduction of Misdirected Housing Subsidies) relating to housing benefits granted by Deutsche Post AG. The agreement was amended in early 2018, with retroactive effect to 1 January 2017. As a result, monthly instalment payments are no longer made to the Federal Republic. Instead, a lump-sum payment is made to the Federal Republic each year after a review. The invoice for 2017 was under €100 thousand.

Deutsche Post AG entered into an agreement with the German Federal Ministry of Finance dated 30 January 2004 relating to the transfer of civil servants to German federal authorities. Under this agreement, civil servants are seconded with the aim of transferring them initially for six months, and are then transferred permanently if they successfully complete their probation. Once a permanent transfer is completed, Deutsche Post AG contributes to the cost incurred by the Federal Republic by paying a flat fee. In 2018, this initiative resulted in 22 permanent transfers (previous year: 45) and 22 secondments with the aim of a permanent transfer in 2019 (previous year: 3).

RELATIONSHIPS WITH THE GERMAN FEDERAL EMPLOYMENT AGENCY

Deutsche Post AG and the German Federal Employment Agency entered into an agreement dated 12 October 2009 relating to the transfer of Deutsche Post AG civil servants to the Federal Employment Agency. In 2018, this initiative resulted in 35 permanent transfers (previous year: 22.)

RELATIONSHIPS WITH DEUTSCHE TELEKOM AG AND ITS SUBSIDIARIES

The Federal Republic holds around 32% of the shares of Deutsche Telekom AG directly and indirectly (via KfW). At the end of 2017, a control relationship existed between Deutsche Telekom AG and the Federal Republic, because the Federal Republic, despite its non-controlling interest, had a secure majority at the Annual General Meeting due to its average presence there. This was no longer true in financial year 2018. As a result, Deutsche Telekom AG is no longer a related party of Deutsche Post AG that must be reported in accordance with IAS 24.

RELATIONSHIPS WITH DEUTSCHE BAHN AG AND ITS SUBSIDIARIES

Deutsche Bahn AG is wholly owned by the Federal Republic. Owing to this control relationship, Deutsche Bahn AG is a related party to Deutsche Post AG. Deutsche Post DHL Group has various business relationships with the Deutsche Bahn Group. These mainly consist of transport service agreements.

RELATIONSHIPS WITH PENSION FUNDS

The real estate with a fair value of €1,424 million (which can be offset as plan assets) (previous year: €1,590 million), of which Deutsche Post Pensions-Treuhand GmbH & Co. KG, Deutsche Post Altersvorsorge Sicherung e.V. & Co. Objekt Gronau KG and Deutsche Post Grundstücks-Vermietungsgesellschaft beta mbH Objekt Leipzig KG are the legal owners, is let to Deutsche Post Immobilien GmbH. Rental payments for Deutsche Post Immobilien GmbH amounted to €94 million in 2018 (previous year: €101 million). The rent was always paid on time. Deutsche Post Pensions-Treuhand GmbH & Co. KG holds all of the shares of Deutsche Post Pensionsfonds AG. Further disclosures on pension funds can be found in [notes 7 and 39](#).

RELATIONSHIPS WITH UNCONSOLIDATED COMPANIES, INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND JOINT OPERATIONS

In addition to the consolidated subsidiaries, the Group has direct and indirect relationships with unconsolidated companies, investments accounted for using the equity method and joint operations deemed to be related parties of the Group in the course of its ordinary business activities. As part of these activities, all transactions for the provision of goods and services entered into with unconsolidated companies were conducted on an arm's length basis at standard market terms and conditions.

Transactions were conducted in financial year 2018 with major related parties, resulting in the following items in the consolidated financial statements:

€ m	To/from investments accounted for using the equity method		To/from unconsolidated companies	
	2017	2018	2017	2018
Trade receivables	4	5	3	7
Loans	0	0	16	27
Receivables from in-house banking	3	5	4	0
Financial liabilities	15	9	8	31
Trade payables	2	1	2	0
Income ¹	0	2	3	7
Expenses ²	1	1	14	14

¹ Relates to revenue and other operating income.

² Relate to materials expense and staff costs.

Deutsche Post AG issued letters of commitment in the amount of €8 million (previous year: €16 million) for these companies. Of this amount, €3 million (previous year: €11 million) was attributable to investments accounted for using the equity method, €1 million (previous year: €1 million) to joint operations and €4 million (previous year: €4 million) to unconsolidated companies.

48.2 Related party disclosures (individuals)

In accordance with IAS 24, the Group also reports on transactions between the Group and related parties or members of their families. Related parties are defined as the Board of Management, the Supervisory Board and the members of their families. There were no reportable transactions or legal transactions involving these related parties in financial year 2018. In particular, the company extended no loans to these related parties.

The remuneration of key management personnel of the Group requiring disclosure under IAS 24 comprises the remuneration of the active members of the Board of Management and the Supervisory Board.

The active members of the Board of Management and the Supervisory Board were remunerated as follows:

€ m	2017	2018
Short-term employee benefits (excluding share-based payment)	14	14
Post-employment benefits	2	3
Termination benefits	0	4
Share-based payment ¹	30	-34
Total	46	-13

¹ Gain on the reversal of the SAR provision in financial year 2018, owing to the current share price performance.

As well as the aforementioned benefits for their work on the Supervisory Board, the employee representatives on the Supervisory Board and employed by the Group also receive their normal salaries for their work in the company. These salaries are determined at levels that are commensurate with the salary appropriate for the function or work performed in the company.

Post-employment benefits are recognised as the service cost resulting from the pension provisions for active members of the Board of Management. The corresponding liability amounted to €41 million as at the reporting date (previous year: €35 million).

The share-based payment amount relates to the relevant expense recognised for financial years 2017 and 2018; further details can be found in [notes 47.2 and 48.3](#). The expense is itemised in the following table:

Share-based payment

Thousands of €	2017 SARs	2018 SARs
Dr Frank Appel, Chairman	13,726	-18,183
Ken Allen	6,169	-5,769
Dr h.c. Jürgen Gerdes (until 12 June 2018)	6,726	-6,161
John Gilbert	2,422	-2,916
Melanie Kreis	1,085	-1,271
Dr Thomas Ogilvie (since 1 September 2017)	57	-39
Tim Scharwath (since 1 June 2017)	57	-39
Share-based payment¹	30,242	-34,378

¹ Gain on the reversal of the SAR provision in financial year 2018, owing to the current share price performance.

48.3 Remuneration disclosures in accordance with the HGB

BOARD OF MANAGEMENT REMUNERATION

The remuneration paid to members of the Board of Management in financial year 2018 totalled €11.4 million (previous year: €11.6 million). Non-performance-related components accounted for €8.1 million (previous year: €7.6 million) and €3.3 million was attributable to the annual bonus paid as a performance-related component (previous year: €4.0 million). An additional €0.6 million of the annual bonus was transferred to the medium-term component (deferral). In financial year 2018, the Board of Management members received a total of 1,191,840 SARs (previous year: 2,003,970 SARs), which at the issue date were valued at €5.4 million (previous year: €7.2 million).

FORMER MEMBERS OF THE BOARD OF MANAGEMENT

Benefits paid to former members of the Board of Management or their surviving dependants amounted to €9.6 million (previous year: €7.0 million). The defined benefit obligation (DBO) for current pensions calculated under IFRSs was €94 million (previous year: €95 million).

REMUNERATION OF THE SUPERVISORY BOARD

The total remuneration of the Supervisory Board in financial year 2018 amounted to €2.7 million (previous year: €2.6 million); €2.4 million of this amount was attributable to a fixed component, as in the prior year, and €0.3 million to attendance allowances (previous year: €0.2 million).

Further information on the itemised remuneration of the Board of Management and the Supervisory Board can be found in the remuneration report, which forms part of the Group Management Report.

SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

As at 31 December 2018, shares held by the Board of Management and the Supervisory Board of Deutsche Post AG amounted to less than 1% of the company's share capital.

REPORTABLE TRANSACTIONS

The transactions of Board of Management and Supervisory Board members involving securities of the company and notified to Deutsche Post AG in accordance with Article 19 of the Market Abuse Regulation (EU) No 596/2014 can be viewed on the company's website at [dpdhl.com/en/investors](https://www.dpdhl.com/en/investors).

49 Auditor's fees

The fee for the auditor of the consolidated financial statements, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, amounted to €11 million and was recognised as an expense.

Auditor's fee

€ m	2018
Audit services	11
Other assurance services ¹	0
Tax advisory services	0
Other services	0
Total	11

¹ Rounded below €1 million.

The audit services category includes the fees for auditing the consolidated financial statements and for auditing the annual financial statements prepared by Deutsche Post AG and its German subsidiaries. The fees for reviewing the interim reports, accompanying auditors in connection with the implementation of new accounting requirements and the fees for voluntary audits beyond the statutory audit engagement, such as audits of the internal control system, are also reported in this category.

Other assurance services relate to fees for the issuance of comfort letters and of certificates for the internal control system in particular.

50 Exemptions under the HGB and local foreign legislation

For financial year 2018, the following German subsidiaries have exercised the simplification options under section 264(3) of the HGB, section 264 B of the HGB and section 291 of the HGB:

- Agheera GmbH
- Albert Scheid GmbH
- CSG GmbH
- CSG.PB GmbH
- CSG.TS GmbH
- Danzas Deutschland Holding GmbH
- Deutsche Post Adress Beteiligungsgesellschaft mbH
- Deutsche Post Assekuranz Vermittlungs GmbH
- Deutsche Post Beteiligungen Holding GmbH
- Deutsche Post Customer Service Center GmbH
- Deutsche Post DHL Beteiligungen GmbH
- Deutsche Post DHL Corporate Real Estate Management GmbH
- Deutsche Post DHL Corporate Real Estate Management GmbH & Co. Logistikzentren KG
- Deutsche Post DHL Express Holding GmbH
- Deutsche Post DHL Research and Innovation GmbH
- Deutsche Post Dialog Solutions GmbH
- Deutsche Post Direkt GmbH
- Deutsche Post E-Post Development GmbH
- Deutsche Post E-POST Solutions GmbH
- Deutsche Post Fleet GmbH
- Deutsche Post Immobilien GmbH
- Deutsche Post InHaus Services GmbH
- Deutsche Post Investments GmbH
- Deutsche Post IT BRIEF GmbH
- Deutsche Post IT Services GmbH
- Deutsche Post Mobility GmbH
- Deutsche Post Shop Essen GmbH

- Deutsche Post Shop Hannover GmbH
 - Deutsche Post Shop München GmbH
 - DHL Airways GmbH
 - DHL Automotive GmbH
 - DHL Automotive Offenau GmbH
 - DHL Consulting GmbH
 - DHL Delivery Augsburg GmbH
 - DHL Delivery Bayreuth GmbH
 - DHL Delivery Berlin GmbH
 - DHL Delivery Bonn GmbH
 - DHL Delivery Braunschweig GmbH
 - DHL Delivery Bremen GmbH
 - DHL Delivery Dortmund GmbH
 - DHL Delivery Dresden GmbH
 - DHL Delivery Duisburg GmbH
 - DHL Delivery Düsseldorf GmbH
 - DHL Delivery Erfurt GmbH
 - DHL Delivery Essen GmbH
 - DHL Delivery Frankfurt GmbH
 - DHL Delivery Freiburg GmbH
 - DHL Delivery Freising GmbH
 - DHL Delivery Gießen GmbH
 - DHL Delivery GmbH
 - DHL Delivery Göppingen GmbH
 - DHL Delivery Hagen GmbH
 - DHL Delivery Halle GmbH
 - DHL Delivery Hamburg GmbH
 - DHL Delivery Hannover GmbH
 - DHL Delivery Herford GmbH
 - DHL Delivery Karlsruhe GmbH
 - DHL Delivery Kassel GmbH
 - DHL Delivery Kiel GmbH
 - DHL Delivery Koblenz GmbH
 - DHL Delivery Köln West GmbH
 - DHL Delivery Leipzig GmbH
 - DHL Delivery Lübeck GmbH
 - DHL Delivery Magdeburg GmbH
 - DHL Delivery Mainz GmbH
 - DHL Delivery Mannheim GmbH
 - DHL Delivery München GmbH
 - DHL Delivery Münster GmbH
 - DHL Delivery Neubrandenburg GmbH
 - DHL Delivery Nürnberg GmbH
 - DHL Delivery Oldenburg GmbH
 - DHL Delivery Ravensburg GmbH
 - DHL Delivery Reutlingen GmbH
 - DHL Delivery Rosenheim GmbH
 - DHL Delivery Saarbrücken GmbH
 - DHL Delivery Straubing GmbH
 - DHL Delivery Stuttgart GmbH
 - DHL Delivery Wiesbaden GmbH
 - DHL Delivery Würzburg GmbH
 - DHL Delivery Zwickau GmbH
 - DHL Express Customer Service GmbH
 - DHL Express Germany GmbH
 - DHL Express Network Management GmbH
 - DHL Fashion Retail Operations GmbH
 - DHL FoodLogistics GmbH
 - DHL Freight Germany Holding GmbH
 - DHL Freight GmbH
 - DHL Global Forwarding GmbH
 - DHL Global Forwarding Management GmbH
 - DHL Global Management GmbH
 - DHL Home Delivery GmbH
 - DHL Hub Leipzig GmbH
 - DHL International GmbH
 - DHL Inventory Finance Services GmbH
 - DHL Paket GmbH
 - DHL Paketzentrum Obertshausen GmbH
 - DHL Solutions Fashion GmbH
 - DHL Solutions GmbH
 - DHL Sorting Center GmbH
 - DHL Supply Chain (Leipzig) GmbH
 - DHL Supply Chain Management GmbH
 - DHL Supply Chain VAS GmbH
 - DHL Trade Fairs & Events GmbH
 - Erste End of Runway Development Leipzig GmbH
 - Erste Logistik Entwicklungsgesellschaft MG GmbH
 - European Air Transport Leipzig GmbH
 - Gerlach Zolldienste GmbH
 - interServ Gesellschaft für Personal- und Beraterdienstleistungen mbH
 - it4logistics GmbH
 - Saloodo! GmbH
 - StreetScooter GmbH
 - yunexus GmbH
- The following companies in the UK make use of the audit exemption under section 479A of the UK Companies Act:
- DHL Exel Supply Chain Limited
 - Exel Freight Management (UK) Limited
 - Exel Investments Limited
 - Exel Overseas Limited
 - Freight Indemnity and Guarantee Company Limited
 - National Carriers Limited
 - Ocean Group Investments Limited
 - Ocean Overseas Holdings Limited
 - Power Europe Development No. 3 Limited
 - Power Europe Operating Limited

51 Declaration of Conformity with the German Corporate Governance Code

The Board of Management and the Supervisory Board of Deutsche Post AG jointly submitted the Declaration of Conformity with the German Corporate Governance Code for financial year 2018 required by section 161 of the AktG. This Declaration of Conformity can be accessed online at [dcgk.de](https://www.dcgk.de) and at [dpdhl.com/en/investors](https://www.dpdhl.com/en/investors).

52 Significant events after the reporting date and other disclosures

New segment structure as of January 2019

The following changes concerning board member responsibilities and segments were effective as of 1 January 2019: the Post - eCommerce - Parcel division was separated into a German and an international division, each led by a separate member of the Board of Management. The German business was renamed Post & Paket Deutschland and will remain under the interim leadership of the Group's CEO. A new DHL eCommerce Solutions division is also being created in order to optimally align the Group with the global e-commerce market. Ken Allen has assumed responsibility for the new division in addition to his role as head of CSI. John Pearson has led the Express division since 1 January 2019.

There were no other significant events after the reporting date.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, 15 February 2019

Deutsche Post AG
The Board of Management



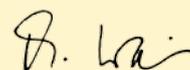
Dr Frank Appel



Ken Allen



John Gilbert



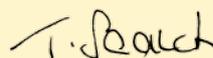
Melanie Kreis



Dr Thomas Ogilvie



John Pearson



Tim Scharwath

INDEPENDENT AUDITOR'S REPORT

To Deutsche Post AG, Bonn

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Deutsche Post AG, Bonn, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity, and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Deutsche Post AG for the financial year from January 1 to December 31, 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [*Handelsgesetzbuch*: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

- ① Recoverability of goodwill
- ② Pension obligations and plan assets
- ③ Effects of the first-time application of IFRS 16 on the accounting of leases

Our presentation of these key audit matters has been structured in each case as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matters:

1 Recoverability of goodwill

- ① In the consolidated financial statements of Deutsche Post AG, goodwill amounting to EUR 11.2 billion is reported under the balance sheet item "Intangible assets", representing approximately 22% of total assets and 81% of the Group's reported equity. Goodwill is tested for impairment by the Company on an annual basis as of the balance sheet date or if there are indications that goodwill may be impaired. The impairment test of goodwill is based on the value in use, which is determined by applying a measurement model using the discounted cash flow method. This matter was of particular significance in our audit, because the result of this measurement depends to a large extent on the estimation of future cash inflows by the Company's executive directors and the discount rate used, and is therefore subject to considerable uncertainty.
- ② We satisfied ourselves as to the appropriateness of the future cash inflows used in the calculation by, inter alia, comparing this data with the current budgets in the three-year plan prepared by the executive directors and approved by the Company's supervisory board, and reconciling it against general and sector-specific market expectations. With the knowledge that even relatively small changes in the discount rate can have a material impact on the value in use calculated using this method, we also focused our testing on the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the Company's calculation procedure. Due to the materiality of goodwill and the fact that its measurement also depends on economic conditions which are outside of the Company's sphere of influence, we carried out our own additional sensitivity analyses for those cash-generating units with low headroom (value in use compared with the carrying amount) and found that the respective goodwill is sufficiently covered by the discounted future cash inflows. Overall, the measurement parameters and assumptions used by the executive directors to be reproducible.
- ③ The Company's disclosures regarding goodwill are contained in note 22 of the notes to the consolidated financial statements.

2 Pension obligations and plan assets

- ① In the consolidated financial statements of Deutsche Post AG a total of EUR 4.35 billion is reported under the balance sheet item "Provisions for pensions and similar obligations". The net pension provisions of EUR 4.1 billion (after consideration of reported plan assets of EUR 0.3 billion) were calculated on the basis of the present value of the obligations amounting to EUR 16.7 billion, netted against the plan assets of EUR 12.6 billion, which were measured at fair value. The obligations from defined benefit pension plans were measured using the projected unit credit method in accordance with IAS 19. This requires in particular that assumptions be made as to the long-term salary and pension trend as well as average life expectancy. Furthermore, the discount rate must be determined as of the balance sheet date by reference to the yield on high-quality corporate bonds with matching currencies and consistent terms. Changes to these measurement assumptions are recognized directly in equity as actuarial gains or losses. Changes in the measurement parameters resulted in actuarial gains of EUR 0.2 billion. In our view, these matters were of particular significance, as the measurement of the pension obligations and plan assets is to a large extent based on the estimates and assumptions made by the Company's executive directors.
- ② With the knowledge that estimated values bear an increased risk of accounting misstatements and that the executive directors' measurement decisions have a direct and significant effect on the consolidated financial statements, we assessed the appropriateness of the values adopted, in particular the measurement parameters used in the calculation of the pension provisions, inter alia on the basis of actuarial reports made available to us and taking into account the expert knowledge of our internal specialists for pension valuations. Our evaluation of the fair values of plan assets was in particular based on bank confirmations submitted to us, as well as other statements of assets and real estate appraisals. On the basis of our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were sufficiently documented and supported to justify the recognition and measurement of the material pension provisions.
- ③ The Company's disclosures relating to provisions for pensions and similar obligations are contained in note 39 of the notes to the consolidated financial statements.

5 Effects of the first-time application of IFRS 16 on the accounting of leases

① In the Company's consolidated financial statements rights of use of € 9.5 billion and leasing liabilities of € 9.9 billion are reported as of the balance sheet date. Thus, leasing liabilities represent 20% of total assets. In the financial year, the first-time application of the new accounting standard relating to leases (IFRS 16) resulted in material effects on the opening balance sheet figures and their updating throughout the financial year. The modified retrospective approach was applied for the conversion to IFRS 16. The comparable figures from the prior year's periods were not adjusted. Due to the large volume of leases and transactions resulting from them, the Company has established group-wide processes and controls for the complete and accurate recording of the leases. Furthermore, the first-time application required a central IT system to be implemented to report these leases. The new IFRS 16 accounting standard necessitates that executive directors make estimates and take discretionary decisions for certain areas which have been assessed in the context of our audit. In particular, this relates to assessments regarding exercising options with implications for the term of the leasing arrangement.

Against this background and due to the complexity of the new requirements set forth in IFRS16, the accounting of leases was of particular significance within the course of our audit.

② As part of our audit and with the assistance of our internal specialists, we assessed, among other things, the appropriateness and operating effectiveness of the processes and controls established by the Group to record its leases. This also applies to the implementation of the central IT system to report the leases and to the required adjustments made to existing systems in order to process the relevant transactions.

In addition, as part of our audit and with the assistance of internal specialists we assessed the impact of the first-time application of IFRS 16. Together we assessed the implementation work and evaluated the design of the processes set up to report the transactions in accordance with IFRS 16 and of the IT systems in place to support the implementation of the new requirements. In this context, we inspected, on a sample basis, lease arrangements and assessed the identification of performance obligations and whether these were recorded completely and appropriately in the newly implemented central system in place to report the leases. In doing so, we evaluated in particular those assessments relating to exercising options with implications for the term of the lease arrangement by means of inquiring Company's employees and examining suitable supporting documentation.

We were able to satisfy ourselves that the systems and processes established and adjusted to IFRS 16 as well as the implemented controls are appropriate. Furthermore, we were able to assess that the estimates and assumptions made by the executive directors are sufficiently documented and substantiated to ensure that leases are properly accounted for under the first-time application of IFRS 16.

③ The Company's disclosures relating to the accounting of leases and the effects of the first-time application of IFRS 16 are contained in note 4 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in the "Declaration on Corporate Governance and Non-financial Group Report" section of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on April 24, 2018. We were engaged by the supervisory board on August 8, 2018. We have been the group auditor of Deutsche Post AG, Bonn without interruption since the Company first met the requirements as a public interest entity within the meaning of § 319a Abs. 1 Satz 1 HGB in the financial year 2000.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Verena Heineke.

Düsseldorf, February 15, 2019
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Prümm	Verena Heineke
<i>Wirtschaftsprüfer</i>	<i>Wirtschaftsprüferin</i>
(German Public Auditor)	(German Public Auditor)



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MULTI-YEAR REVIEW

Key figures, 2011 to 2018

€ m	2011 adjusted	2012 adjusted	2013 adjusted	2014 adjusted	2015	2016 adjusted	2017 adjusted	2018
Revenue								
Post - eCommerce - Parcel (until 2013 Mail)	13,973	13,972	15,291	15,686	16,131	17,078	18,161	18,476
Express	11,691	12,778	11,821	12,491	13,661	13,748	15,049	16,147
Global Forwarding, Freight	15,118	15,666	14,787	14,924	14,890	13,737	14,482	14,978
Supply Chain	13,223	14,340	14,227	14,737	15,791	13,957	14,152	13,350
Total for the divisions	54,005	56,756	56,126	57,838	60,473	58,520	61,844	62,951
Corporate Functions (until 2017 Corporate Center/Other)	1,260	1,203	1,251	1,345	1,269	1,279	1,387	1,624
Consolidation	-2,436	-2,447	-2,465	-2,553	-2,512	-2,465	-2,787	-3,025
Total	52,829	55,512	54,912	56,630	59,230	57,334	60,444	61,550
Profit/loss from operating activities (EBIT)								
Post - eCommerce - Parcel (until 2013 Mail)	1,107	1,048	1,286	1,298	1,103	1,446	1,503	656
Express	916	1,110	1,083	1,260	1,391	1,544	1,736	1,957
Global Forwarding, Freight	440	514	478	293	-181	287	297	442
Supply Chain	362	419	441	465	449	572	555	520
Total for the divisions	2,825	3,091	3,288	3,316	2,762	3,849	4,091	3,575
Corporate Functions (until 2017 Corporate Center/Other)	-389	-423	-421	-352	-351	-359	-350	-414
Consolidation	0	-3	-2	1	0	1	0	1
Total	2,436	2,665	2,865	2,965	2,411	3,491	3,741	3,162
Consolidated net profit for the period	1,266	1,762	2,211	2,177	1,719	2,781	2,853	2,224
Cash flow/capex/depreciation, amortisation and impairment losses								
Net cash from/used in operating activities	2,371	-203	2,989	3,040	3,444	2,439	3,297	5,796
Net cash used in investing activities	-1,129	-1,697	-1,765	-1,087	-1,462	-1,643	-2,091	-2,777
Net cash used in/from financing activities	-1,547	1,199	-110	-2,348	-1,367	-1,233	-1,087	-3,039
Free cash flow	749	-1,885	1,669	1,345	1,724	444	1,432	1,059
Capex ¹	1,716	1,697	1,747	1,876	2,024	2,074	2,268	2,648
Depreciation, amortisation and impairment losses	1,274	1,339	1,337	1,381	1,665	1,377	1,471	3,292
Assets and capital structure								
Non-current assets	21,225	21,568	21,370	22,902	23,727	24,166	23,916	34,804
Current assets	17,183	12,289	14,091	14,077	14,143	14,129	14,756	15,666
Equity (excluding non-controlling interests)	11,009	9,019	9,844	9,376	11,034	11,087	12,637	13,590
Non-controlling interests	190	209	190	204	261	263	266	283
Current and non-current provisions	9,008	8,978	8,481	10,411	9,361	8,507	7,078	7,130
Current and non-current liabilities	18,201	15,651	16,946	16,988	17,214	18,438	18,691	29,467
Total assets	38,408	33,857	35,461	36,979	37,870	38,295	38,672	50,470

D.01

		2011	2012 adjusted	2013 adjusted	2014	2015	2016	2017	2018
Employees/staff costs									
Number of employees ²	At 31 Dec.	471,654	473,626	479,690	488,824	497,745	508,036	519,544	547,459
Full-time equivalents ³	At 31 Dec.	423,502	428,129	434,974	443,784	450,508	459,262	472,208	499,018
Average number of employees ²		467,188	472,321	478,903	484,025	492,865	498,459	513,338	534,370
Staff costs	€m	16,730	17,770	17,776	18,189	19,640	19,592	20,072	20,825
Staff cost ratio ⁴	%	31.7	32.0	32.4	32.1	33.2	34.2	33.2	33.8
Key figures revenue/income/ assets and capital structure									
Return on sales ⁵	%	4.6	4.8	5.2	5.2	4.1	6.1	6.2	5.1
Return on equity (ROE) before taxes ⁶	%	15.2	23.6	26.7	26.3	19.7	27.7	27.5	19.3
Return on assets ⁷	%	6.4	7.4	8.3	8.2	6.4	9.2	9.7	7.1
Tax rate ⁸	%	23.7	20.2	14.0	15.5	16.4	11.2	14.3	14.0
Equity ratio ⁹	%	29.2	27.3	28.3	25.9	29.8	29.6	33.4	27.5
Net debt (+)/net liquidity (-) ¹⁰	€m	-938	1,952	1,499	1,499	1,093	2,261	1,938	12,303
Net gearing ¹¹	%	-9.1	17.5	13.0	13.5	8.8	16.6	13.1	47.0
Key stock data									
Basic earnings per share ¹²	€	0.96	1.36	1.73	1.71	1.27	2.19	2.24	1.69
Diluted earnings per share ¹³	€	0.96	1.30	1.66	1.64	1.22	2.10	2.15	1.66
Cash flow per share ^{12,14}	€	1.96	-0.17	2.47	2.51	2.84	2.03	2.72	4.71
Dividend distribution	€m	846	846	968	1,030	1,027	1,270	1,409	1,419 ^{15,16}
Payout ratio ¹⁷	%	72.7	51.6	46.3	49.7	66.7	48.1	51.9	68.4
Dividend per share	€	0.70	0.70	0.80	0.85	0.85	1.05	1.15	1.15 ¹⁵
Dividend yield	%	5.9	4.2	3.0	3.1	3.3	3.4	2.9	4.8
Price-to-earnings ratio ¹⁸		12.4	12.2	15.3	15.8	20.4	14.3	17.7	14.1
Price-to-cash flow ratio ¹⁹		6.1	-97.6	10.7	10.8	9.1	15.4	14.6	5.1
Number of shares carrying dividend rights	millions	1,209.0	1,209.0	1,209.0	1,211.2	1,208.7	1,209.1	1,225.1	1,233.8 ¹⁶
Year-end closing price	€	11.88	16.60	26.50	27.05	25.96	31.24	39.75	23.91

¹ As of 2017: capex relating to assets acquired. ² Headcount including trainees. ³ Excluding trainees. ⁴ Staff costs/revenue. ⁵ EBIT/revenue.

⁶ Profit before income taxes/average equity (including non-controlling interests). ⁷ EBIT/average total assets. ⁸ Income taxes/profit before income taxes. ⁹ Equity (including non-controlling interests)/total assets. ¹⁰  **Group Management Report, page 49.** ¹¹ Net debt/net debt and equity (including non-controlling interests). ¹² The average weighted number of shares outstanding is used for the calculation. ¹³ The average weighted number of shares outstanding is adjusted for the number of all potentially dilutive shares. ¹⁴ Cash flow from operating activities. ¹⁵ Proposal.

¹⁶ Estimate. ¹⁷ Excluding one-off effects, in 2015: 45.8%, in 2018: 55.4%. ¹⁸ Year-end closing price/basic earnings per share. ¹⁹ Year-end closing price/cash flow per share.

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GLOSSARY



Dialogue marketing

Market-orientated activities that apply direct communications to selectively reach target groups using a personal, individualised approach.

Ex-ante mail products

All charges subject to approval pursuant to section 19 of the *Postgesetz* with a minimum posting quantity of 50 items.

German federal network agency (Bundesnetzagentur)

German national regulator for electricity, gas, telecommunications, post and railway.

German Postal Act (*Postgesetz*)

The purpose of the German Postal Act, which took effect on 1 January 1998, is to promote postal competition through regulation and ensure the nationwide provision of appropriate and sufficient postal services. It includes regulations on licensing, price control and the universal service.

Packstation

Parcel machine where parcels and small packages can be deposited and collected around the clock.

Paketbox

Parcel box for franked parcels and small packages (maximum dimensions: 50 × 40 × 30 cm).

Price-cap procedure

Procedure whereby the German federal network agency approves prices for certain mail products. The agency approves prices on the basis of parameters it stipulates in advance, which set the average changes in these prices within baskets of services defined by the agency.



B2C

The exchange of goods, services and information between businesses and consumers.

Block space agreement

Freight forwarders or shippers enter into block space agreements with airline companies which provide them with defined freight capacities on a regular flight against payment of a fee.

Contract logistics

Complex logistics and logistics-related services along the value chain that are performed by a contract logistics service provider. Services are tailored to a particular industry or customer and are generally based on long-term contracts.

DHL Customer Solutions & Innovation (CSI)

DHL's cross-divisional commercial and innovation unit.

Gateway

Collection point for goods intended for export and for further distribution of goods upon import.

Hub

Collection point for transferring and connecting international shipments from and to multiple countries.

Medical Express

The transport of time-critical or temperature-critical medical shipments such as blood and tissue samples to medical facilities, hospitals, laboratories or research institutes, usually related to clinical trials of new medications.

Multimodal transport

Combines a minimum of two different means of transport for a shipment, such as air, sea, rail and ground.

Supply chain

A series of connected resources and processes from sourcing materials to delivering goods to consumers.

Time Definite

Delivery of time-critical shipments by a pre-selected time.

Third Party Logistics Provider (3PL)

Logistics provider, which performs logistics operations (e.g., warehousing, transport management) on behalf of its customers.

Transported Asset Protection Association (TAPA)

A forum that unites manufacturers, logistics providers, freight carriers, law enforcement authorities and other stakeholders with the common aim of reducing losses from international supply chains.

Twenty-foot equivalent unit (TEU)

Standardised container unit, 20 feet long and 8 feet wide (6 × 2.4 metres).

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GeT and DHL Webshop

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FINANCIAL CALENDAR

2019

INTERIM REPORT AS AT 31 MARCH 2019	10 MAY 2019
2019 ANNUAL GENERAL MEETING	15 MAY 2019
DIVIDEND PAYMENT	20 MAY 2019
INTERIM REPORT AS AT 30 JUNE 2019	6 AUGUST 2019
INTERIM REPORT AS AT 30 SEPTEMBER 2019	12 NOVEMBER 2019

2020

2019 ANNUAL REPORT	10 MARCH 2020
INTERIM REPORT AS AT 31 MARCH 2020	12 MAY 2020
2020 ANNUAL GENERAL MEETING	13 MAY 2020
DIVIDEND PAYMENT	18 MAY 2020
INTERIM REPORT AS AT 30 JUNE 2020	5 AUGUST 2020
INTERIM REPORT AS AT 30 SEPTEMBER 2020	10 NOVEMBER 2020

Further dates, updates as well as information on live webcasts:

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