

Consolidated Financial Statements

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Income Statement

1 January to 31 December

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

Balance Sheet

as at 31 December

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

1) See Note 4.

Cash Flow Statement

1 January to 31 December

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

1) See Note 47.

Statement of Changes in Equity

1 January to 31 December

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

Segment Reporting

Segments by division

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

Segments by region

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

1) Prior-period amounts restated, see Note 8.

2) As at 31 December.

3) Average FTEs.

For segment reporting disclosures, see Note 8.

Notes

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

1 Basis of accounting

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

The requirements of the standards applied have been satisfied in full, and the consolidated financial statements of Deutsche Post World Net therefore provide a true and fair view of its net assets, financial position and results of operations.

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

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

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

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

2 Consolidated group

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

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

Consolidated group

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

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

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

Companies included for the first time

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

MAIL

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

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

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

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

EXPRESS

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

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

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

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

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

LOGISTICS

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

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

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

LOGISTICS

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

FINANCIAL SERVICES

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

EXPRESS

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

Disposal and deconsolidation effects of fully consolidated companies

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

Joint ventures

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

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

1) Proportionate amounts.

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

3 Significant transactions

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

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

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

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

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

Significant transactions

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

4 New developments in international accounting under IFRSs and the restatement of prior-period amounts

The following standards, changes to standards and interpretations are required to be applied on or after 1 January 2007:

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

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

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

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

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

New accounting requirements adopted by the European Union

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

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

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

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

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

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

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

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

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

Restatement of the consolidated balance sheet

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

Restated consolidated balance sheet

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

5 Currency translation

The financial statements of consolidated companies prepared in foreign currencies are translated into euros (€) in accordance with IAS 21 using the functional currency method. The functional currency of foreign companies is determined by the primary economic environment in which they mainly generate and use cash. Within Deutsche Post World Net, the functional currency is predominantly the local currency. In the consolidated financial statements, assets and liabilities are therefore translated at the closing rates, whilst income and expenses are generally translated at the monthly closing rates. The resulting currency translation differences are taken directly to equity. In financial year 2007, currency translation differences amounting to €446 million (previous year: €410 million) were recognised directly in equity (see also the statement of changes in equity).

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

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

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

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

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

6 Accounting policies

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

Overriding principle

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

Revenue and expense recognition

Revenue and income from banking transactions, as well as other operating income, is generally recognised when services are rendered, the amount of revenue and income can be reliably measured and in all probability the economic benefits from the transactions will flow to the Group. Operating expenses are recognised in the income statement when the service is utilised or when the expenses are incurred.

Intangible assets

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

Internally generated intangible assets are capitalised at cost, if it is probable that their production will generate an inflow of future economic benefits and the costs can be reliably measured. At Deutsche Post World Net, this concerns internally developed software. If the criteria for capitalisation are not met, the expenses are recognised immediately in the income statement in the year in which they are incurred. In addition to direct costs, the production cost of internally developed software includes an appropriate share of allocable production overhead costs. Any

borrowing costs incurred are not included in production costs. Value-added tax arising in conjunction with the acquisition or production of intangible assets is included in the cost if it cannot be deducted as input tax. Capitalised software is amortised using the straight-line method over useful lives of between two to five years.

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

Intangible assets with indefinite useful lives (e.g. brand names) are not amortised but are tested for impairment annually or whenever there are indications of impairment. Impairment testing is carried out in accordance with the principles described in the section headed "Impairment".

Property, plant and equipment

Property, plant and equipment is carried at cost, reduced by accumulated depreciation and valuation allowances. In addition to direct costs, production costs include an appropriate share of allocable production overhead costs. Borrowing costs are not included in the production costs. They are expensed directly. Value-added tax arising in conjunction with the acquisition or production of items of property, plant or equipment is included in the cost if it cannot be deducted as input tax. Depreciation is generally charged using the straight-line method. Deutsche Post World Net uses the estimated useful lives indicated below for depreciation. If there are indications of impairment, the principles described in the section headed "Impairment" are applied.

Useful lives

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

Impairment

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

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

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

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

Operating leases

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

Finance leases

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

Fair value option

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

Investments in associates

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

Financial instruments

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

Financial assets

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

Available-for-sale financial instruments are non-derivative financial assets and are carried at their fair value where this can be measured reliably. If a fair value cannot be determined, they are carried at cost. Changes in fair value between reporting dates are generally recognised in the revaluation reserve in equity. The reserve is reversed to income either upon disposal or if the fair value falls below cost more than temporarily. If, at a subsequent balance sheet date, the fair value has increased objectively as a result of events occurring after the impairment loss was recognised, the impairment loss is reversed in the appropriate amount. Impairment losses recognised in respect of unquoted equity instruments may not be reversed. Available-for-sale financial instruments are allocated to non-current assets unless the intention is to dispose of them within twelve months of the balance sheet date. In particular, investments in unconsolidated subsidiaries, financial instruments and other equity investments are reported in this category.

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

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

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

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

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

Impairment losses are recognised within the Group if the debtor is experiencing significant financial difficulties, it is highly probable that the debtor will be the subject of bankruptcy proceedings, there ceases to be an active market for a financial instrument, there are material changes in the issuer's technological, economic, legal, or market environment, or the fair value of a financial instrument falls below its amortised cost for a significant period.

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

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

Hedges of net investments (net investment hedges) in foreign entities are treated in the same way as cash flow hedges. The gain or loss from the effective portion of the hedge is recognised in equity, whilst the gain or loss attributable to the ineffective portion is recognised directly in income. The gains or losses taken directly to equity continue to be recognised in equity until the disposal or partial disposal of the net investment. Detailed information on hedging transactions can be found in Note 48.2.

Regular way purchases and sales of financial assets are recognised at the settlement date. A financial asset is derecognised if the rights to receive the cash flows from the asset have expired. Upon transfer of a financial asset, a review is made under the disposal rules pursuant to IAS 39 as to whether the asset should be derecognised. A disposal gain/loss arises upon disposal. The remeasurement gains/losses recognised directly in equity in prior periods must be reversed as of the disposal date. Financial liabilities are derecognised if the payment obligations arising from them have expired.

Investment property

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

Inventories

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

Government grants

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

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

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

Receivables and other securities as well as liabilities from financial services (Deutsche Postbank Group)

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

Measured at amortised cost ¹⁾	
Balance sheet item	IAS 39 category
Loans and advances to other banks	Loans and receivables
Loans and advances to customers	Loans and receivables Held to maturity
Non-current financial assets	Held to maturity Loans and receivables
Deposits from other banks	Liabilities at amortised cost
Amounts due to customers	Liabilities at amortised cost
Securitised liabilities	Liabilities at amortised cost
Subordinated debt	Liabilities at amortised cost
Measured at fair value	
Balance sheet item	IAS 39 category
Loans and advances to customers	Designated as at fair value
Investment securities	Available for sale
Trading assets	Held for trading
Trading liabilities	Held for trading
Hedging derivatives (assets)	
Hedging derivatives (fair values)	

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

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

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

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

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

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

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

Cash and cash equivalents

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

Share-based payment

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

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

Pension obligations

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

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

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

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

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

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

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

The majority of the defined benefit plans in Germany relate to Deutsche Post AG. In the UK, significant liabilities were acquired as part of the Exel plc acquisition in December 2005. The defined benefit liabilities of Deutsche Postbank Group are almost entirely related to pension plans in Germany. The pension liabilities of BHW Holding AG, which was acquired in 2006, are included as part of the Deutsche Postbank Group.

Other provisions

Other provisions are recognised for all legal or constructive obligations to third parties existing at the balance sheet date that have arisen as a result of past events, are expected to result in an outflow of future economic benefits and whose amount can be measured reliably. They represent uncertain obligations that are carried at the best estimate of the expenditure required to settle the obligation. Provisions with more than one year to maturity are discounted at market rates of interest that reflect the risk and time until settlement of the obligation.

The unearned premiums and aggregate policy reserves for the Group's own insurance business included in the technical reserves (insurance) of the Deutsche Postbank Group are calculated on the basis of the effective start date for each individual insurance policy. Provisions for claims not yet processed and policy redemptions that are known at the balance sheet date are generally determined according to the details of the individual cases. For claims that only become known after the balance sheet date, a provision is recognised in the amount of the probable cost. The provisions for the home savings group insurance policies are compared with the level of payments made during the financial year in respect of claims relating to prior years. If the amount of the provision is significantly below the figures for the prior years, the resulting difference is reflected in an increase in the provision for claims not yet processed, because of the particular factors affecting this business.

For the home savings business, provisions are recognised, based on the different tariffs and conditions applicable to the contracts, for uncertain liabilities relating to reimbursements of arrangement fees and for retroactively payable interest rate bonuses where loans have not been taken up or there has been a change in the applicable interest rate or tariff of the contract. These provisions are calculated as a percentage of the total potential liability, based on the statistical data available relating to customer behaviour and taking into account the general environment likely to affect the business in the future.

Financial liabilities

On initial recognition, financial liabilities are carried at fair value less transaction costs. The price determined on a price-efficient and liquid market or a fair value determined using the treasury risk management system deployed within the Group is taken as the fair value. In subsequent periods the financial liabilities are measured at amortised cost. Any differences between the amount received and the amount repayable are recognised in income over the term of the loan using the effective interest method. Measurement is performed on a historical cost basis and any premiums or discounts are accrued or deferred over the term to maturity. The balance of issue costs and discounts on the Group's own bond issues is deferred over the bond term. Any discount not yet earned or not yet paid on money market securities is accrued or deferred over the term to maturity.

Liabilities

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

Deferred taxes

In accordance with IAS 12, deferred taxes are recognised for temporary differences between the carrying amounts in the IFRS financial statements and the tax accounts of the individual entities. Deferred tax assets also include tax reduction claims which arise from the expected future utilisation of existing tax loss carryforwards and which are likely to be realised. In compliance with IAS 12.24 (b) and IAS 12.15 (b), deferred tax assets or liabilities were only recognised for temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG and Deutsche Postbank AG where the differences arose after 1 January 1995. No deferred tax assets or liabilities can be recognised for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG and Deutsche Postbank AG as at 1 January 1995. Additional disclosures on deferred taxes from tax loss carryforwards can be found in Note 17.

In accordance with IAS 12, deferred tax assets and liabilities are calculated by using the tax rates applicable in the individual countries at the balance sheet date or announced for the time when the deferred tax assets and liabilities are realised. The tax rate of 29.8% applied to German Group companies comprises the corporation tax rate plus the solidarity surcharge, as well as a municipal trade tax rate which is calculated as the average of the different municipal trade tax rates. Foreign Group companies use their individual income tax rate to calculate deferred tax items. The income tax rates applied for foreign companies range from 15% to 48%.

Contingent liabilities

Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. Contingent liabilities also include certain obligations that will probably not lead to an outflow of resources embodying economic benefits, or where the amount of the outflow of resources embodying economic benefits cannot be measured with sufficient reliability. In accordance with IAS 37, contingent liabilities are not recognised as liabilities (see also Note 49).

The exercise of judgement in applying the accounting policies

The preparation of IFRS-compliant consolidated financial statements requires the exercise of judgement by management. All estimates are reassessed on an ongoing basis and are based on historical experience and expectations with regard to future events that appear reasonable under the given circumstances. This applies to the following matters in particular:

- In the case of certain contracts, a decision must be made whether they should be accounted for as derivatives or as executory contracts.
- Financial assets are classified under four categories, namely, held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss.
- In measuring the provisions for pensions and other employee benefits, there are different options for recognising actuarial gains and losses. For this purpose, Deutsche Post World Net applies the "corridor method" in accordance with IAS 19.92 (10% corridor).
- With respect to non-current assets held for sale, it must be determined whether the assets are available for sale in their present condition and whether their sale is highly probable. If that is the case, the assets and the associated liabilities are reported and measured as non-current assets held for sale and liabilities associated with non-current assets held for sale.

Estimates and assessments made by management

The preparation of the consolidated financial statements in accordance with IFRSs requires assumptions and estimates to be made that affect the amounts of the assets and liabilities included in the balance sheet, the amounts of income and expenses, and the disclosures relating to contingent liabilities.

Amongst other things, these assumptions relate to the recognition and measurement of provisions. When determining the provisions for pensions and other employee benefits, the discount rate used is an important factor that has to be estimated. An increase or reduction of one percentage point in the discount rate used would result in a reduction or increase of around €990 million in the pension obligations of our pension plans in Germany. A similar change in the discount rate used to measure the pension obligations of the Group companies in the UK would result in a reduction or increase of around €490 million. Since actuarial gains and losses are only recognised if they exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets, changes in the discount rate used for Deutsche Post World Net's benefit plans generally have little or no effect on the expense or the carrying amount of the provisions recognised in the following financial year.

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

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

Impairment testing for goodwill is based on assumptions with respect to the future. The Group carries out these tests annually and also whenever there are indications that goodwill may have become impaired. The recoverable amount of the CGU must then be calculated. This amount is the higher of fair value less costs to sell and value in use. The determination of value in use requires adjustments and estimates to be made with respect to forecasted future cash flows and the discount rate applied. Although management believes that the assumptions made for the purpose of calculating the recoverable amount are appropriate, possible unforeseeable changes in these assumptions could result in an impairment loss that could negatively affect the Group's net assets, financial position and results of operations.

The pending legal proceedings in which Deutsche Post World Net is involved are reported under Note 50. The outcome of these proceedings could have a significant effect on the net assets, financial position and results of operations of the Group. Management regularly analyses the information currently available about these proceedings and recognises provisions for probable obligations including estimated legal costs. Internal and external legal advisers participate in making this assessment. In deciding on the necessity for a provision, management takes into account the probability of an unfavourable outcome and whether the amount of the obligation can be estimated with sufficient reliability. The fact that an action has been launched or a claim asserted against the Group, or that a legal dispute has been disclosed in the Notes, does not necessarily mean that any provision recognised for the associated risk is adequate.

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

At the date of preparation of the consolidated financial statements, there is no indication that any significant change in the assumptions and estimates made will be required, so that on the basis of the information currently available it is not expected that there will be any significant adjustments in financial year 2008 to the carrying amounts of the assets and liabilities recognised in the financial statements.

7 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and the subsidiaries, joint ventures and associates included in the consolidated financial statements, prepared in accordance with uniform accounting policies as at 31 December 2007 and audited by independent auditors.

Acquisition accounting for subsidiaries included in the consolidated financial statements uses the purchase method of accounting. The cost of the acquisition corresponds to the fair value of the assets given up, the equity instruments issued and the liabilities incurred or assumed at the transaction date, plus any costs directly attributable to the acquisition.

Joint ventures are proportionately consolidated in accordance with IAS 31. Assets and liabilities, as well as income and expenses, of jointly controlled companies are included in the consolidated financial statements in proportion to the interest held in these companies. Proportionate acquisition accounting as well as recognition and measurement of goodwill use the same methods as applied to the consolidation of subsidiaries.

Companies on which the parent can exercise significant influence (associates) are accounted for in accordance with the equity method using the purchase method of accounting. Any goodwill is recognised under investments in associates.

Intra-Group revenue, other operating income and expenses as well as receivables, liabilities and provisions between consolidated companies are eliminated. Inter-company profits or losses from intra-Group deliveries and services not realised by sale to third parties are eliminated.

8 Segment reporting disclosures

Segment reporting was prepared in accordance with IAS 14 (Segment Reporting). The presentation of specific data from the consolidated financial statements is classified by divisions and regions, based on the Group's internal reporting and organisational structure. Segment reporting is designed to enable a transparent view of the earnings power, net assets and financial position of the individual components of the Group's activities and regions. For the segment reporting which forms part of the Notes, see page 126.

Prior-period amounts were restated due to the transfer of the German parcel business from the EXPRESS Division to the MAIL Division as at 1 January 2007 and the transfer of DHL Freight from the EXPRESS Division to the LOGISTICS Division and of the hubs and aviation services from the SERVICES segment to the EXPRESS Division as at 1 July 2006. In addition, some companies were transferred in the course of portfolio optimisation measures.

Reflecting the Group's predominant organisational structure, the primary reporting format is based on the divisions. Deutsche Post World Net distinguishes between the following divisions:

8.1 Segments by division

MAIL

In addition to the transport and delivery of written communications, the MAIL Division is positioning itself as an end-to-end service provider for the management of written communications. The division comprises the following business units: Mail Communication, Dialogue Marketing, Press Services, Parcel Germany, Global Mail and Corporate Information Solutions.

EXPRESS

The EXPRESS Division offers national and international courier, express and parcel services (DHL EXPRESS) under the DHL brand. Effective 1 July 2006, the European overland transport business – now the DHL Freight Business Unit – was transferred from the EXPRESS Division to the LOGISTICS Division. As part of the reorganisation of the global express network, hubs and global network aviation were removed from the SERVICES segment and transferred to the EXPRESS Division.

LOGISTICS

The LOGISTICS Division comprises the national and international logistics services of the DHL Global Forwarding and DHL Exel Supply Chain business units and, since 1 July 2006, the European overland transport business DHL Freight under the DHL brand.

FINANCIAL SERVICES

The FINANCIAL SERVICES Division consists of the Deutsche Postbank Group's activities. Deutsche Postbank Group offers a wide range of standardised banking services, including payments, deposits, retail and corporate banking, fund products and investment securities services. Effective 1 January 2006, Deutsche Postbank AG took over DP Retail GmbH, thus acquiring 850 retail outlets of Deutsche Post AG. The transfer of ownership led to a change of employer for around 9,600 employees. The retail outlets still owned by Deutsche Post AG are reported in the SERVICES segment. In addition, the FINANCIAL SERVICES segment includes the Pension Service.

The following table shows a breakdown of the FINANCIAL SERVICES Division's profit from operating activities (EBIT) by segment component:

FINANCIAL SERVICES EBIT

€m	2006				2007			
	Deutsche Postbank Group	Pension Service	Other	Total	Deutsche Postbank Group	Pension Service	Other	Total
EBIT	1,000	7	-3	1,004	1,069	7	0	1,076

SERVICES

The SERVICES segment contains the company's Global Business Services with the following areas: Legal, Insurance, Procurement, Finance Operations, IT Services, Real Estate, Fleet Management and Business Consulting. It also includes the Corporate Centre and those retail outlets still belonging to Deutsche Post AG. This segment also reports Deutsche Post AG income and expenses which cannot be allocated to an individual division. As part of the reorganisation of the global express network, hubs and global network aviation were removed from the SERVICES segment with effect from 1 July 2006 and transferred to the EXPRESS segment.

Consolidation

The amounts for the divisions are presented after consolidating intersegment transactions, which are eliminated in the consolidation column.

Reconciliation of segment amounts to consolidated amounts

The reconciliation column contains the effects of consolidation adjustments and the amounts from the differing definitions of segment items compared with the corresponding item for the Group.

Reconciliation

€m	Segments total		Reconciliation		Consolidated amount	
	2006	2007	2006	2007	2006	2007
External revenue	60,545	63,512	0	0	60,545	63,512
Internal revenue	4,407	4,368	-4,407	-4,368	0	0
Total revenue	64,952	67,880	-4,407	-4,368	60,545	63,512
Other operating income	4,766	4,219	-1,945	-1,633	2,821	2,586
Materials expense	-39,216	-41,265	4,867	4,390	-34,349	-36,875
Staff costs	-18,631	-18,491	15	20	-18,616	-18,471
Other operating expenses	-6,192	-6,784	1,434	1,591	-4,758	-5,193
Depreciation, amortisation and impairment losses	-1,771	-2,357	0	0	-1,771	-2,357
Profit from operating activities (EBIT)	3,908	3,202	-36	0	3,872	3,202
Net income from associates	4	3	0	0	4	3
Net other finance costs					-1,034	-1,013
Income taxes					-560	-307
Consolidated net profit					2,282	1,885
of which attributable to Deutsche Post AG shareholders					1,916	1,389
of which attributable to minorities					366	496
Assets	214,440	229,385	3,258	6,081	217,698	235,466
of which investments in associates	63	203	0	0	63	203
Liabilities	181,374	200,973	22,372	20,634	203,746	221,607
of which investments in associates	0	0	0	0	0	0

External revenue is the revenue generated by the divisions from non-Group third parties. Internal revenue is revenue generated with other divisions. If comparable external market prices exist for services or products offered internally within the Group, these market prices or market-oriented prices are used as transfer prices (arm's length principle). The transfer prices for services for which no external market exists are generally based on incremental costs.

The expenses for IT services provided in the IT service centres are allocated to the divisions by cause. That portion of the expenses which cannot be passed on to the divisions according to the arm's length principle continues to be included in the SERVICES segment. The additional costs resulting from Deutsche Post AG's postal universal service obligation (nationwide retail outlet network, delivery every working day), and from its obligation to assume the compensation structure as the legal successor to Deutsche Bundespost, are allocated to the MAIL Division. The segment income and expense of the FINANCIAL SERVICES Division also include the Deutsche Postbank Group's interest, fee and commission income and expense because these are allocated to the business operations of this division. Segment assets are composed of non-current assets (excluding non-current financial assets) and current assets (excluding income tax receivables, cash and cash equivalents and current financial instruments). The receivables and other securities from financial services are reported under the FINANCIAL SERVICES segment. Purchased goodwill is allocated to the divisions.

€m	2006	2007
Total assets	217,698	235,466
Investment property	-122	-187
Non-current financial assets	-994	-1,060
Other non-current assets	-303	-413
Deferred tax assets	-542	-1,020
Income tax assets	-281	-312
Receivables and other assets	-200	-141
Financial instruments	-42	-72
Cash and cash equivalents	-2,391	-4,683
Reconciliation to segment assets	212,823	227,578

Segment liabilities relate to non-interest-bearing provisions and liabilities (excluding income tax liabilities) and to liabilities from financial services.

€m	2006	2007
Total assets	217,698	235,466
Equity	-13,952	-13,859
Non-current provisions	-12,340	-10,573
Non-current liabilities	-8,780	-8,986
Current provisions	-616	-693
Current liabilities	-2,048	-1,905
Reconciliation to segment liabilities	179,962	199,450

The segment investments relate to intangible assets (including purchased goodwill) and property, plant and equipment. Depreciation, amortisation and write-downs relate to the segment assets allocated to the individual divisions. Other non-cash expenses relate primarily to expenses from the recognition of provisions.

8.2 Segments by region

The allocation of external revenue is based on the location of the customers. Only revenue generated from non-Group third parties is disclosed. Segment assets are allocated according to the location of the assets. They are composed of the non-current assets (excluding non-current financial assets) and current assets (excluding income tax assets, cash and cash equivalents, and current financial instruments) of the individual regions. Segment assets also include receivables and other securities from financial services, as well as purchased goodwill, which are generally allocated on the basis of the domicile of the Group companies. Segment investments are also allocated on the basis of the location of the assets. They include investments in intangible assets (including purchased goodwill) and property, plant and equipment.

Income Statement Disclosures

9 Revenue and income from banking transactions

€m	2006	2007
Revenue	51,592	53,719
Income from banking transactions	8,953	9,793
Revenue and income from banking transactions	60,545	63,512

As in the prior-year period, there was no revenue or income from banking transactions in financial year 2007 that was generated on the basis of barter transactions.

The LOGISTICS Division in particular achieved a substantial increase in revenue primarily due to the 10-year contract with the British National Health Service (NHS). The revenue contribution from TSO, which was consolidated for the first time in the year under review, was €106 million (see Note 2).

The further classification of revenue by division and the allocation of revenue and income from banking transactions to geographical regions is presented in the segment reporting.

€m	2006	2007
Interest income		
Interest income from credit and money market transactions	5,058	5,409
Interest income from fixed-income securities and book-entry securities	2,068	2,491
Income from equities and other non-fixed-income securities	231	103
Interest income from trading operations	249	347
Net gains/losses from remeasurement of hedges	8	-1
	7,614	8,349
Commission income	1,075	1,154
Net trading income	264	290
Income from banking transactions	8,953	9,793

The method of reporting the net gains/losses from the fair value option was changed compared with the prior year. Changes in the fair value of the related financial instruments are now reported in net trading income, rather than in net interest income. The prior-year amounts have been restated accordingly. Interest relating to financial instruments covered by the fair value option and to the associated interest rate swaps is reported in net interest income as before.

10 Other operating income

€m	2006	2007
Net income from investment securities and insurance business (Deutsche Postbank Group)	234	294
Gains on disposal of non-current assets	274	275
Income from the reversal of provisions	294	272
Income from currency translation differences	207	262
Income from work performed and capitalised	197	190
Insurance income	164	176
Rental and lease income	91	95
Reversals of impairment losses on receivables and other assets	58	85
Commission income	75	78
Income from prior-period billings	86	76
Income from fees and reimbursements	59	73
Income from the sale of Vfw AG, Germany	0	59
Income from the derecognition of liabilities	91	54
Income from loss compensation	34	27
Income from payments received on bad debt	10	17
Subsidies	11	11
Income from non-hedging derivatives	46	7
Gains on disposal of Postbank shares due to conversion right from exchangeable bond	276	0
Income from arbitration proceedings against Deutsche Telekom AG	99	0
Income from the reversal of the provision for Bundes-Pensions-Service für Post und Telekommunikation e.V.	80	0
Income from the sale of Modra Pyramida	64	0
Income from cost transfers in connection with BAnstPT (Federal Posts and Telecommunications Agency)	55	0
Income from the sale of McPaper AG	10	0
Miscellaneous	306	535
Other operating income	2,821	2,586

Income from investment securities and insurance business (Deutsche Postbank Group) includes a number of non-recurring effects (see Note 3).

The decline in other operating income primarily reflects the non-recurring income in the previous year from the sale of the shares in Postbank and the positive outcome of the arbitration proceedings against Deutsche Telekom AG. Miscellaneous other operating income contains a number of individual items.

11 Materials expense and expenses from banking transactions

€m	2006	2007
Materials expense	28,641	30,488
Expenses from banking transactions	5,708	6,387
Materials expense and expenses from banking transactions	34,349	36,875

€m	2006	2007
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Fuel	669	934
Aircraft fuel	571	601
Packaging material	223	397
Goods purchased and held for resale	128	1,295
Office supplies	102	100
Spare parts and repair materials	69	90
Other expenses	100	112
	1,862	3,529
Cost of purchased services		
Transportation costs	19,757	18,450
Cost of temporary staff	1,690	2,469
Expenses from non-cancellable leases	1,297	1,709
Expenses from cancellable leases	497	508
Other lease expenses (incidental expenses)	346	173
Maintenance costs	953	1,130
IT services	916	896
Commissions paid	294	313
Other purchased services	1,029	1,311
	26,779	26,959
Materials expense	28,641	30,488

The increase in materials expense was a result of the expansion of the LOGISTICS and EXPRESS divisions' business activities, in particular in the Europe and Asia Pacific regions. The increase in the expense for goods purchased and held for resale relates to the procurement logistics for the NHS (see Note 9). An amount of €30 million of the expenses for materials related to TSO. Other purchased services include a number of individual items.

€m	2006	2007
Interest expense on liabilities	3,566	4,315
Interest expense on securitised liabilities	833	587
Interest expense on subordinated debt	253	280
Commission expense	214	244
Other interest expenses	842	961
Expenses from banking transactions	5,708	6,387

12 Staff costs/employees

€m	2006	2007
Wages, salaries and compensation	15,281	15,200
of which expenses for options under the stock option plans	29	14
of which expenses for SARs under the stock option plans	2	2
of which expenses from SAR Plan 2006/LTIP	14	21
Social security contributions	2,198	2,252
Retirement benefit expenses	1,137	1,019
Staff costs	18,616	18,471

Staff costs include an amount of €29 million relating to the acquisition of TSO.

Retirement benefit expenses include €560 million (previous year: €559 million) relating to contributions by Deutsche Post AG and €111 million (previous year: €111 million) relating to contributions by Deutsche Postbank AG to Bundes-Pensions-Service für Post und Telekommunikation e.V. Further details can be found in Note 6.

Staff costs relate mainly to wages, salaries and compensation, as well as all other benefits paid to employees of the Group for their services in the year under review. Social security contributions relate in particular to statutory social security contributions paid by employers.

Retirement benefit expenses relate to current and former employees or their surviving dependants. These expenses consist of additions to pension provisions, employer contributions to supplementary occupational pension plans and retirement benefit payments by employers for their employees.

The average number of employees of Deutsche Post World Net in the year under review, classified by employee group, was as follows:

	2006	2007
Hourly workers and salaried employees	440,203	459,162
Civil servants	62,560	61,172
Trainees	4,878	4,469
Employees	507,641	524,803

The number of full-time equivalents as at 31 December 2007 was 475,100 employees (31 December 2006: 463,350 employees). The employees of companies acquired or disposed of during the year under review were included ratably. The employees of the joint venture companies have been included proportionately.

13 Depreciation, amortisation and impairment losses

€m	2006	2007
Amortisation of intangible assets, excluding the impairment of goodwill	479	587
Depreciation of property, plant and equipment		
Land and buildings	285	508
Technical equipment and machinery	343	499
Other equipment, operating and office equipment, vehicle fleet	558	629
Aircraft	106	126
Advance payments	0	6
	1,292	1,768
Depreciation/amortisation of other non-current assets	0	2
	1,771	2,357
Impairment of goodwill	0	0
Depreciation, amortisation and impairment losses	1,771	2,357

Depreciation, amortisation and impairment losses include €612 million (previous year: €44 million) in respect of impairment write-downs. Of that amount, €97 million relates to intangible assets (previous year: €27 million) and €253 million to land and buildings (previous year: €17 million), whilst €262 million relates to the remaining property, plant and equipment. At segment level, the amounts of impairment write-downs were as follows:

Impairment 2007

€m	
MAIL	3
EXPRESS	596
LOGISTICS	13

In the EXPRESS Americas Division, intangible assets (excluding goodwill) were written down fully in an amount of €90 million whilst items of property, plant and equipment were written down in an amount of €504 million to their fair value less costs to sell.

14 Other operating expenses

€m	2006	2007
Public relations expenses	594	586
Travel and training costs	479	524
Legal, consulting and audit costs	498	516
Other business taxes	300	384
Warranty expenses, refunds and compensation payments	306	363
Allowance for losses on loans and advances from financial services (Deutsche Postbank Group)	337	338
Telecommunication costs	312	328
Cost of purchased cleaning, transportation and security services	254	305
Expenses from currency translation differences	272	266
Office supplies	239	257
Write-downs of current assets	253	227
Entertainment and corporate hospitality expenses	159	181
Cost of asset disposal	142	167
Insurance costs	128	139
Commissions paid	64	136
Voluntary social benefits	110	129
Services provided by the Federal Posts and Telecommunications Agency	79	76
Contributions and fees	41	50
Other property-related expenses	56	35
Monetary transaction costs	29	34
Prior-period other operating expenses	18	32
Donations	13	17
Expenses from non-hedging derivatives	30	4
Expenses from arbitration proceedings against Deutsche Telekom AG	10	0
Miscellaneous	35	99
Other operating expenses	4,758	5,193

The allowance for losses on loans and advances from financial services (Deutsche Postbank Group) includes a number of non-recurring effects (see Note 3).

Other operating expenses amounting to €26 million relate to TSO, which was consolidated for the first time in 2007. Miscellaneous other operating expenses include a number of individual items.

Taxes other than income taxes are either recognised under the related expense item or, if no specific allocation is possible, under other operating expenses. The rise in other business taxes was attributable to an increase in additions to provisions recognised by Deutsche Post AG.

15 Net income from associates

Investments in companies on which a significant influence can be exercised and which are accounted for using the equity method contributed €3 million (previous year: €4 million) to net financial income.

16 Net other finance costs

€m	2006	2007
Financial income		
Interest income	63	69
Income from other equity investments and financial instruments	13	21
Income from currency translation differences	81	438
Other financial income	41	470
	198	998
Finance costs		
Interest expenses	-1,040	-1,055
of which interest cost on discounted provisions for pensions and other provisions	-704	-723
Cost of loss absorption	0	-1
Write-downs on financial instruments	-11	-2
Expenses from currency translation differences	-95	-576
Other finance costs	-86	-377
	-1,232	-2,011
Net other finance costs	-1,034	-1,013

Income and expenses from the Deutsche Postbank Group's banking transactions are not recognised under net other finance costs. Whilst income – in particular in the form of interest, fee and commission income as well as income from equities and securities – is recognised under revenue and income from banking transactions (see Note 9), expenses – in particular interest, fee and commission expenses – are carried under materials expense and expenses from banking transactions (see Note 11). The increases in income and expenses from currency translation differences and in other financial income and other finance costs were primarily due to changes in the hedging procedures for foreign currencies.

17 Income taxes

€m	2006	2007
Current income tax expense	-338	-453
Current recoverable income tax	62	10
	-276	-443
Deferred tax income (previous year: tax expense) from temporary differences	-221	183
Deferred tax expense from the reduction in deferred tax assets from tax loss carryforwards	-63	-47
	-284	136
Income tax expense	-560	-307

The reconciliation to the effective income tax expense is shown below, based on consolidated net profit before income taxes, and the expected income tax expense:

Reconciliation to effective income tax expense

€m	2006	2007
Consolidated net profit before income taxes	2,842	2,192
Expected income tax expense	1,134	875
Deferred tax assets from temporary differences not recognised for		
Initial differences	-483	-735
Restructuring provisions	-70	0
Deferred tax assets of German Group companies not recognised for tax loss carryforwards	139	376
Deferred tax assets of foreign Group companies not recognised for tax loss carryforwards	440	98
Changes in tax rates at German Group companies	0	-188
Effect of current taxes from previous years	-31	68
Tax-exempt income and non-deductible expenses, effects from Section 8b KStG (German corporate income tax act)	-503	-83
Differences in tax rates at foreign companies	-50	-103
Other	-16	-1
Effective income tax expense	560	307

The difference between the expected and the effective income tax expense is due in particular to temporary differences between the carrying amounts in the IFRS financial statements and in the tax accounts of Deutsche Post AG resulting from initial differences in the opening tax accounts as at 1 January 1995. In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognise any deferred tax assets on these temporary differences, which relate mainly to property, plant and equipment as well as to provisions for pensions and other employee benefits.

The remaining temporary differences between the carrying amounts in the IFRS financial statements and in the opening tax accounts amount to €3.4 billion as at 31 December 2007 (previous year: €5.2 billion). The effects from deferred tax assets not recognised on tax loss carryforwards relate primarily to Deutsche Post AG and members of its consolidated tax group. Effects from deferred tax assets not recognised on tax loss carryforwards in respect of foreign companies relate primarily to the Americas region.

Effects from deferred tax assets not recognised amounting to €122 million (previous year: €-40 million) were due to the reversal of a write-down of deferred tax assets recognised in a prior period. The income tax expense was reduced by an amount of €51 million (previous year: €44 million) as a result of the utilisation of tax losses not previously reflected in the financial statements.

The change in the tax rate applying to German Group companies relates to the effects of the 2008 corporate tax reform. As the amount of deferred tax liabilities reported by German Group companies is considerably higher than the amount of deferred tax assets reported, remeasurement in financial year 2007 resulted in a tax benefit of around €188 million. The change in the tax rate in some foreign tax jurisdictions did not lead to any significant effects. The effects from Section 8b *Körperschaftsteuergesetz* (KStG – German corporate income tax act) relate primarily to the special funds, shares and equity investments of the Deutsche Postbank Group.

18 Consolidated net profit for the period

In financial year 2007, Deutsche Post World Net generated a consolidated net profit for the period of €1,885 million (previous year: €2,282 million). Of this amount, €1,389 million (previous year: €1,916 million) is attributable to Deutsche Post AG shareholders.

19 Minorities

The net profit of €496 million attributable to minorities increased by €130 million year-on-year.

20 Earnings per share

Basic earnings per share are computed in accordance with IAS 33 (Earnings per Share) by dividing consolidated net profit by the average number of shares. Basic earnings per share for financial year 2007 were €1.15 (previous year: €1.60).

	2006	2007
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	1,916	1,389
Weighted average number of shares outstanding	1,196,244,814	1,205,101,455
Basic earnings per share (€)	1.60	1.15

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of all potentially dilutive shares. There were 13,184,482 stock options for executives as at the reporting date (previous year: 21,823,394), of which 2,489,720 were dilutive (previous year: 3,395,362).

	2006	2007
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	1,916	1,389
Weighted average number of shares outstanding	1,196,244,814	1,205,101,455
Potentially dilutive shares	3,395,362	2,489,720
Weighted average number of shares for diluted net income	1,199,640,176	1,207,591,175
Diluted earnings per share (€)	1.60	1.15

21 Dividend per share

A dividend per share of €0.90 is being proposed for financial year 2007. Based on the 1,207,470,598 shares recorded in the commercial register as at 31 December 2007, this corresponds to a dividend distribution of €1,087 million. Further details on the dividend distribution can be found in Note 38.

Balance Sheet Disclosures

22 Intangible assets**22.1 Overview**

€m	Internally generated intangible assets	Purchased brand names	Purchased customer lists	Other purchased intangible assets	Goodwill	Advance payments and intangible assets under development	Total
Cost							
Balance at 1 January 2006	1,020	540	576	1,490	11,060	273	14,959
Additions to consolidated group	29	345	485	70	1,031	52	2,012
Additions	137	0	0	387	98	150	772
Reclassifications	130	0	0	267	0	-259	138
Disposals	-120	0	0	-352	-159	-84	-715
Reclassification to current assets	0	0	0	-1	0	0	-1
Currency translation differences	-11	13	-21	-33	-287	-2	-341
Balance at 31 December 2006/ 1 January 2007	1,185	898	1,040	1,828	11,743	130	16,824
Additions to consolidated group	0	11	78	5	296	0	390
Additions	136	0	0	114	121	101	472
Reclassifications	16	0	0	13	0	-39	-10
Disposals	-27	0	-70	-147	-1	-36	-281
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	-12	-51	-62	-40	-389	-3	-557
Balance at 31 December 2007	1,298	858	986	1,773	11,770	153	16,838
Amortisation and impairment losses/ reversals							
Balance at 1 January 2006	533	0	0	866	440	94	1,933
Additions to consolidated group	1	0	0	7	0	0	8
Amortisation	106	0	89	257	0	0	452
Impairment losses	27	0	0	0	0	0	27
Reclassifications	18	0	0	-16	0	0	2
Disposals	-97	0	0	-56	0	-75	-228
Currency translation differences	-6	0	-1	-14	0	-1	-22
Balance at 31 December 2006/ 1 January 2007	582	0	88	1,044	440	18	2,172
Additions to consolidated group	0	0	0	2	0	0	2
Amortisation	146	0	83	261	0	0	490
Impairment losses	54	0	0	30	0	13	97
Reclassifications	-8	0	0	8	0	0	0
Disposals	-10	0	0	-105	0	0	-115
Currency translation differences	-5	0	7	-35	0	-1	-34
Balance at 31 December 2007	759	0	178	1,205	440	30	2,612
Carrying amount at 31 December 2007	539	858	808	568	11,330	123	14,226
Carrying amount at 31 December 2006	603	898	952	784	11,303	112	14,652

Purchased software, concessions, industrial rights, licences and similar rights and assets are reported under purchased intangible assets. Internally generated intangible assets relate to development costs for internally developed software.

Purchased customer lists of €402 million relate to Exel (previous year: €494 million), €188 million to Williams Lea (previous year: €220 million) and €156 million to BHW (previous year: €238 million). The brand names relate primarily to Exel (€504 million; previous year: €552 million), Williams Lea (€24 million; previous year: €27 million) and BHW (€319 million, unchanged from previous year).

The increase in goodwill (at the date of acquisition) related to TSO in the MAIL Division in an amount of €139 million, and to Astar in the EXPRESS Division in an amount of €78 million. The decline in the carrying amount of goodwill in the LOGISTICS Division is mainly the result of currency translation differences.

22.2 Allocation of goodwill to cash-generating units

Cash-generating units (CGUs)

€m

Total goodwill: 11,330¹⁾
(previous year: 11,303)

Segment level/group of CGUs

MAIL	EXPRESS	LOGISTICS	FINANCIAL SERVICES
	3,912 (previous year: 3,823)	461 (previous year: 461)	

CGU level

MAIL National 30 (previous year: 30)	DHL Global Forwarding 3,063 (previous year: 3,134)	FINANCIAL SERVICES 639 (previous year: 634)
MAIL International 1,137 (previous year: 1,011)	DHL Exel Supply Chain 1,949 (previous year: 2,071)	
	DHL Freight Europe 253 (previous year: 253)	

1) Goodwill from reconciliation amounts to €-114 million (previous year: €-114 million).

For the purposes of the impairment test carried out annually in accordance with IAS 36, the Group determines the recoverable amount of a CGU on the basis of its value in use. This calculation is based on projections of free cash flow that are first discounted at a rate corresponding to the post-tax cost of capital. Pre-tax discount rates are then determined iteratively.

The cash flow projections are based on management's adopted detailed budgets for EBIT and capital expenditure with a three-year planning horizon. The perpetual annuity is determined using a long-term growth rate of up to 3%. The growth rate used reflects expectations regarding industry growth for the CGUs, but does not exceed the estimated long-term growth rate for the countries with the highest contribution to earnings in the relevant CGUs. The cash flow forecasts are based on both historical amounts and the anticipated future general market trend. In addition, the forecasts take into account growth in the respective national business operations and in international trade, and the ongoing trend towards outsourcing logistics activities. Cost estimates for the transportation network and services also have an impact on value in use.

The pre-tax cost of capital is based on the weighted average cost of capital. The following table shows the discount rates used for the individual CGUs:

Discount rates

%	2006	2007
LOGISTICS		
DHL Exel Supply Chain	9.0	10.4
Freight Europe	n/a	11.1
DHL Global Forwarding	9.7	10.8
MAIL		
International	10.4	10.9
National	9.9	11.5
EXPRESS	9.6	9.9

On the basis of these assumptions and the impairment tests carried out for the individual CGUs to which goodwill was allocated, it was established that the recoverable amounts of the CGUs exceeded their carrying amounts in every case. No impairment write-downs were therefore necessary.

The recoverable amount of the DHL Exel Supply Chain CGU exceeds its carrying amount by around 1%. If the discount rate were increased by 5% or the sustainable EBIT margin reduced by 5% to 3.9%, an impairment write-down of around €300 million would have to be recognised in each case.

23 Property, plant and equipment**23.1 Overview**

€m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Aircraft	Vehicle fleet and transport equipment	Advance payments, assets under development	Total
Cost							
Balance at 1 January 2006	7,889	4,249	3,182	1,211	1,916	112	18,559
Additions to consolidated group	227	36	143	0	25	4	435
Additions	319	119	285	41	306	187	1,257
Reclassifications	-109	-195	174	67	50	-60	-73
Disposals	-672	-215	-423	-13	-284	-59	-1,666
Reclassification to current assets	-8	0	0	0	0	0	-8
Currency translation differences	-67	-93	-55	-24	-7	-2	-248
Balance at 31 December 2006/ 1 January 2007	7,579	3,901	3,306	1,282	2,006	182	18,256
Additions to consolidated group	42	31	38	56	9	2	178
Additions	358	346	412	117	277	349	1,859
Reclassifications	-75	60	34	-7	14	-137	-111
Disposals	-521	-170	-291	-55	-219	-84	-1,340
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	-115	-92	-68	-26	-41	-7	-349
Balance at 31 December 2007	7,268	4,076	3,431	1,367	2,046	305	18,493
Depreciation and impairment losses							
Balance at 1 January 2006	2,215	2,756	2,341	292	1,047	0	8,651
Additions to consolidated group	21	22	37	0	28	1	109
Depreciation	268	343	365	106	193	0	1,275
Impairment losses	17	0	0	0	0	0	17
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	175	-297	93	0	36	-9	-2
Disposals	-320	-191	-318	-11	-233	0	-1,073
Reclassification to current assets	-1	0	0	0	0	0	-1
Currency translation differences	-19	-41	-40	-3	-5	0	-108
Balance at 31 December 2006/ 1 January 2007	2,356	2,592	2,478	384	1,066	-8	8,868
Additions to consolidated group	19	22	26	15	4	0	86
Depreciation	255	309	362	126	201	0	1,253
Impairment losses	253	190	47	0	19	6	515
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	-57	33	-5	-7	-2	-1	-39
Disposals	-206	-126	-254	-25	-167	0	-778
Reclassification to current assets	0	0	0	0	0	0	0
Currency translation differences	-37	-47	-50	-10	-22	0	-166
Balance at 31 December 2007	2,583	2,973	2,604	483	1,099	-3	9,739
Carrying amount at 31 December 2007	4,685	1,103	827	884	947	308	8,754
Carrying amount at 31 December 2006	5,223	1,309	828	898	940	190	9,388

Advance payments relate only to advance payments on items of property, plant and equipment where Deutsche Post World Net has paid advances in connection with uncompleted transactions. Assets under development relate to items of property, plant and equipment in progress at the balance sheet date for whose production internal or third-party costs have already been incurred. Items of property, plant and equipment pledged as collateral amount to less than €1 million (previous year: €5 million).

23.2 Finance leases

The following assets are carried as non-current assets resulting from finance leases:

€m	2006	2007
Intangible assets	4	2
Land and buildings	52	52
Technical equipment and machinery	45	35
Other equipment, operating and office equipment	61	122
Aircraft	633	491
Vehicle fleet and transport equipment	13	7
Finance leases	808	709

The corresponding liabilities from finance leases are included under financial liabilities (see Note 42).

24 Investment property

€m	2006	2007
Cost		
Balance at 1 January	143	157
Additions to consolidated group	0	0
Additions	0	20
Reclassifications	19	122
Disposals	-5	-37
Reclassification to current assets	0	0
Currency translation differences	0	-2
Balance at 31 December	157	260
Impairment losses		
Balance at 1 January	36	35
Additions to consolidated group	0	0
Impairment losses	1	2
Changes in fair value	0	0
Reclassifications	0	39
Disposals	-2	-3
Reclassification to current assets	0	0
Currency translation differences	0	0
Balance at 31 December	35	73
Carrying amount at 31 December	122	187

€99 million (previous year: €31 million) of investment property relates to Deutsche Post AG and €73 million (previous year: €72 million) to the Deutsche Postbank Group. Rental income for this property amounted to €9 million (previous year: €2 million), whilst the related expenses were also €9 million (previous year: €3 million). The fair value amounted to €187 million.

25 Non-current financial assets

€m	2006	2007
Investments in associates	63	203
Other non-current financial assets		
Available for sale	805	743
Loans	126	114
Non-current financial assets	994	1,060

Write-downs amounting to €4 million (previous year: €8 million) were included in the income statement.

Compared with the market rates of interest prevailing at 31 December 2007 for comparable financial assets, most of the housing promotion loans are low-interest or interest-free loans. They are recognised in the balance sheet at a present value of €19 million (previous year: €17 million). The principal amount of these loans totals €27 million (previous year: €25 million). As in the previous year, investments in associates and other investees were not subject to restraints on disposal.

26 Other non-current assets

€m	2006	2007
Pension assets	196	247
Derivatives	35	27
Sureties provided	13	33
Miscellaneous	132	190
Other non-current assets	376	497

The derivatives – interest rate swaps/fair value hedges – relate to bonds issued by Deutsche Post Finance, the Netherlands, and were entered into with external banks. Further information on pension assets can be found in Note 40.

27 Deferred taxes

€m	2006	2007
Deferred tax assets for tax loss carryforwards	270	227
Deferred tax assets for temporary differences	272	793
	542	1,020
Deferred tax liabilities for temporary differences	1,426	1,569

No deferred tax assets were recognised for tax loss carryforwards of around €11.7 billion (previous year: €10.3 billion) and for temporary differences of around €1.2 billion (previous year: €1.9 billion), as it can be assumed that the Group will not be able to use these tax loss carryforwards and temporary differences within the framework of tax planning. It will be possible to utilise these tax loss carryforwards for an indefinite period of time. Most of the loss carryforwards are attributable to Deutsche Post AG. Deferred taxes have not been recognised for temporary differences of €468 million (previous year: €380 million) relating to earnings of German and foreign subsidiaries because it is probable that these temporary differences will not reverse in the foreseeable future.

Deferred tax assets for tax loss carryforwards

€m	2006	2007
Deferred taxes for German tax loss carryforwards		
Corporation tax and solidarity surcharge	111	80
Trade tax	95	70
Deferred taxes for foreign tax loss carryforwards	64	77
	270	227

Maturity structure of deferred tax assets for tax loss carryforwards

€m	2006	2007
Less than 1 year	48	10
1 to 2 years	42	9
2 to 3 years	111	86
3 to 4 years	15	84
4 to 5 years	18	4
More than 5 years	36	34
	270	227

Maturity structure of deferred tax assets and liabilities for temporary differences

€m	2006		2007	
	Assets	Liabilities	Assets	Liabilities
Less than 1 year	61	141	220	12
1 to 2 years	35	18	67	18
2 to 3 years	26	4	38	7
3 to 4 years	12	90	20	417
4 to 5 years	19	903	285	542
More than 5 years	119	270	163	573
	272	1,426	793	1,569

The following deferred tax assets and liabilities for temporary differences result from differences in the carrying amounts of individual balance sheet items:

Deferred taxes for temporary differences

€m	2006		2007	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	58	727	72	701
Property, plant and equipment	24	71	17	75
Non-current financial assets	0	1	26	0
Other non-current assets	3	117	14	37
Current assets				
Receivables and other securities from financial services	139	1,965	394	2,205
Other current assets	203	49	143	10
Provisions	367	27	434	131
Financial liabilities	25	0	4	0
Liabilities from financial services	1,154	83	1,653	97
Other liabilities	20	107	31	313
	1,993	3,147	2,788	3,569
Balance of deferred tax assets and liabilities				
of which for tax loss carryforwards	0	0	0	-5
of which for temporary differences	-1,721	-1,721	-1,995	-1,995
Carrying amount	272	1,426	793	1,569

28 Inventories

Standard costs for inventories of postage stamps and spare parts in freight centres amounted to €12 million (previous year: €14 million). There was no requirement to charge significant valuation allowances on these inventories.

€m	2006	2007
Finished goods and goods purchased and held for resale	120	59
Spare parts for aircraft	2	6
Raw materials and supplies	117	164
Work in progress	28	18
Advance payments	1	1
Inventories	268	248

29 Income tax assets and liabilities

All income tax assets are current and have maturities of less than one year.

€m	2006	2007
Income tax assets	281	312
Income tax liabilities	101	139

30 Receivables and other assets

€m	2006	2007
Trade receivables	6,395	6,377
Prepaid expenses	990	1,038
Deferred revenue	403	558
Current tax receivables	389	461
Receivables from sales of assets	5	196
Income from cost absorption	47	83
Creditors with debit balances	51	63
Receivables from Group companies	80	53
Current derivatives	57	52
Receivables from insurance business	13	32
Receivables from employees	52	30
Land rights	15	22
Receivables from loss compensation (recourse claims)	10	19
Receivables from cash-on-delivery	28	18
Rent receivables	16	17
Receivables from residential housing construction pools	14	14
Receivables from BANstPT (Federal Posts and Telecommunications Agency)	4	0
Receivables from private postal agencies	2	7
Miscellaneous other assets	735	766
Receivables and other assets¹⁾	9,306	9,806

1) Prior period amount restated, see Note 4.

€317 million of the tax receivables (previous year: €262 million) relates to VAT, €60 million (previous year: €36 million) to customs and duties, and €84 million (previous year: €91 million) to other tax receivables. Miscellaneous other assets include a large number of individual items. Further information on derivatives can be found in Note 48.2 ff.

31 Receivables and other securities from financial services

€m	2006	2007
Loans and advances to other banks		
Loans and advances to other banks (loans and receivables)	16,350	24,581
of which fair value hedges: 1,516 (previous year: 2,136)		
Loans and advances to customers		
of which secured by mortgage charges: 50,372 (previous year: 45,565)		
Loans and advances to customers (loans and receivables)	80,425	84,133
of which fair value hedges: 1,356 (previous year: 1,500)		
Loans and advances to customers (held to maturity)	518	456
Loans and advances to customers (fair value option)	6,181	7,110
	87,124	91,699
Allowance for losses on loans and advances		
Loans and advances to other banks	0	0
Loans and advances to customers	-1,155	-1,154
	-1,155	-1,154
Trading assets		
Bonds and other fixed-income securities	9,755	4,139
Held-for-trading building loans held for sale	208	209
Equities and other non-fixed-income securities	28	161
Positive fair value of trading derivatives	2,942	5,155
Positive fair value of banking book derivatives	276	131
Positive fair value of derivatives in connection with underlyings relating to the fair value option	71	141
	13,280	9,936
Hedging derivatives (positive fair values)		
Assets	300	265
Liabilities	185	156
	485	421
Investment securities		
Bonds and other fixed-income securities		
Investment securities (loans and receivables)	19,031	26,600
of which fair value hedges: 5,447 (previous year: 5,369)		
Held to maturity	4,956	730
Available for sale	33,379	38,755
of which fair value hedges: 14,633 (previous year: 15,770)		
	57,366	66,085
Equities and other non-fixed-income securities		
Available for sale	5,830	2,418
	63,196	68,503
Receivables and other securities from financial services	179,280	193,986

Receivables and other securities from financial services relate exclusively to the Deutsche Postbank Group. Of the loans and advances to customers, €3,546 million is attributable to public-sector loans (previous year: €5,444 million), and €64,781 million to private building finance (previous year: €59,148 million). The allowance for losses on loans and advances covers all identifiable credit risks. Portfolio-based valuation allowances were recognised for the potential credit risk. €31 million (previous year: €27 million) of nonperforming loans and advances was written off directly and charged to income in the year under review. Recoveries on loans previously written off amounted to €11 million (previous year: €14 million).

Trading assets relate to trading in bonds and other fixed-income securities, equities and other non-fixed-income securities, foreign currencies, as well as derivatives that do not satisfy the IAS 39 criteria for hedge accounting. €4,109 million (previous year: €9,720 million) of the bonds and other fixed-income securities and €161 million (previous year: €28 million) of the equities and other non-fixed-income securities relate to securities listed on a stock exchange.

€65,649 million (previous year: €59,951 million) of the investment securities relates to listed securities. Changes in the fair value of unhedged available-for-sale securities were charged to the revaluation reserve in the amount of €-515 million (previous year: €-125 million). €24 million (previous year: €177 million) reported in the revaluation reserve was reversed to income in the period under review as a result of the disposal of investment securities and the recognition of impairment losses.

Postbank issued letters of pledge to the European Central Bank for securities with a lending value of €23 billion (previous year: €15 billion) for open market operations. Open market operations at the balance sheet date amounted to €15 billion (previous year: €10 billion). The securities deposited as collateral continue to be reported as non-current financial assets.

Impairment losses of €130 million (previous year: €128 million) were recognised in financial year 2007 to reflect developments in the values of financial instruments (see Note 3). Of this amount, €112 million relates to structured credit products and €18 million to write-downs in respect of retail funds.

31.1 Maturity structure

€m	Payable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	More than 5 years	Total
2007									
Loans and advances to other banks	1,601	14,071	2,038	1,624	772	679	1,846	1,950	24,581
Loans and advances to customers	2,931	10,413	8,586	7,177	5,852	6,627	7,085	43,028	91,699
Trading assets	1	1,002	1,568	1,691	456	346	301	4,571	9,936
Hedging derivatives	1	44	5	18	15	7	23	308	421
Investment securities	0	2,100	4,926	7,469	6,545	5,133	7,094	35,236	68,503
	4,534	27,630	17,123	17,979	13,640	12,792	16,349	85,093	195,140
2006									
Loans and advances to other banks	1,906	5,470	1,733	934	1,254	858	846	3,349	16,350
Loans and advances to customers	2,193	5,719	8,340	8,429	8,976	7,129	10,050	36,288	87,124
Trading assets	0	643	827	6,817	1,365	568	708	2,352	13,280
Hedging derivatives	0	63	15	11	22	31	21	322	485
Investment securities	46	1,845	5,714	4,484	5,127	4,594	5,540	35,846	63,196
	4,145	13,740	16,629	20,675	16,744	13,180	17,165	78,157	180,435

31.2 Allowance for losses on loans and advances

€m	Specific valuation allowances		Portfolio-based valuation allowances		Total	
	2006	2007	2006	2007	2006	2007
Balance at 1 January	732	1,090	44	65	776	1,155
Reclassification due to IFRS 7	0	-30	0	0	0	-30
Changes in consolidated group	267	0	2	0	269	0
Additions	384	415	19	19	403	434
Utilisation	-161	-236	0	0	-161	-236
Reversal	-100	-130	0	-1	-100	-131
Unwinding	-29	-34	0	0	-29	-34
Currency translation differences	-3	-4	0	0	-3	-4
Balance at 31 December	1,090	1,071	65	83	1,155	1,154

31.3 Hedging derivatives

Hedges with positive fair values that qualify for hedge accounting under IAS 39 are composed of the following items:

€m	Fair value hedges 2006	Fair value hedges 2007
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	8	11
Hedging derivatives on loans to customers		
Loans and receivables	11	13
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	281	241
	300	265
Liabilities		
Deposits from other banks	35	17
Amounts due to customers	41	14
Securitised liabilities	101	98
Subordinated debt	8	27
	185	156
Hedging derivatives	485	421

32 Financial instruments

Current financial instruments rose by €30 million year-on-year to €72 million primarily as a result of loans granted.

33 Cash and cash equivalents

€m	2006	2007
Cash	453	508
Money in transit	475	920
Bank balances	1,123	3,061
Cash equivalents	122	46
Other cash and cash equivalents	218	148
Cash and cash equivalents	2,391	4,683

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

The amounts reported under these items relate mainly to Deutsche Postbank AG's planned sale of the credit card and sales financing business of BHW Bank AG to Landesbank Berlin.

€m	Assets		Liabilities	
	2006	2007	2006	2007
Deutsche Postbank Group – BHW Bank's credit card and sales financing business	0	565	0	44
DHL Express (France) SAS – land/buildings	0	26	0	0
Deutsche Post AG – real estate	0	18	0	0
Other	0	6	0	0
Vfw AG, Germany	39	0	17	0
SCM Supply Chain Management Inc., Canada – land	16	0	0	0
DHL Express Denmark A/S, Denmark – buildings	1	0	0	0
Non-current assets held for sale and liabilities associated with non-current assets held for sale	56	615	17	44

The sale of the credit card and sales financing business of BHW Bank AG relates to the items receivables and other securities from financial services – of which loans and advances to customers accounted for €595 million and the allowance for losses on loans and advances for €–30 million – and liabilities from financial services (amounts due to customers).

35 Issued capital

35.1 Share capital

On 8 January 2007, 99.58% of the exchangeable bond on Deutsche Post AG shares issued by KfW in December 2003 was converted. The bond was issued in the amount of €1.15 billion and with a maturity date of 8 January 2007. The exchange placed approximately 55.8 million of the shares held by KfW Bankengruppe (KfW) – formerly Kreditanstalt für Wiederaufbau – onto the market. The conversion price per share was €20.54. The transaction reduced the number of Deutsche Post AG shares held by KfW to approximately 368.3 million shares. This figure equates to 30.5% of Deutsche Post AG's share capital. The transaction also increased the percentage of free-floating shares to 69.5%.

Number of shares	2006	2007
KfW	410,522,634	368,277,358
Free float	791,797,226	839,193,240
Share capital as at 31 December	1,202,319,860	1,207,470,598

35.2 Issued capital

The issued capital increased by €5.1 million in financial year 2007 from €1,202.3 million to €1,207.4 million. It is now composed of 1,207,470,598 no-par value registered shares (ordinary shares), with each individual share having a notional interest of €1 in the share capital. The increase in issued capital is attributable to the servicing of stock options from the Stock Option Plans 2000 and 2003.

€	2006	2007
As at 1 January	1,192,633,739,00	1,202,319,860,00
Exercise of options from 2002, 2003 and 2004 SOP tranches – contingent capital	9,686,121,00	5,150,738,00
As at 31 December	1,202,319,860,00	1,207,470,598,00

Capital as at 31 December 2007	Amount (€)	Purpose
2005 authorised capital	174,796,228.00	To increase share capital against non-cash contributions (until 17 May 2010)
Contingent Capital II	13,184,482.00	Executive Stock Option Plan 2003 (until 31 July 2005)
Contingent Capital III	56,000,000.00	Exercise of option/ conversion rights (until 5 May 2012)

In accordance with the resolution by the Annual General Meeting on 8 May 2007, the company's share capital has been contingently increased by up to a further €56 million through the issue of up to 56,000,000 new, no-par value registered shares (Contingent Capital III). This resolution supersedes the contingent capital resolution of 6 May 2004. Contingent Capital III was entered in the commercial register on 22 May 2007 (adjusted on 29 May 2007). Its purpose is to service warrant or conversion rights and obligations from bonds with warrants or convertible bonds and income bonds or a combination of these instruments, which may be issued or guaranteed by the company up to 5 May 2012. The aggregate principal amount of the instruments is €1 billion.

35.3 Authorisation to acquire own shares

By way of a resolution adopted by the Annual General Meeting on 8 May 2007, the company is authorised to acquire, until 31 October 2008, own shares amounting to up to a total of 10% of the share capital existing at the date the resolution is adopted. The authorisation permits the Board of Management to exercise it for every purpose authorised by law, particularly to pursue the goals mentioned in the resolution of the Annual General Meeting. Deutsche Post AG did not hold any own shares on 31 December 2007.

35.4 Disclosures on corporate capital (Postbank at equity)

The equity ratio stood at 31.4% in financial year 2007 (previous year: 31.6%). Corporate capital is controlled by the net gearing ratio which is defined as net debt divided by the total of equity and net debt. The ratio in 2007 was 20.3% (previous year: 21.4%). All ratios are based on Postbank being carried at equity.

€m	2006	2007
Aggregate financial liabilities	5,443	4,978
Less financial instruments	-42	-74
Less cash and cash equivalents	-1,761	-1,339
Less long-term deposits	-372	-456
Less financial liabilities to minority shareholders of Williams Lea	-185	-251
Net debt	3,083	2,858
Plus total equity	11,348	11,204
Total equity plus net debt	14,431	14,062
Net gearing ratio (%)	21.4	20.3

35.5 Share-based remuneration system for executives (Stock Option Plans 2000 and 2003)

In the 2000 Stock Option Plan (SOP), eligible participants were granted stock options in two annual tranches. Certain employees (Group management levels one to three and some specialists) were granted stock options for the first time on 15 March 2001 (Tranche 2001). The second tranche was issued on 1 July 2002 (Tranche 2002). On the basis of the SOP 2003 resolved by the Annual General Meeting on 5 June 2003, no further options will be granted under the previous plan. Options were granted under the new SOP for the first time on 1 August 2003 (Tranche 2003). The second tranche (Tranche 2004) was granted to executives on 1 July 2004. The third – and last – tranche under this plan (Tranche 2005) was granted on 1 July 2005.

In comparison with the SOP 2000, the SOP 2003 allows for a larger number of eligible participants and a change in the percentage distributions of the stock options amongst the different groups of eligible participants, in addition to an increase in the total stock options to be issued. The grant of stock options to members of the Board of Management and executives in Group management level two still requires eligible participants to invest in shares of Deutsche Post AG. Eligible participants in Group management levels three and four receive stock options without any requirement to buy shares.

Share-based remuneration system

Number	Stock options	Stock appreciation rights (SARs) ¹⁾
Tranche 2001		
Board of Management	466,908	0
Other senior executives	5,070,576	345,432
Tranche 2002		
Board of Management	1,223,418	0
Other senior executives	9,082,620	446,934
Tranche 2003		
Board of Management	1,096,236	0
Other senior executives	11,953,356	731,736
Tranche 2004		
Board of Management	841,350	0
Other senior executives	8,486,946	1,116,374
Tranche 2005		
Board of Management	829,362	0
Other senior executives	9,233,310	1,216,320

1) Due to legal restrictions SARs were granted in some countries instead of stock options. The provision amounts to €5 million (previous year: €6 million).

The stock options issued under both stock option plans can only be exercised within a two-year period following the expiration of a lock-up period of three years after the relevant grant date. The options can only be exercised if the absolute or the relative performance targets have been satisfied at the end of the lock-up period. Unexercised options lapse after the end of the exercise period.

The average price or average index performance during two periods (reference period = exercise price; performance period = final price) is compared to establish whether and to what extent the performance targets have been satisfied. The reference period is the 20 consecutive trading days prior to the grant date. The performance period is the last 60 trading days before the end of the lock-up period. The average price is calculated as the average closing price of Deutsche Post shares in Deutsche Börse AG's Xetra trading system.

The absolute performance target depends on the performance of Deutsche Post shares and is deemed to have been satisfied if the increase in the Deutsche Post share price exceeds 10, 15, 20, or 25% or more (expressed as the final price divided by the exercise price). The relative performance target is tied to the performance of the shares versus the performance of the Dow Jones EURO STOXX Total Return Index. The relative performance target is satisfied if the performance of Deutsche Post shares during the above-mentioned performance period matches the performance of the Index or outperforms it by at least 10%.

For every six options, a maximum of four may be earned on the basis of the absolute performance target, and a maximum of two on the basis of the relative performance target. The respective stock options of the tranche concerned lapse without compensation if the absolute or the relative performance targets are not satisfied by the end of the lock-up period.

Each option entitles the holder either to purchase one share in the company or to receive a cash settlement in the amount of the difference between the exercise price and the average price of Deutsche Post shares during the last five trading days prior to the exercise date, at the Board of Management's discretion.

Information on the individual tranches is presented in the following tables:

Stock options

	SOP 2000		SOP 2003		
	Tranche 2001	Tranche 2002	Tranche 2003	Tranche 2004	Tranche 2005
Grant date	15 March 2001	1 July 2002	1 August 2003	1 July 2004	1 July 2005
Stock options granted	5,537,484	10,306,038	13,049,592	9,328,296	10,062,672
SARs granted	345,432	446,934	731,736	1,116,374	1,216,320
Exercise price	€23.05	€14.10	€12.40	€17.00	€19.33
Lock-up expires	14 March 2004	30 June 2005	31 July 2006	30 June 2007	30 June 2008
Dividend yield Deutsche Post AG	–	–	2.55%	3.05%	3.22%
Dividend yield Dow Jones EURO STOXX Index	–	–	1.4%	1.7%	2.06%
Yield volatility of Deutsche Post AG share	–	–	39.3%	28.9%	17.07%
Yield volatility of Dow Jones EURO STOXX Index	–	–	32.1%	14.8%	10.10%
Number					
Outstanding stock options as at 1 January 2007	0	537,474	3,959,426	7,921,776	9,404,718
Outstanding SARs as at 1 January 2007	0	120,060	217,798	595,190	760,026
Options exercised	–	492,664	2,731,894	1,926,180	–
SARs exercised	–	120,060	100,674	117,964	–
Options lapsed	–	44,810	29,994	2,824,656	588,714
of which lapsed before end of the lock-up period	–	–	–	266,226	588,714
of which lapsed because performance targets not met	–	–	–	2,558,430	–
of which lapsed after end of lock-up period	–	44,810	29,994	–	–
SARs lapsed	–	0	0	209,246	64,950
of which lapsed before end of the lock-up period	–	–	–	16,284	64,950
of which lapsed because performance targets not met	–	–	–	192,962	–
of which lapsed after end of lock-up period	–	–	–	–	–
Outstanding stock options as at 31 December 2007	–	–	–	–	8,816,004
Outstanding SARs as at 31 December 2007	–	–	–	–	695,076
Exercisable stock options as at 31 December 2007	0	0	1,197,538	3,170,940	–
Exercisable SARs as at 31 December 2007	0	0	117,124	267,980	–

Unexercised options from Tranche 2001 lapsed without compensation following the expiration of the exercise period on 15 March 2006, those from Tranche 2002 on 1 July 2007.

Stock options outstanding on 31 December 2007 have an average remaining maturity of 2.08 years. The weighted average exercise price of the stock options from Tranches 2002, 2003 and 2004 exercised in the financial year is €14.28 (previous year: €12.86). These options were settled at the weighted average share price of €23.33 (previous year: €20.87).

Starting in financial year 2002, the SOP has been measured using investment techniques by applying option pricing models (fair value measurement). The expense of €16 million attributable to financial year 2007 (previous year: €31 million), comprising €14 million for the stock options (previous year: €29 million) and €2 million for the SARs (previous year: €2 million), was reported under staff costs.

35.6 2006 SAR Plan and Long-Term Incentive Plan for the Board of Management

The 2006 SAR Plan supersedes the 2003 SOP described above, under which options could last be issued in 2005. As at 3 July 2006, selected executives received stock appreciation rights (SARs) under the new plan. This gives executives the chance to receive a cash payment within a defined period in the amount of the difference between the respective closing price of Deutsche Post shares on the previous day and the fixed issue price, if demanding performance targets are met.

A successor plan was also launched for members of the Board of Management: Under the new Long-Term Incentive Plan (2006 LTIP), members were granted SARs for the first time as at 1 July 2006. The new plan is largely identical in nature to the previous stock option plan. The main difference is that it is paid out in cash and therefore no longer leads to dilution to the detriment of the shareholders. As previously, members of the Board of Management must invest in Deutsche Post shares to receive SARs. As with the former stock option plan, SARs may only be paid out under the 2006 LTIP at the earliest after the three-year lock-up period, and only if the demanding performance targets agreed have been met. Further details can be found in the Corporate Governance Report. The remuneration report contained in the Corporate Governance Report also forms part of the Notes.

The fair value of the 2006 SAR Plan and the 2006 LTIP was determined using a stochastic simulation model. This led to an expense of €20.8 million in financial year 2007 (previous year: €14 million), which was recorded in provisions. €2.5 million of this (previous year: €1.0 million) is attributable to the SARs granted to the Board of Management.

36 Other reserves

€m	2006	2007
Capital reserve	2,037	2,119
Revaluation reserve in accordance with IAS 39	36	-251
Hedging reserve in accordance with IAS 39	-94	-96
Currency translation reserve	-451	-897
Other reserves	1,528	875

36.1 Capital reserves

€m	2006	2007
Capital reserves as at 1 January	1,893	2,037
Additions		
of which exercise of stock options plans	115	68
of which issue of stock option plans	29	14
Capital reserves as at 31 December	2,037	2,119

The measurement of the 2000 and 2003 Stock Option Plans resulted in staff costs for the stock options in the amount of €14 million in financial year 2007 (previous year: €29 million); this amount was charged to capital reserves. Further details of the stock option plans can be found in Note 35.

36.2 Revaluation reserve in accordance with IAS 39

The revaluation reserve contains gains and losses from changes in the fair values of available-for-sale financial instruments that have been taken directly to equity. This reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value of the assets falls permanently below their cost.

€m	2006	2007
As at 1 January	220	36
Additions (+)/disposals (-)	-114	-439
Transfer to minority interest	-52	0
Deferred taxes recognised directly in equity	65	88
Changes in consolidated group	0	3
Reversed to income	-83	61
Revaluation reserve as at 31 December	36	-251

In financial year 2007, on the one hand available-for-sale financial instruments in the amount of €61 million (previous year: €-83 million) were reversed to income; on the other the reserve was reduced by €439 million (previous year: €114 million) as a result of the remeasurement of available-for-sale financial instruments. Further details can be found in Note 31. The revaluation reserve relates almost entirely to gains or losses on the fair value remeasurement of financial instruments of the Deutsche Postbank Group.

36.3 Hedging reserve

The hedging reserve is adjusted by the effective portion of a cash flow hedge. The hedging reserve is released to income when the hedged item is settled.

€m	2006	2007
As at 1 January	-51	-94
Additions	-40	-42
Disposals	-3	40
Hedging reserve as at 31 December	-94	-96

The change in the hedging reserve is mainly the result of the increase in unrealised losses and of hedging future operating foreign currency transactions. In the financial year, unrealised losses of €38 million were taken from the hedging reserve and recognised in operating profit; €2 million were transferred from the hedging reserve to net finance cost/financial income.

36.4 Currency translation reserve

The change is due to the decrease in exchange rates for major foreign currencies.

€m	2006	2007
As at 1 January	-41	-451
Changes not recognised in income	-410	-446
Currency translation reserve as at 31 December	-451	-897

37 Retained earnings

Retained earnings contain the undistributed consolidated profits generated in prior periods. Changes in the reserves during the year under review are also presented in the statement of changes in equity.

€m	2006	2007
As at 1 January	7,410	8,490
Dividend payment	-836	-903
Consolidated net profit	1,916	1,389
Retained earnings as at 31 December	8,490	8,976

38 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in financial year 2007 amounted to €11,058 million (previous year: €11,220 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the unappropriated surplus of €1,338 million (previous year: €1,262 million) reported in the annual financial statements of Deutsche Post AG prepared in accordance with the German Commercial Code. The amount of €251 million remaining after deduction of the planned total dividend of €1,087 million will be transferred to the retained earnings of Deutsche Post AG. €903 million were distributed for financial year 2006 and €359 million were transferred to retained earnings. The dividend is tax-exempt for shareholders resident in Germany. No capital gains tax (investment income tax) will be withheld on the distribution.

39 Minority interest

Minority interest includes adjustments for the interests of non-Group shareholders in the consolidated equity from acquisition accounting, as well as their interests in profit and loss. The interests relate primarily to the following companies:

€m	2006	2007
Deutsche Postbank Group	2,604	2,656
DHL Sinotrans	63	60
Other companies	65	85
Minority interest	2,732	2,801

40 Provisions for pensions and other employee benefits

The following information on pension obligations is broken down into the following areas: Germany (excluding Postbank), UK (excluding Postbank), Other (excluding Postbank) and the Deutsche Postbank Group.

40.1 Provisions for pensions and other employee benefits by area

€m				Deutsche Postbank	Total
	Germany	UK	Other	Group	
31 December 2007					
Provisions for pensions and other employee benefits	4,383	267	196	1,143	5,989
Pension assets	0	-127	-120	0	-247
Net pension provisions	4,383	140	76	1,143	5,742
31 December 2006					
Provisions for pensions and other employee benefits	4,524	296	199	1,115	6,134
Pension assets	0	-122	-74	0	-196
Net pension provisions	4,524	174	125	1,115	5,938

40.2 Actuarial assumptions

The majority of the Group's defined benefit obligations relate to plans in Germany and the UK. In addition, significant pension plans are provided in other euro zone countries, Switzerland and the US. The actuarial measurement of the main benefit plans was based on the following assumptions:

%	Germany	UK	Other euro zone	Switzerland	US
2007					
Discount rate	5.50	5.75	5.50	3.25	6.00
Future salary increase	2.50	3.00–4.75	2.00–	3.00	3.75
Future inflation rate	2.00	3.25	2.00	1.50	2.50
2006					
Discount rate	4.50	5.00	4.50	3.00	5.75
Future salary increase	2.50–	3.75–	2.00–	3.00	4.00
Future inflation rate	2.00	3.00	2.00	1.50	2.75

For the German Group companies, longevity was calculated using the mortality tables Richttafeln 2005 G published by Klaus Heubeck. For the British benefit plans longevity was based on the mortality rates used in the last funding valuation. These are based on mortality analyses specific to the plan and include a premium for an expected increase in future life expectancy. Other countries used their own mortality tables.

40.3 Computation of expenses for the period

The following average expected return on plan assets was used to compute the expenses for the period:

%	Germany	UK	Other euro zone	Switzerland	US
31 December 2007					
Average expected return on plan assets	3.25–4.25	4.50–7.25	5.00–7.00	4.25	7.50
31 December 2006					
Average expected return on plan assets	3.00–4.25	6.50–7.00	4.25–6.50	4.25	8.00–8.50

The expected return on plan assets was determined by taking into account current long-term rates of return on bonds (government and corporate) and then applying to these rates a suitable risk premium for other asset classes based on historical market returns and current market expectations.

40.4 Reconciliation of the present value of the obligations, the fair value of plan assets and the pension provision

€m	Germany	UK	Other	Deutsche Post- bank Group	Total
2007					
Present value of defined benefit obligations at 31 December for wholly or partly funded benefits	3,686	3,743	1,250	698	9,377
Present value of defined benefit obligations at 31 December for unfunded benefits	3,237	9	177	729	4,152
Present value of total defined benefit obligations at 31 December	6,923	3,752	1,427	1,427	13,529
Fair value of plan assets at 31 December	-1,914	-4,048	-1,418	-392	-7,772
Unrecognised net gains (+)/losses (-)	-622	435	26	108	-53
Unrecognised past service cost	-4	0	0	0	-4
Asset adjustment for asset limit	0	1	41	0	42
Net pension provisions at 31 December	4,383	140	76	1,143	5,742
Pension assets at 31 December	0	-127	-120	0	-247
Provisions for pensions and other employee benefits at 31 December	4,383	267	196	1,143	5,989
2006					
Present value of defined benefit obligations at 31 December for wholly or partly funded benefits	4,150	4,198	1,340	773	10,461
Present value of defined benefit obligations at 31 December for unfunded benefits	3,749	0	171	824	4,744
Present value of total defined benefit obligations at 31 December	7,899	4,198	1,511	1,597	15,205
Fair value of plan assets at 31 December	-1,852	-4,177	-1,374	-381	-7,784
Unrecognised net gains (+)/losses (-)	-1,518	152	-48	-101	-1,515
Unrecognised past service cost	-5	0	0	0	-5
Asset adjustment for asset limit	0	1	36	0	37
Net pension provisions at 31 December	4,524	174	125	1,115	5,938
Pension assets at 31 December	0	-122	-74	0	-196
Provisions for pensions and other employee benefits at 31 December	4,524	296	199	1,115	6,134

The most significant changes to pension obligations during 2007 relate to the acquisition of TSO (net pension provisions of €11 million, defined benefit obligations of €37 million, fair value of plan assets of €26 million).

40.5 Changes in the present value of the defined benefit obligations

€m	Germany	UK	Other	Deutsche Post- bank Group	Total
2007					
Present value of total defined benefit obligations at 1 January	7,899	4,198	1,511	1,597	15,205
Current service cost, excluding employee contributions	105	102	58	34	299
Employee contributions	0	22	13	0	35
Interest cost	339	206	59	72	676
Benefit payments	-490	-194	-69	-71	-824
Past service cost	-40	1	4	-14	-49
Curtailments	-26	0	-43	0	-69
Settlements	0	0	-19	0	-19
Transfers	5	0	23	4	32
Acquisitions	2	37	6	16	61
Actuarial gains (-)/losses (+)	-871	-257	-76	-210	-1,414
Currency translation effects	0	-363	-40	-1	-404
Present value of total defined benefit obligations at 31 December	6,923	3,752	1,427	1,427	13,529
2006					
Present value of total defined benefit obligations at 1 January	8,051	4,096	1,520	834	14,501
Current service cost, excluding employee contributions	110	110	84	38	342
Employee contributions	0	24	15	0	39
Interest cost	326	197	58	68	649
Benefit payments	-499	-189	-63	-69	-820
Past service cost	22	-31	-5	1	-13
Curtailments	-20	-10	-16	0	-46
Settlements	0	0	-6	0	-6
Transfers	-52	0	-5	79	22
Acquisitions	0	19	0	726	745
Actuarial gains (-)/losses (+)	-39	-112	-31	-80	-262
Currency translation effects	0	94	-40	0	54
Present value of total defined benefit obligations at 31 December	7,899	4,198	1,511	1,597	15,205

40.6 Changes in the fair value of plan assets

€m	Germany	UK	Other	Deutsche Post- bank Group	Total
2007					
Fair value of plan assets at 1 January	1,852	4,177	1,374	381	7,784
Employer contributions	200	67	45	16	328
Employee contributions	0	22	13	0	35
Expected return on plan assets	71	272	79	17	439
Gains (+)/losses (-) on plan assets	-10	62	-11	-7	34
Benefit payments	-199	-193	-53	-26	-471
Transfers	0	0	17	1	18
Acquisitions	0	26	0	11	37
Settlements	0	0	-12	0	-12
Currency translation effects	0	-385	-34	-1	-420
Fair value of plan assets at 31 December	1,914	4,048	1,418	392	7,772
2006					
Fair value of plan assets at 1 January	1,791	3,869	1,330	59	7,049
Employer contributions	217	40	60	16	333
Employee contributions	0	24	15	0	39
Expected return on plan assets	53	245	77	16	391
Gains (+)/losses (-) on plan assets	-1	80	-21	-1	57
Benefit payments	-208	-189	-47	-25	-469
Transfers	0	0	0	-2	-2
Acquisitions	0	17	0	316	333
Settlements	0	0	-5	0	-5
Currency translation effects	0	91	-35	2	58
Fair value of plan assets at 31 December	1,852	4,177	1,374	381	7,784

The plan assets are composed of fixed-income securities (32%; previous year: 29%), equities and investment funds (36%; previous year: 42%), real estate (16%; previous year: 16%), cash and cash equivalents (9%; previous year: 8%), insurance contracts (5%; previous year: 4%) and other assets (2%; previous year: 1%).

81% (previous year: 83%) of the real estate, which has a fair value of €1,040 million (previous year: €1,029 million), is owner-occupied by Deutsche Post AG.

40.7 Funded status

€m	2005	2006	2007
Present value of defined benefit obligations at 31 December	14,501	15,205	13,529
Fair value of plan assets at 31 December	-7,049	-7,784	-7,772
Funded status	7,452	7,421	5,757

40.8 Gains and losses

€m	2005	2006	2007
Actual return on plan assets	187	448	473
Expected return on plan assets	129	391	439
Experience gains (+)/losses (-) on plan assets	58	57	34

€m	2005	2006	2007
Experience gains (+)/losses (-) on defined benefit obligations	12	-226	116
Gains (+)/losses (-) in defined benefit obligations arising from changes in assumptions	-1,080	488	1,298
Total actuarial gains (+)/losses (-) on defined benefit obligations	-1,068	262	1,414

40.9 Changes in net pension provisions

€m	Germany	UK	Other	Deutsche Post- bank Group	Total
2007					
Net pension provisions at 1 January	4,524	174	125	1,115	5,938
Pension expense	343	39	-1	81	462
Benefit payments	-291	-1	-16	-45	-353
Contributions to funds	-200	-67	-45	-16	-328
Acquisitions	2	11	6	5	24
Transfers	5	0	6	3	14
Currency translation effects	0	-16	1	0	-15
Net pension provisions at 31 December	4,383	140	76	1,143	5,742
2006					
Net pension provisions at 1 January	4,654	183	145	585	5,567
Pension expense	430	24	59	101	614
Benefit payments	-291	0	-16	-44	-351
Contributions to funds	-217	-40	-60	-16	-333
Acquisitions	0	2	0	410	412
Transfers	-52	0	-5	81	24
Currency translation effects	0	5	2	-2	5
Net pension provisions at 31 December	4,524	174	125	1,115	5,938

Payments amounting to €663 million are expected with regard to net pension provisions in 2008 (€353 million of this relates to the Group's

expected direct benefit payments and €310 million to expected payments to pension funds).

40.10 Pension expense

€m	Germany	UK	Other	Deutsche Post- bank Group	Total
2007					
Current service cost, excluding employee contributions	105	102	58	34	299
Interest cost	339	206	59	72	676
Expected return on plan assets	-71	-272	-79	-17	-439
Recognised past service cost	-39	1	4	-14	-48
Recognised actuarial gains (-)/losses (+)	42	2	-2	5	47
Effects of curtailments	-33	0	-39	0	-72
Effects of settlements	0	0	-8	1	-7
Effects of asset limit	0	0	6	0	6
Pension expense	343	39	-1	81	462
2006					
Current service cost, excluding employee contributions	110	110	84	38	342
Interest cost	326	197	58	68	649
Expected return on plan assets	-53	-245	-77	-16	-391
Recognised past service cost	23	-31	-5	1	-12
Recognised actuarial gains (-)/losses (+)	44	2	6	10	62
Effects of curtailments	-20	-10	-16	0	-46
Effects of settlements	0	0	0	0	0
Effects of asset limit	0	1	9	0	10
Pension expense	430	24	59	101	614

In accordance with IAS 19.92 actuarial gains and losses are recognised only to the extent that they exceed the greater of 10% of the present value of the obligations or of the fair value of plan assets. The excess amount is spread over the expected remaining working lives of the active employees and recognised in the income statement.

41 Other provisions

€m	2006	2007
Other non-current provisions	4,780	3,015
Other current provisions	1,656	1,703
Other provisions	6,436¹⁾	4,718

1) Prior-period amount restated, see Note 4.

41.1 Changes in other provisions

€m	Other employee benefits	Technical reserves (insurance)	Postage stamps	Miscellaneous provisions	Total
As at 1 January 2007	1,694	2,059	500	2,183	6,436
Changes in consolidated group	53	-1,800	0	12	-1,735
Utilisation	-657	-241	-500	-904	-2,302
Currency translation differences	-15	-29	0	-33	-77
Reversal	-122	0	0	-104	-226
Interest cost added back	41	1	0	5	47
Reclassification	8	0	0	-3	5
Additions	652	499	500	919	2,570
As at 31 December 2007	1,654	489	500	2,075	4,718

Of the additions to provisions for other employee benefits amounting to €652 million, €136 million is attributable to Deutsche Post AG and €10 million to the Deutsche Postbank Group. This provision primarily covers workforce reduction expenses (severance payments, transitional benefits, partial retirement, etc.).

Technical reserves (insurance) mainly include unearned premiums and aggregate policy reserves for the insurance business of BHW Lebensversicherung AG, PB Lebensversicherung AG and PB Versicherung AG. The provisions were reduced to €489 million due to Deutsche Postbank Group selling the insurance companies.

The provision for postage stamps covers outstanding obligations to customers for mail and parcel deliveries from postage stamps sold but still unused by customers, and is based on studies by market research companies. It is measured at the nominal value of the stamps issued.

41.2 Miscellaneous provisions

€m	2006	2007
Provisions for the home savings business	727	710
Tax provisions	223	256
STAR restructuring provision	277	175
Risks from business activities	162	141
Postal Civil Service Health Insurance Fund	97	97
Litigation costs	68	84
Welfare benefits for civil servants	33	29
Staff-related provisions	27	25
Other provisions	569	558
Miscellaneous provisions	2,183	2,075

Provisions for BHW Bausparkasse AG's home savings business were recognised for the reimbursement of arrangement fees and for interest rate bonuses to be paid retroactively.

Of the tax provisions, €133 million (previous year: €61 million) are accounted for by VAT, €27 million (previous year: €52 million) by customs and duties and €96 million (previous year: €110 million) by other tax provisions.

The provisions for restructuring measures, which relate primarily to termination benefit obligations to employees (partial retirement programmes, transitional benefits) and expenses from the closure of terminals, were recognised as part of the Group-wide STAR value creation and integration programme.

Risks from business activities comprise obligations such as expected losses and warranty obligations.

Miscellaneous other provisions include a large number of individual items, none of which exceeds €30 million.

41.3 Maturity structure

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
2007							
Other employee benefits	377	349	191	187	135	415	1,654
Technical reserves (insurance)	144	81	19	17	16	212	489
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	682	554	221	149	115	354	2,075
	1,703	984	431	353	266	981	4,718
2006							
Other employee benefits	303	394	201	187	181	428	1,694
Technical reserves (insurance)	152	106	69	10	2	1,720	2,059
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	701	576	234	210	210	252	2,183
	1,656	1,076	504	407	393	2,400	6,436

42 Financial liabilities

Financial liabilities represent all interest-bearing obligations of Deutsche Post World Net not classified as liabilities from financial services.

€m	2006	2007
Non-current financial liabilities		
Bonds	1,794	1,950
Due to banks	455	616
Finance lease liabilities	711	551
Liabilities to Group companies	30	42
Other financial liabilities ¹⁾	5,553	5,466
	8,543	8,625
Current financial liabilities		
Bonds	634	2
Due to banks	351	362
Finance lease liabilities	24	74
Liabilities to Group companies	28	23
Other financial liabilities	908	1,095
	1,945	1,556
Financial liabilities¹⁾	10,488	10,181

1) Prior-period amount restated, see Note 4.

The decline in current liabilities is caused by the fact that on 4 October 2007 the five-year, fixed-income bond issued in 2002 by Deutsche Post Finance B.V. was repaid from operating cash flows in a principal amount of €636 million.

42.1 Bonds

The following table contains further details on the company's bonds totalling €1,952 million (previous year: €2,428 million). The bonds issued by Deutsche Post Finance B.V. are fully guaranteed by Deutsche Post AG.

	Nominal coupon	Issue volume	Issuer	2006		2007	
				Carrying amount €m	Fair value €m	Carrying amount €m	Fair value €m
Bond 2002/2007	4.25%	€636 million	Deutsche Post Finance B.V.	634	637	0	0
Bond 2002/2012	5.125%	€679 million	Deutsche Post Finance B.V.	692	706	677	686
Bond 2003/2014	4.875%	€926 million	Deutsche Post Finance B.V.	960	948	952	916
Bond 2003	1.15%	US\$230 million	DHL Holdings Inc., USA, via Kenton County Airport Board	142	142	129	129
Bond 2007	variable	US\$270 million	Wilmington Airpark LLC, USA, via Dayton-Montgomery County Port	0	0	194	194
				2,428	2,433	1,952	1,925

In April 2007 an interest-subsidised municipal bond of US\$270 million was issued by the Dayton-Montgomery County Port Authority to finance the Wilmington Airpark LLC hub in Ohio, USA. The bond is tax exempt with a term of 30 years.

42.2 Due to banks

The following table contains the terms and conditions of significant individual contracts reported under amounts due to banks (€978 million; previous year: €806 million):

Terms and conditions

	Interest rate	Term	2006	2007
			Carrying amount €m	Carrying amount €m
Deutsche Post International B.V., Netherlands	4.923	Dec. 2011	125	112
Deutsche Post International B.V., Netherlands	3-month floater	June 2011	72	57
Deutsche Post International B.V., Netherlands	5.81	Feb. 2011	51	34
Deutsche Post AG, Germany	4.565	Dec. 2010	0	200
			248	403

The above-mentioned liabilities due to banks are fully guaranteed by Deutsche Post AG.

42.3 Liabilities from finance leases

Finance lease liabilities of €625 million (previous year: €735 million) mainly relate to the following items:

€m	Leasing partner	Interest rate	Maturity	Asset	2006	2007
DHL Operations B.V., Netherlands	Barclays Mercantile Business Financing Limited, London	3.745%	2027/2028	16 aircraft	419	382
Deutsche Post AG, Germany	T-Systems Enterprise Services GmbH, Deutschland	–	2011	IT equipment	46	33
DHL Networks Operations Corp., USA	Abx Air Inc., USA	7.55%	2010	59 aircraft	26	18

The leased assets are recognised in property, plant and equipment at carrying amounts of €709 million (previous year: €808 million). The difference between the carrying amounts and the liabilities results from longer economic useful lives of the assets compared with a shorter repayment period for the rental. The notional amount of the minimum lease payments totals €1,084 million.

€m	Present value	Notional amount
Less than 1 year	74	56
1 to 2 years	49	55
2 to 3 years	32	72
3 to 4 years	30	42
4 to 5 years	26	35
More than 5 years	414	824
Maturity structure of minimum lease payments in 2007	625	1,084

42.4 Other financial liabilities

€m		2006	2007
Subordinated debt	Deutsche Postbank Group	5,048	5,603
Loan from Deutsche- Post-Betriebsrenten- Service e.V.	Deutsche Post AG	0	347
Loan notes due to Exel's existing shareholders	Deutsche Post AG	164	126
Loan from Bundes- Pensions-Service für Post und Telekommunikation	Deutsche Post AG	800	42
Miscellaneous financial liabilities	Other Group companies	449	443
Other financial liabilities¹⁾		6,461	6,561

1) Prior-period amount restated, see Note 4.

Subordinated debt of Deutsche Postbank Group relates to subordinated liabilities, hybrid capital instruments, profit participation certificates outstanding and contributions by typical silent partners. Due to the current residual maturity structure, only €3,521 million (previous year: €3,354 million) of these items represents liable capital as defined by the Basel Capital Accord. A total of €2,006 million (previous year: €1,668 million) of the subordinated debt is hedged against changes in fair value. €4.1 billion (previous year: €4.2 billion) of the subordinated debt bears fixed interest rates, whilst €1.6 billion (previous year: €0.8 billion) bears floating rates of interest.

43 Other liabilities

€m	2006	2007
Other non-current liabilities ¹⁾	237	361
Other current liabilities	4,938	5,101
Other liabilities¹⁾	5,175	5,462

1) Prior-period amount restated, see Note 4.

43.1 Breakdown of other liabilities

€m	2006	2007
Tax liabilities	774	841
Payable to employees and members of executive bodies	530	486
Deferred income	481	453
Compensated absences	406	420
Incentive bonuses	350	391
Wages, salaries, severance	288	312
Liabilities from the sale of residential building loans, of which non-current: 106 (previous year: 104)	251	234
Social security liabilities	171	223
Derivatives, of which long-term 97 (previous year: 67)	165	157
Overtime claims	89	98
COD liabilities	67	78
Debtors with credit balances	65	71
Liabilities to Group companies	69	69
Other compensated absences	61	65
Accrued interest	74	59
Liabilities from commissions and premiums	43	43
Insurance liabilities	34	41
Settlement offered to BHW minority shareholders	0	39
Accrued rentals	31	25
Liabilities for damages	14	18
Accrued insurance premiums for damages and similar liabilities	17	17
Early termination fees	15	15
Liabilities from cheques issued	19	8
Liabilities from defined contribution pension plans	6	5
Other liabilities to customers	23	5
Liabilities to Bundes-Pensions-Service für Post und Telekommunikation e.V.	9	4
Miscellaneous other liabilities	1,123	1,285
Other liabilities¹⁾	5,175	5,462

1) Prior-period amount restated, see Note 4.

Of the tax liabilities, €341 million (previous year: €316 million) are accounted for by VAT, €181 million (previous year: €209 million) by customs and duties and €319 million (previous year: €249 million) by other tax liabilities.

The liabilities from the sale of residential building loans relate to obligations of Deutsche Post AG to pay interest subsidies to borrowers to offset the deterioration in borrowing terms in conjunction with the assignment of receivables in previous years, as well as pass-through obligations from repayments of principal and interest for residential building loans sold.

Other liabilities include a large number of individual items. Further details on the derivatives can be found in Note 48.2.

43.2 Maturity structure

€m	2006	2007
Less than 1 year	4,938	5,101
1 to 2 years	49	128
2 to 3 years	24	20
3 to 4 years	20	30
4 to 5 years	28	36
More than 5 years	116	147
Maturity structure of other liabilities¹⁾	5,175	5,462

1) Prior-period amount restated, see Note 4.

Short maturities or marking-to-market means that there are no significant differences between the carrying amounts and fair value of primary financial instruments. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates.

44 Income tax provisions

Income tax provisions, which relate mainly to Deutsche Post AG in the amount of €51 million (previous year: €51 million), whilst €121 million (previous year: €82 million) relates to the Deutsche Postbank Group, developed as follows:

€m	2006	2007
As at 1 January	394	237
Changes in consolidated group	42	-8
Utilisation	-250	-318
Reclassification	-25	2
Reversal	-24	-13
Currency translation differences	-6	-6
Additions	106	440
As at 31 December	237	334

45 Trade payables

€930 million of the trade payables amounting to €5,384 million (previous year: €5,069 million) relate to Deutsche Post AG (previous year: €937 million). Trade payables primarily have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

46 Liabilities from financial services

€m	2006	2007
Deposits from other banks		
of which payable on demand: 3,292 (previous year: 2,719)		
of which fair value hedges: 783 (previous year: 2,802)	47,319	61,146
Due to customers		
of which fair value hedges: 4,542 (previous year: 4,761)		
Savings deposits	36,034	34,996
Home savings deposits	16,981	16,915
Other current liabilities		
of which payable on demand: 26,589 (previous year: 23,525)	47,867	58,705
	100,882	110,616
Securitised liabilities		
of which fair value hedges: 5,797 (previous year: 8,012)		
Mortgage bonds	53	11
Public-sector mortgage bonds (<i>Pfandbriefe</i>)	81	59
Other debt instruments	15,752	9,488
	15,886	9,558
Trading liabilities		
Negative fair values of trading derivatives	2,864	4,955
Negative fair values of banking book hedging derivatives	351	330
Negative fair values of derivatives in connection with underlyings relating to the fair value option	401	308
Delivery obligations for short sales of securities	2	1
	3,618	5,594
Hedging derivatives (negative fair values)	958	873
Liabilities from financial services	168,663	187,787

46.1 Hedging derivatives

Fair value hedges with negative fair values that satisfy the requirements of IAS 39 for hedge accounting are composed of the following items:

€m	2006	2007
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	66	34
Purchased loans (available for sale)	0	0
	66	34
Hedging derivatives on loans to customers		
Loans and receivables	50	31
Purchased loans (available for sale)	0	0
	50	31
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	344	267
Equities and other non-fixed-income securities	0	0
	344	267
	460	332
Liabilities		
Deposits from other banks	63	6
Due to customers	78	51
Securitized liabilities	237	311
Subordinated liabilities	120	173
	498	541
Hedging derivatives	958	873

46.2 Maturity structure

€m	Payable on demand	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
2007									
Deposits from other banks	3,293	41,068	5,332	2,515	830	898	1,299	5,911	61,146
Due to customers	26,509	45,538	6,312	1,755	1,811	3,451	5,439	19,801	110,616
Securitised liabilities	0	992	1,173	3,913	1,206	258	248	1,768	9,558
Trading liabilities	0	508	211	233	201	193	336	3,912	5,594
Hedging derivatives	0	138	39	131	67	29	69	400	873
	29,802	88,244	13,067	8,547	4,115	4,829	7,391	31,792	187,787
2006									
Deposits from other banks	2,719	30,719	4,645	1,614	2,224	508	488	4,402	47,319
Due to customers	21,436	47,945	2,539	793	982	453	2,406	24,328	100,882
Securitised liabilities	0	5,227	2,600	1,818	3,552	1,210	116	1,363	15,886
Trading liabilities	0	749	116	151	272	193	170	1,967	3,618
Hedging derivatives	0	123	27	65	148	129	50	416	958
	24,155	84,763	9,927	4,441	7,178	2,493	3,230	32,476	168,663

Cash Flow Disclosures

47 Cash flow disclosures

The consolidated cash flow statement is prepared in accordance with IAS 7 (Cash Flow Statements) and discloses the cash flows in order to present the source and application of cash and cash equivalents. It distinguishes between cash flows from operating, investing and financing activities. Cash and cash equivalents are composed of cash, cheques and bank balances with a maturity of not more than three months, and correspond to the cash and cash equivalents reported on the balance sheet. The effects of currency translation and changes in the consolidated group are adjusted when calculating cash and cash equivalents.

To enhance the clarity of the cash flow statement, changes in other assets and liabilities were added to the cash flows from operating activities before changes in working capital. These reflect changes in non-current assets and liabilities which are not part of the working capital. The previous year's amounts were adjusted accordingly.

47.1 Net cash from operating activities

Cash flows from operating activities are calculated by adjusting net profit before taxes for net financial income/net finance costs and non-cash factors, as well as taxes paid, changes in provisions and in other assets and liabilities (net profit before changes in working capital). Adjustments for changes in working capital (excluding financial liabilities) result in net cash from or used in operating activities. Net cash from operating activities can be broken down into net cash from operating activities before changes in working capital and net inflows from changes in working capital.

Net cash from operating activities before changes in working capital amounts to €4,424 million, thus being largely on the previous year's level (€4,409 million). EBIT was reduced amongst other things by the non-cash write-down for the Americas region, which was added back in the depreciation/amortisation of non-current assets account. Other than in the previous year, EBIT includes fewer gains on the disposal of non-current assets. Resulting cash flows are transferred to cash flows from investing activities. The increase in cash payments for other assets and liabilities reduced liquidity. At €340 million, tax payments are roughly on a level with the previous year (€343 million). €62 million of this amount relates to Deutsche Postbank Group and €278 million to other Group companies.

Whereas the previous year saw an outflow of working capital, cash from changes in working capital was received in the amount of €727 million in 2007. The main reason for this change are receivables and/or liabilities from financial services which reflected a cash outflow in the previous year in the amount of €-368 million, whereas cash in the amount of €707 million was provided from this account in the year under review.

Overall, net cash from operating activities increased year-on-year by an aggregate of €1,229 million to €5,151 million.

€m	2006	2007
Expense from remeasurement of assets	96	54
Income from remeasurement of liabilities	-10	-26
Staff costs relating to stock option plan	30	14
Non-cash income and expense of Deutsche Postbank Group	337	338
Other	0	5
Other non-cash income and expense	453	385

47.2 Net cash used in investing activities

Cash flows from investing activities mainly result from cash received from disposals of non-current assets and cash paid for investments in non-current assets. Net cash in the amount of €753 million was used in investing activities in the year under review, thus falling by €1,944 million below the previous year's amount (previous year: €2,697 million).

The disposal of non-current assets generated cash and cash equivalents in the amount of €1,381 million (previous year: €1,274 million). Divestitures of operations brought cash inflows of €622 million, mainly from the sale of the insurance equity investments of Deutsche Postbank Group (€550 million) and from the sale of Vfw AG (€75 million). €759 million of cash was received from the sale of other non-current assets.

Cash paid to acquire non-current assets totalled €2,656 million compared with €4,066 million in the previous year. Of this amount, €347 million was attributable to the acquisition of companies, such as the acquisition of TSO (€156 million), Astar (€68 million), Polar Air Cargo (€73 million), and to an increase in the share in Lemuir India (€34 million). The total cash and cash equivalents acquired with these acquisitions amounted to €23 million (previous year: €127 million).

The following assets and liabilities were acquired on the acquisition of companies (see also Note 2):

€m	2006	2007
Non-current assets	905	98
Receivables and other securities from financial services	40,385	26
Current assets (excluding cash and cash equivalents)	958	212
Provisions	-3,018	-70
Liabilities from financial services	-36,863	0
Other liabilities	-1,220	-214

Net cash used for the acquisition of other non-current assets amounted to €2,309 million, a year-on-year increase of €337 million. This increase relates to capital expenditure (€2,210 million compared with €1,931 million in the previous year) and to cash paid for other non-current financial assets (€99 million compared with €41 million in the previous year). In addition, interest received increased cash flows from investing activities by €520 million (previous year: €100 million). This increase is mainly accounted for by the fact that financial derivatives have been presented in gross amounts since the beginning of the year. No data were available to determine the previous year's amounts.

Free cash flows are a combination of net cash provided by operating activities and net cash used in investing activities. Free cash flows are deemed an indicator to show how much cash is available to the company for dividend payments or the repayment of debt. Free cash flows amounted to €4,398 million in the year under review and improved by €3,173 million year-on-year.

47.3 Net cash used in financing activities

Cash flows from financing activities result from the issue and repayment of financial liabilities and from distributions. In addition, interest paid in the amount of €659 million (previous year: €393 million) is included in net cash used in financing activities, which increased mainly due to the change in the gross recognition of financial derivatives since the beginning of the year.

Net cash used in financing activities rose from €865 million in the previous year to €2,087 million in the year under review. This increase, in addition to the gross recognition of interest payments mentioned above, mainly reflects a reduction in financial liabilities. The changes in financial liabilities resulted in cash inflows amounting to €345 million in the previous year, whereas the year under review saw cash outflows of €439 million, reflecting the repayment of current and non-current liabilities. Amongst other items, the Group repaid a fixed-income bond in the principal amount of €636 million in October and issued a municipal bond amounting to US\$270 million in April. In addition, increased dividends paid to shareholders of Deutsche Post AG (€903 million) and minority shareholders (€159 million) resulted in a cash outflow from financing activities.

47.4 Cash and cash equivalents

The cash inflows and outflows described above produced cash and cash equivalents of €4,683 million (see Note 33). This is a year-on-year increase of €2,292 million. Currency translation differences reduced cash and cash equivalents by €46 million, changes in the consolidated group, by contrast, brought an increase of €27 million.

Other Disclosures

48 Financial instruments

Financial instruments are contractual obligations to receive or deliver cash and cash equivalents. In accordance with IAS 32 and IAS 39, these include both primary and derivative financial instruments. Primary financial instruments include in particular bank balances, all receivables, liabilities, securities, loans and accrued interest. Examples of derivatives include options, swaps and futures.

The Deutsche Postbank Group accounts for most of the financial instruments in Deutsche Post World Net. The risks and derivatives of the Deutsche Postbank Group's financial instruments are therefore presented separately below.

48.1 Risks and financial instruments of the Deutsche Postbank Group

Taking risks in order to generate earnings is the core function of the Deutsche Postbank Group's business activities. One of the Deutsche Postbank Group's core competencies is to assume normal banking risks within a strictly defined framework, whilst at the same time maximising the potential return arising from them. In the process, each of the relevant risks is thoroughly identified, continuously measured and monitored as well as regularly reported. To this end, the Deutsche Postbank Group has established a risk management organisation as the basis for risk- and earnings-based overall bank management.

In accordance with the requirements of MaRisk (Minimum Requirements for Risk Management), the risk strategy is consistent with the business strategy and takes into account all significant areas of business and types of risk. In addition to an overarching, group-wide risk strategy, Postbank's Management Board has resolved specific risk strategies for market, credit, liquidity and operational risk.

The nature and extent of the risks taken, as well as the strategy for managing such risks, depends on the individual business units, whose actions are prescribed by the business strategy. The Deutsche Postbank Group is active in the Retail Banking, Corporate Banking, Transaction Banking and Financial Markets areas.

Operational responsibility for risk management is spread across several units in the Deutsche Postbank Group, primarily the Financial Markets board department, Domestic/Foreign Credit Management and the credit functions of the private customer business and, at a decentralised level, the subsidiaries BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A. and PB Capital Corp, as well as the London branch.

Risk Controlling, part of the Finance board department, is the independent, group-wide risk monitoring unit. Risk Controlling is authorised to make decisions regarding the methods and models applied in risk identification, measurement and limitation. In co-operation with the risk control units at the BHW Bausparkasse AG, BHW Bank AG, Deutsche Postbank International S.A. and PB Capital Corp. subsidiaries and the London branch, the department is responsible for operational risk control and reporting at group level.

The Internal Audit unit is a key element of the Deutsche Postbank Group's business and process-independent monitoring system. In terms of the Bank's organisational structure, it is assigned to the Chairman of the Management Board and reports independently to the Group Management Board. The Postbank Group Management Board is responsible for risk strategy, the appropriate organisation of risk management, monitoring the risk content of all transactions and risk control. In conjunction with the Risk Committees, the Group Management Board has defined the underlying strategies for activities on the financial markets and the other business sectors of the group.

Definition of risk types

The Deutsche Postbank Group distinguishes between the following risk types:

- Market risk: Potential losses from financial transactions liable to incur from changes in interest rates, spreads, volatility, foreign exchange rates and equity prices.
- Credit risk: Potential losses that may be caused by changes in the creditworthiness of or default by a counterparty (for example as a result of insolvency). Four types of credit risk are distinguished:
- Default risk (credit risk): Risk of potential losses caused by a deterioration in the credit rating of or default by a counterparty.
- Settlement risk: Risk of possible losses during the settlement or netting of transactions.

- Counterparty risk: The risk of possible losses arising from potential default by a counterparty, and hence the risk to unrealised profits on executory contracts (replacement risk).
- Country risk: The risk of possible losses arising from political or social upheaval, nationalisation and expropriation, a government's non-recognition of foreign debts, currency controls and devaluation or depreciation of a national currency (transfer risk).
- Liquidity risk: The risk that current and future payment obligations cannot be met, either in the full amount or as they fall due. Liquidity maturity transformation risk describes the risk of a loss occurring due to a change in the Bank's own refinancing curve (spread risk) resulting from an imbalance in the liquidity maturity structure within a given period for a certain confidence level.
- Operational risk: The risk of losses resulting from inadequate or failed internal processes and systems, people or external events. The definition also encompasses legal risks.
- Investment risk: Investment risk comprises possible losses arising from fluctuations in the fair value of equity investments, unless they are already included in other risk types.
- Real estate risk: Real estate risk relates to the real estate owned by Deutsche Postbank Group and comprises the risk of losses of rental income, write-downs to the going-concern value and losses on sale.
- Collective risk: Specific business risk arising from BHW Bausparkasse AG's home savings business. This is defined as the negative impact of (non-interest-related) deviations in the actual behaviour of home savings customers from their forecast behaviour.
- Business risks: The risk of declining earnings arising from unexpected changes in the business volume and/or margins and corresponding costs. This notion also comprises model risks arising from modelling customer products with unknown capital and interest commitments (in particular savings and current account products) as well as strategic and the reputational risk.

Presentation of risk position

The importance of risk control has further increased against the background of continuously volatile capital markets due to the crisis on the financial markets, low interest rates as against previous years and continued intense competition in the markets for deposits and loans, with consequent pressure on interest margins. An additional factor is the insolvency trend in the economy as a whole. In financial year 2007, the Deutsche Postbank Group further sophisticated the structures, instruments and processes for risk management and controlling for the relevant risk types and has state-of-the-art tools for overall bank management. BHW, which was acquired in 2006, has now also been fully integrated in the risk control processes. As a result, the Deutsche Postbank Group is in a position to meet the challenges it faces in the market, and to manage and limit all types of risk across all business units in a way that minimises risk whilst maximising earnings. The methods and procedures employed meet the current statutory and regulatory requirements.

The risks arising from the structured credit portfolio of Deutsche Postbank Group are systematically and intensively analysed and closely monitored within the scope of an internal project structure. Where impairment testing resulted in impairments likely to be permanent, the appropriate impairment losses were recognised.

With respect to other risk not related to structured loans, Postbank maintained the relatively low risk profile of its credit business during 2007, having comparatively low risk costs. Amongst other things, the increasing credit risks in the retail segment in Germany were countered by a restrictive scoring-based lending policy as well as by more efficient and faster workout processes for loans in default. The additions to the allowance for losses on loans and advances mainly result from the planned expansion of the retail business in financial year 2007. In return, the allowance recognised in previous periods could be reversed due to the positive economic environment. The net addition was therefore significantly reduced. The Deutsche Postbank Group will continue to pursue its risk-sensitive business policy in the future.

With regard to the allocation of risk capital, the Postbank Group has been, and continues to be able to allow the business units sufficient scope to achieve business growth in line with its strategy. Should the turbulences triggered by the US real estate market intensify notably and spill

over into the real economy, an additional financial burden cannot be excluded. No risks that could impair the Deutsche Postbank Group's development or even jeopardise its continued existence have been identified amongst the above-mentioned risk types.

Derivative financial instruments

The Deutsche Postbank Group uses derivatives for hedging purposes as part of its asset/liability management policy. Derivatives are also used for trading. Foreign currency derivatives are mainly used in the form of currency forwards, currency swaps, cross-currency swaps and currency options. Interest rate derivatives mainly consist of interest rate swaps, forward rate agreements, interest futures and interest options; in isolated cases, forward transactions in fixed-interest securities were conducted. Equity derivative contracts are signed in particular in the form of stock options and equity/index futures. Only a few credit derivatives (credit default swaps) were entered into. Credit derivatives (credit default swaps) are basically the result of derivatives separated from synthetic CDOs. The notional amounts represent the gross volume of all sales and purchases. The notional amount is a reference value for determining reciprocally agreed settlement payments; it does not represent recognisable receivables or liabilities. The fair values of the individual contracts were calculated using recognised valuation models and do not reflect any netting agreements. The derivatives portfolio is classified by economic purpose as follows:

Derivative financial instruments

€m	Notional amounts		Positive fair values		Negative fair values	
	2006	2007	2006	2007	2006	2007
Trading derivatives	438,244	518,853	3,289	5,427	3,616	5,593
Hedging derivatives	43,568	34,052	485	421	958	873
Total	481,812	552,905	3,774	5,848	4,574	6,466

The following table presents the open interest rate and foreign currency forward transactions and option contracts of the Deutsche Postbank Group at the balance sheet date.

Forward transactions and option contracts of Deutsche Postbank Group

€m	2006			2007		
	Fair value			Fair value		
	Notional amount	Positive fair values	Negative fair values	Notional amount	Positive fair values	Negative fair values
Trading derivatives						
Currency derivatives						
OTC products						
Currency forwards	4,115	36	22	2,273	35	50
Currency swaps	17,767	152	129	22,518	202	270
Total portfolio of currency derivatives	21,882	188	151	24,791	237	320
Interest rate derivatives						
OTC products						
Interest rate swaps	398,821	3,068	3,436	469,220	5,142	5,046
Cross-currency swaps	55	2	–	146	4	5
FRAs	2,632	9	1	5,723	–	2
OTC interest rate options	645	–	1	673	1	1
Other interest-related contracts	479	1	1	871	3	2
Exchange-traded products						
Interest-rate futures	4,131	–	–	9,893	–	–
Interest-rate options	7,996	1	–	490	1	–
Total portfolio of interest-rate derivatives	414,759	3,081	3,439	487,016	5,151	5,056
Equity/index derivatives						
OTC products						
Equity options (long/short)	165	13	19	453	10	66
Exchange-traded products						
Equity/index futures	8	–	2	117	–	–
Equity/index options	83	1	1	259	2	1
Total portfolio of equity/index derivatives	256	14	22	829	12	67
Credit derivatives						
Credit default swaps	1,347	6	4	6,217	27	150
Total portfolio of credit derivatives	1,347	6	4	6,217	27	150
Total portfolio of derivatives held for trading	438,244	3,289	3,616	518,853	5,427	5,593
of which banking book derivatives	22,214	276	351	15,416	131	330
of which derivatives in connection with underlyings relating to the fair value option	8,097	71	401	12,767	141	308
Hedging derivatives						
Fair value hedges						
Interest rate swaps	41,423	482	733	32,560	410	621
Cross-currency swaps	1,796	3	222	1,338	10	252
Credit default swaps	349	–	3	154	1	–
Total portfolio of hedging derivatives	43,568	485	958	34,052	421	873
Total portfolio of derivatives	481,812	3,774	4,574	552,905	5,848	6,466

The following table provides an overview of the recognised derivative assets and liabilities, structured by remaining maturity:

Remaining maturities

€m	Hedging derivatives				Trading and banking book derivatives			
	2006		2007		2006		2007	
	Positive fair values	Negative fair values	Positive fair values	Negative fair values	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Less than 3 months	63	123	45	138	471	749	316	508
3 months to 1 year	15	27	5	39	105	116	144	211
1 to 2 years	11	65	18	131	120	151	147	233
2 to 3 years	22	148	15	67	182	272	205	201
3 to 4 years	31	129	7	29	226	193	197	193
4 to 5 years	21	50	23	69	144	170	270	336
More than 5 years	322	416	308	400	2,041	1,965	4,148	3,911
	485	958	421	873	3,289	3,616	5,427	5,593

Derivatives – classification by counterparties

The following table presents the positive and negative fair values of derivatives by counterparty.

Classification by counterparty

€m	2006		2007	
	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Banks in OECD countries	3,699	4,457	5,720	6,132
Public institutions in OECD countries	17	26	–	–
Other counterparties in OECD countries	58	91	117	250
Counterparties outside the OECD	–	–	11	84
	3,774	4,574	5,848	6,466

Fair values of financial instruments carried at amortised cost or at the hedged fair value

Fair values of financial instruments which are carried at amortised cost or at the hedged fair value are compared with the carrying amounts in the following table.

Carrying amounts/fair values

€m	2006		2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash reserve	1,015	1,015	3,352	3,352
Loans and advances to other banks (loans and receivables)	16,350	16,357	24,581	24,510
Loans and advances to customers (loans and receivables)	80,483	82,496	85,159	85,414
Loans and advances to customers (held to maturity)	518	518	456	456
Allowance for losses on loans and advances	–1,155	–1,155	–1,184	–1,184
Investment securities (loans and receivables)	19,031	18,838	26,600	25,922
Investment securities (held to maturity)	4,956	5,025	730	731
Liabilities				
Deposits from other banks	47,319	47,366	61,146	60,935
Due to customers	101,316	101,439	110,740	110,335
Securitised liabilities and subordinated debt	20,934	21,019	15,161	14,753

A fair value is generally determined for all financial instruments. Exceptions are transactions due on demand and savings deposits with an agreed withdrawal notice of less than one year. If there is an active market for a financial instrument (e.g. stock exchange), the fair value is expressed by the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined by an established valuation technique. The valuation techniques used incorporate the major factors establishing a fair value for the financial instruments using valuation parameters which are the result of the market conditions at the balance sheet date. The cash flows used under the present value method are based on the contractual data of the financial instruments.

48.2 Risks and financial instruments of other Deutsche Post World Net companies

48.2.1 Risk management system

Deutsche Post World Net's operating activities result in financial risks that may arise from changes in exchange risks, commodity prices and interest rates. The Group uses both primary and derivative financial instruments to manage these risks. The use of derivatives is limited to the management of primary risks. Any use for speculative purposes is not permitted under Deutsche Post World Net's internal guidelines.

The fair values of the derivatives used may be subject to substantial fluctuations depending on future changes in exchange rates, interest rates or commodity prices. These fluctuations in fair values are not to be viewed in isolation from the underlying transactions to be hedged. Derivatives and hedged transactions form a unity with regard to their offsetting value development.

Internal guidelines govern the universe of actions, responsibilities and controls necessary for using derivatives. Suitable risk management software is used to record, assess and process hedging transactions. It is also used to regularly assess the effectiveness of the hedging relationships. Deutsche Post World Net only enters into hedging transactions with prime-rated banks. Each bank is assigned a counterparty limit, the use of which is regularly monitored.

The Group's Board of Management receives regular internal information on the existing financial risks and the hedging instruments deployed to limit them. The financial instruments used are accounted for in accordance with IAS 39.

Liquidity management

Deutsche Post World Net ensures a sufficient supply of cash for Group companies at all times via a largely centralised liquidity management system. Along with bilateral credit lines committed by banks in the amount of €4.2 billion (previous year: €4.2 billion), the Group issued a commercial paper programme in December 2007 in the amount of €1 billion as another liquidity reserve. Thus, Deutsche Post World Net continues to have sufficient funds to finance necessary investments.

The maturity structure of primary financial liabilities to be applied within the scope of IFRS 7 based on cash flows is as follows:

Maturity structure – remaining maturities

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2007						
Financial liabilities	-189	-371	-448	-319	-851	-2,275
Other liabilities	0	-106	-10	-14	-9	-85
Non-current liabilities	-189	-477	-458	-333	-860	-2,360
Financial liabilities	-928	0	0	0	0	0
Trade payables	-5,210	0	0	0	0	0
Other liabilities	-355	0	0	0	0	0
Current liabilities	-6,493	0	0	0	0	0
As at 31 December 2006						
Financial liabilities	-313	-264	-239	-214	-171	-2,990
Other liabilities	-2	-9	-8	-8	-7	-71
Non-current liabilities	-315	-273	-247	-222	-178	-3,061
Financial liabilities	-1,988	0	0	0	0	0
Trade payables	-4,930	0	0	0	0	0
Other liabilities	-338	0	0	0	0	0
Current liabilities	-7,256	0	0	0	0	0

Cash flows which do not fall under the scope of IFRS 7 were not included in the table.

Derivative financial instruments entail both rights and obligations. The contractual arrangement defines whether these rights and obligations can be offset against each other, thus leading to a net settlement, or whether both parties to the contract will have to fully fulfil their obligations (gross settlement). The maturity structure of payments under derivative financial instruments is as follows:

Maturity structure – remaining maturities

€m	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
As at 31 December 2007						
Derivative receivables - gross settlement						
Cash outflows	-1,685	-16	-15	-15	-16	-160
Cash inflows	1,730	16	16	16	16	191
Net settlement						
Cash inflows	7	2	0	0	0	0
Derivative liabilities - gross settlement						
Cash outflows	-1,810	-116	-185	-113	-91	-212
Cash inflows	1,739	97	166	94	77	180
Net settlement						
Cash outflows	-6	-7	0	0	0	0
As at 31 December 2006						
Derivative receivables - gross settlement						
Cash outflows	-2,280	-204	-48	-47	-47	-223
Cash inflows	2,337	203	51	50	50	241
Net settlement						
Cash inflows	3	0	0	0	0	0
Derivative liabilities - gross settlement						
Cash outflows	-2,874	-125	-74	-72	-69	-64
Cash inflows	2,801	111	60	59	57	55
Net settlement						
Cash outflows	-33	0	0	0	0	0

Currency risk and currency management

The Group's global activities expose it to currency risks from planned and completed transactions in foreign currencies. Corporate Treasury is responsible for the central recognition and management of these risks. The Group companies report their foreign-currency risks to Corporate Treasury, which calculates a net position per currency on the basis of these figures and hedges this position externally, where applicable. Currency forwards, currency swaps and currency options are used for this purpose. The notional amount of outstanding currency forwards and swaps was €3,745 million as at the reporting date (previous year: €5,499 million). The corresponding fair value was €-31 million (previous year: €-37 million). These transactions were used to hedge planned and recorded operational risks and to hedge internal and external finance and investments. For reasons of simplification, fair value hedge accounting in accordance with IAS 39 was not used for currency forwards and swaps.

In addition, currency options with a nominal value of €460 million (previous year: €162 million) and a fair value of €-11 million (previous year: €3 million) were used to hedge operational currency risks and risks arising from investing activities. The Group also held cross-currency swaps with a nominal value of €299 million (previous year: €328 million) and a fair value of €-12 million (previous year €-19 million) to hedge long-term foreign currency financing.

Currency risks resulting from translating assets and liabilities of foreign operations into the Group's currency (translation risk) were not hedged as at 31 December 2007. The net investment hedge recognised as at 31 December 2006 ceased to be accounted for in 2007. The fair value of currency forwards was measured on the basis of current market prices, taking forward premiums and discounts into account. The currency options were measured using the Black & Scholes option pricing model. Of the unrealised losses from currency derivatives that were recognised in equity as at 31 December 2007 in accordance with IAS 39, a loss of €-17 million (previous year: €-8 million) is expected to be recognised in income in the course of 2008.

IFRS 7 requires a company to disclose a sensitivity analysis, showing how profit or loss and equity are affected by hypothetical changes in exchange rates at the reporting date. In this process, the hypothetical changes in exchange rates are analysed in relation to the portfolio of financial instruments not denominated in their functional currency and being of a monetary nature. It is assumed that the portfolio as at the reporting date is representative for the whole year.

Effects of hypothetical changes in exchange rates on the translation risk do not fall within the scope of IFRS 7. The following assumptions are taken as a basis for the sensitivity analysis:

Primary monetary financial instruments used by Group companies are either denominated directly in the functional currency or the currency risk was transferred to Deutsche Post AG at the exchange rates Deutsche Post AG has guaranteed. Exchange-rate-induced changes have therefore no effect on the profit or loss and equity of the Group companies.

Some isolated Group companies are legally not entitled to participate in inhouse banking. These companies hedge their currency risks from primary monetary financial instruments linked with Deutsche Post AG by using derivatives. The internal derivatives are consolidated in the Group. The risk remaining at Group level is taken into account when computing the net position.

Hypothetical changes in exchange rates affect the fair values of the external derivatives used by Deutsche Post AG with changes in fair value reported in profit or loss; they also affect the currency results from the measurement at closing date of the inhouse bank balances denominated in foreign currency, the balances of external bank accounts as well as internal and external loans of Deutsche Post AG.

In addition, hypothetical changes in exchange rates affect equity and the fair values of those derivatives used to hedge firm off-balance sheet obligations and highly probable future currency transactions – designated as cash flow hedges.

A 10% appreciation of the euro against all currencies as at 31 December 2007 would have reduced profit by €-8 million (previous year: €-13 million). These hypothetical effects on profit or loss are mainly the result of a sensitivity to changes in the euro against US\$ (€-18 million; previous year: €-8 million), GBP (€2 million; previous year: €-5 million), BHD (€5 million; previous year: €0.1 million) and CNY (€4 million; previous year: €2 million). A devaluation of the euro would lead to exactly the opposite sensitivities.

A 10% appreciation of the euro would have changed the hedging reserve accounted for in equity by €-25 million (previous year: €40 million). The hypothetical change in equity is mainly the result of the euro's sensitivity to the US\$ (€-76 million; previous year: €-29 million) and the GBP (€14 million; previous year: €49 million). A devaluation of the euro would mainly have had the opposite effect on equity.

Commodity risk

Most of the risks arising from the purchase of fuels and fuel oil are passed on to customers via surcharges and contract clauses. There was no additional hedging using derivatives at the reporting date (nominal amount in the previous year: €374 million/fair value: €-31 million).

A hypothetical increase in fuel prices by 10% would have changed the hedging reserve recognised in equity by €0 million (previous year: €19 million); a fair-value decline by 10% would have led to a change by €0 million (previous year: €-21 million).

Interest rate risk and interest rate management

The Group's primary debt currency is the euro. Euro funds are transformed into foreign currencies using derivative financial instruments, to cover the liquidity needs of the respective operations. Taking into account these transactions, the euro's portion in the Group's net debt was 60% (previous year: 40%), the portion of the US dollar stood at 28% (previous year: 27%). The increase in the euro's share is mainly accounted for by adjusting the foreign-currency loan portfolio.

The fair value of interest rate hedging instruments was calculated on the basis of the discounted expected future cash flows, using the Group's treasury risk management system.

At 31 December 2007, Deutsche Post World Net had entered into interest rate swaps with a notional volume of €1,209 million (previous year: €1,764 million). The fair value of this interest rate swap position was €-24 million (previous year: €11 million). The Group had not engaged in interest-rate options as at the reporting date (notional amount in the previous year: €150 million).

Deutsche Post World Net moderately increased the proportion of instruments with long-term interest-rate lock-in in the first half of 2007. To take appropriate account of the unsteadiness in the financial markets in the second half of 2007, the proportion between instruments with short-term and with long-term interest-rate lock-ins was well balanced. Forecasts for 2008 are difficult to make, given the very volatile capital markets at the beginning of the year; Deutsche Post World Net anticipates slightly falling interest rates in the euro zone, in particular for instruments with shorter maturities. The effect of interest rate changes on the Group's financial position continues to be immaterial.

To present the interest-rate risks in accordance with IFRS 7, a sensitivity analysis is performed. This method is used to determine the effects hypothetical changes in market interest rates have on interest income, interest expense and on equity at the reporting date. The following assumptions are taken as a basis for the sensitivity analysis:

Primary variable-interest financial instruments are subject to interest rate risks and will therefore have to be included in the sensitivity analysis. Primary variable-interest financial instruments which were transformed into fixed-income financial instruments in a cash-flow hedge are not included. Changes in market interest rates in derivative financial instruments used as a cash flow hedge affect equity by a change in fair values and must therefore be included in the sensitivity analysis.

Fixed-interest financial instruments measured at amortised cost are not subject to interest rate risk.

Designated fair value hedges of interest rate exposures are not included in the sensitivity analysis because the interest-related changes in the fair-value of the hedged item and the hedging transaction almost fully

offset each other in the profit or loss for the period. Only the variable portion of the hedging instrument affects net finance costs or financial income and is to be included in the sensitivity analysis.

Interest-rate derivatives outside the scope of a hedging relationship which would affect net finance costs or net financial income due to changes in market rates were not to be recognised as at 31 December 2007. There were such interest rate derivatives as at 31 December 2006 which were to be accounted for in the 2006 analysis.

If the interest rate level on the market as at 31 December 2007 had been higher by 100 basis points, profit would have decreased by €13 million (previous year: €15 million). A lowering of the market rate level by 100 basis points would have had the opposite effect. A change of the market interest rate level by 100 basis points would affect the fair values of the interest rate derivatives recognised in equity. A rise in interest rates would have resulted in unrecognised gains in equity of €16 million (previous year: €1 million); a reduction would have had the opposite effect.

Credit risk

The credit risk incurred by the Group is the risk that counterparties fail to meet their obligations arising from operating activities and from financial transactions. To minimise credit risk from financial transactions, the Group only enters into transactions with prime-rated counterparties. Default risks are continuously monitored in the operating business. The aggregate carrying amounts of financial assets represent the maximum default risk.

Trade receivables amounting to €6,377 million (previous year: €6,395 million) are due within one year. The following table provides an overview of past-due receivables:

€m	Carrying amount before impairment loss	Neither impaired nor due at reporting date	Past due at reporting date and not impaired						
			Less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	> 180 days
As at 31 December 2007									
Trade receivables	6,595	4,373	1,168	361	152	80	43	28	65
As at 31 December 2006									
Trade receivables	6,651	4,167	1,227	371	184	101	64	46	88

Trade receivables developed as follows:

€m	2006	2007
Gross receivable		
As at 1 January	6,371	6,651
Changes	280	-56
As at 31 December	6,651	6,595
Valuation allowances		
As at 1 January	-221	-256
Changes	-35	38
As at 31 December	-256	-218
Carrying amount as at 31 December	6,395	6,377

All other financial assets are neither past due nor impaired. These assets are expected to be collectible at any time.

48.2.2 Derivatives

The following table gives an overview of the derivatives used within Deutsche Post World Net (excluding Deutsche Postbank Group) and their fair values. Derivatives with amortising notional volumes are reported in the full amount at maturity:

Derivate financial instruments

€m	2006		2007				Fair values 2007 according to maturity												
	Notional amount	Fair value	Notional amount	Fair value of assets	Fair value of liabilities	Total fair value	Assets					Liabilities							
							Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	> 5 years	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	> 5 years	
Interest rate products																			
Interest rate swaps	1,764	11	1,209	2	-26	-24	0	0	0	0	0	2	0	0	0	0	-2	-24	
of which cash flow hedges	186	6	367	2	-15	-13	0	0	0	0	0	2	0	0	0	0	0	-15	
of which fair value hedges	1,478	9	842	0	-11	-11	0	0	0	0	0	0	0	0	0	0	0	-2	-9
of which held for trading	100	-4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FRAs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest rate options	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which held for trading	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1,914	11	1,209	2	-26	-24	0	0	0	0	0	2	0	0	0	0	0	-2	-24
Currency derivatives																			
Currency forwards	1,603	-63	1,768	23	-63	-40	23	0	0	0	0	0	-35	-8	-8	-7	-4	-1	
of which cash flow hedges	557	-38	1,063	18	-59	-41	18	0	0	0	0	0	-31	-8	-8	-7	-4	-1	
of which net investment hedges	315	-16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
of which held for trading	731	-9	705	5	-4	1	5	0	0	0	0	0	-4	0	0	0	0	0	
Currency options	162	3	460	1	-12	-11	0	1	0	0	0	0	-5	-7	0	0	0	0	
of which cash flow hedges	162	3	460	1	-12	-11	0	1	0	0	0	0	-5	-7	0	0	0	0	
Currency swaps	3,896	26	1,977	28	-19	9	28	0	0	0	0	0	-19	0	0	0	0	0	
of which cash flow hedges	62	-1	311	8	-7	1	8	0	0	0	0	0	-7	0	0	0	0	0	
of which held for trading	3,834	27	1,666	20	-12	8	20	0	0	0	0	0	-12	0	0	0	0	0	
Cross-currency swaps	328	-19	299	24	-36	-12	0	0	0	0	0	24	0	0	0	-7	-29	0	
of which cash flow hedges	214	7	203	24	-7	17	0	0	0	0	0	24	0	0	0	-7	0	0	
of which fair value hedges	114	-26	95	0	-29	-29	0	0	0	0	0	0	0	0	0	0	0	-29	
of which held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	5,989	-53	4,505	76	-130	-54	51	1	0	0	0	24	-59	-15	-8	-14	-33	-1	
Transactions based on commodity prices																			
Fuel hedging programme	374	-31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
of which cash flow hedges	374	-31	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
of which held for trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	

Fair value hedges

Interest rate swaps were used to hedge the fair value risk of fixed-interest euro-denominated liabilities. The fair values of these interest rate swaps amount to €-11 million (previous year: €9 million). The sharp reduction in fair value in 2007 is due to interest rate movements. As at 31 December 2007, there was also a €35 million (previous year: €40 million) adjustment to the carrying amount of the underlying arising from an interest rate swap unwound in the past. The adjustment to the carrying amount is amortised over the remaining term of the liability using the effective interest method, and reduces future interest expense.

In addition, cross-currency swaps were used to hedge liabilities in foreign currency against negative changes in the market, with the liability being transformed into a variable interest euro-denominated liability. This hedged the fair value risk of the interest and currency component. The fair value of these cross-currency swaps as at 31 December 2007 is €-29 million (previous year: €-26 million).

The following table provides an overview of the gains and losses arising from the hedged items and the respective hedging transactions:

Ineffective portion of fair value hedges

€m	2006	2007
Gains (-)/losses (+) on hedged items	-57	-20
Gains (-)/losses (+) on hedging transactions	57	19
Balance (ineffective portion)	0	-1

Cash flow hedges

The Group uses currency forwards and currency swaps to hedge the future cash flow risks from foreign currency revenue and expenses relating to the Group's operating business. The fair values of the currency forwards and swaps amount to €-2 million (previous year: €-4 million). There were no currency options used to hedge operating risks at the reporting date (fair value in the previous year: €3 million). The underlyings will be recognised in the income statement in 2008.

Currency forwards with a fair value of €-37 million (previous year: €-35 million) as at the reporting date were entered into to hedge the currency risk of future lease payments and annuities denominated in foreign currencies. The payments for the underlyings are made in instalments, with the final payment due in 2013.

Cash flow risks arise for the Group from contracted aircraft purchases in connection with future payments in US dollars. These risks were hedged in 2007 using forwards and options. The fair value of these cash flow hedges as at 31 December 2007 amounted to €-11 million for currency options and €-1 million for currency forwards. The aircraft will be added in 2009 and 2010. Gains or losses on hedges are offset against cost and recognised in profit or loss upon the amortisation of the asset.

Risks arising from fixed-interest foreign currency investments were hedged using synthetic cross-currency swaps, with the investments being transformed into fixed-interest euro investments. These synthetic cross-currency swaps hedge the currency risk, and their fair values at the balance sheet date amounted to €26 million (previous year: €13 million). The investments relate to internal Group loans which mature in 2014.

The Group is exposed to cash flow risks arising from variable-interest liabilities. These risks were hedged using interest rate swaps which offset the interest rate risk in the underlying. The respective cash flow hedges had a fair value of €-15 million as at 31 December 2007 (previous year: €-1 million). The hedged currency liabilities are due in 2020 and/or in 2037. In addition, a fixed-interest currency liability was transformed into a fixed-interest euro-denominated liability using a cross-currency swap. The fair value of the derivative was €-7 million (previous year: €-6 million) at the reporting date.

Aircraft kerosene ceased to be hedged in 2007. Negative fair values amounting to €-31 million were recognised in the accounts as at 31 December 2006.

Net investment hedges

Foreign currency investments in foreign subsidiaries may result in risks to the Group's equity. These risks ceased to be hedged at the reporting date (fair value in the previous year: €-16 million).

48.3 Additional disclosures on the financial instruments used by Deutsche Post World Net

Deutsche Post World Net classifies financial instruments in relation to the respective balance sheet accounts. The following table reconciles the balance sheet accounts to the categories given in IAS 39 and the respective fair values:

Reconciliation of carrying amounts in the balance sheet as at 31 December 2007

€m

	Carrying amount	Carrying amount measured					
		Financial assets recognised at fair value through profit and loss		Available-for-sale financial assets		Loans and receivables	Held-to-maturity financial assets
		Trading	Fair value option				
		Fair value	Fair value	Fair value	Amortised cost	Amortised cost	Amortised cost
ASSETS							
Non-current financial assets	1,060			431	301	115	10
Other non-current assets	497		66				
Receivables and other assets	9,806	25				6,679	
Receivables and other securities from financial services	193,986	9,936	7,109	41,174		134,160	1,186
Financial instruments	72			19		52	1
Cash and cash equivalents	4,683					4,683	
Assets held for sale	615					565	
Total assets	210,719	9,961	7,175	41,624	301	146,254	1,197
EQUITY AND LIABILITIES							
Non-current financial liabilities ¹⁾	-8,625						
Other non-current liabilities	-361						
Current financial liabilities	-1,556						
Trade payables	-5,384						
Liabilities from financial services	-187,787						
Other current liabilities	-5,101						
Total equity and liabilities	-208,814						

1) Some of the bonds included in financial liabilities were designated as a hedged item in a fair value hedge thus being subject to a basis adjustment. Accounting is therefore neither fully at fair value nor at amortised cost.

pursuant to IAS 39		Carrying amount pursuant to IAS 17			Outside IFRS 7	Fair value of financial instruments under IFRS 7
Financial liabilities recognised at fair value through profit and loss		Miscellaneous financial liabilities	Derivatives designated as hedging instruments	Finance lease liabilities		
Trading	Fair value option					
Fair value	Fair value	Amortised cost	Fair value	Amortised cost		
					203	857
			28		403	94
			26		3,076	6,730
			421			193,493
						72
						4,683
					50	565
			475		3,732	
		-7,823		-551	-251	-8,403
		-224	-97		-40	-337
		-1,482		-74	0	-1,556
		-5,384				-5,384
-5,594		-181,320	-873			-186,763
-16		-510	-44		-4,531	-570
-5,610		-196,743	-1,014	-625	-4,822	

Reconciliation of carrying amounts in the balance sheet as at 31 December 2006

€m

	Carrying amount	Carrying amount measured					
		Financial assets recognised at fair value through profit and loss		Available-for-sale financial assets		Loans and receivables	Held-to-maturity financial assets
		Trading	Fair value option	Fair value	Amortised cost	Amortised cost	Amortised cost
		Fair value	Fair value				
ASSETS							
Non-current financial assets	994			459	336	126	10
Other non-current assets	376		41			50	
Receivables and other assets	9,306	50				6,854	
Receivables and other securities from financial services	179,280	13,280	6,180	39,210		114,650	5,475
Financial instruments	42			10		32	
Cash and cash equivalents	2,391					2,391	
Total assets	192,389	13,330	6,221	39,679	336	124,103	5,485
EQUITY AND LIABILITIES							
Non-current financial liabilities ¹⁾	-8,543						
Other non-current liabilities	-237						
Current financial liabilities	-1,945						
Trade payables	-5,069						
Liabilities from financial services	-168,663						
Other current liabilities	-4,938						
Total equity and liabilities	-189,395						

1) Some of the bonds included in financial liabilities were designated as a hedged item in a fair value hedge thus being subject to a basis adjustment. Accounting is therefore neither fully at fair value nor at amortised cost.

pursuant to IAS 39				Carrying amount pursuant to IAS 17	Outside IFRS 7	Fair value of financial instruments under IFRS 7
Financial liabilities recognised at fair value through profit and loss		Miscellaneous financial liabilities	Derivatives designated as hedging instruments	Finance lease liabilities		
Trading	Fair value option					
Fair value	Fair value	Amortised cost	Fair value	Amortised cost		
					63	931
			36		249	127
			7		2,395	6,911
			485			181,176
						42
						2,391
			528		2,707	
		-7,482		-711	-350	-8,171
		-106	-68		-63	-174
		-1,921		-24		-1,945
		-5,069				-5,069
-3,619		-164,086	-958			-168,918
-36		-464	-61		-4,377	-561
-3,655		-179,128	-1,087	-735	-4,790	

If there is an active market for a financial instrument (e.g. stock exchange), the fair value is expressed by the market or quoted exchange price at the balance sheet date. If there is no active market, the fair value is determined by an established valuation technique (e.g. present-value method, option pricing models). The valuation techniques used incorporate the major factors establishing a fair value for the financial instruments using valuation parameters which are derived from the market conditions at the balance sheet date. The cash flows used under the present value method are based on the contractual data of the financial instruments. The fair values of other non-current receivables and financial investments held to maturity with remaining maturities of more than one year equal the present values of the payments related to the assets, taking into account the current interest rate parameters which reflect market- and partner-related changes in the conditions and expectations.

Most of cash and cash equivalents, trade receivables and other receivables have short remaining maturities. Thus, their carrying amounts at the reporting date are largely equivalent to their fair values. Trade payables and other liabilities generally have short remaining maturities; the amounts carried in the balance sheet are similar to their fair values.

The financial assets classified as available for sale include shares in partnerships and corporations in the amount of €301 million (previous year €336 million) for which a fair value cannot be determined reliably. The shares in these companies are not quoted on an active market; they are therefore recognised at cost. There are no plans to sell a material number of shares in the near future. Shares measured at cost in the amount of €68 million (previous year: €83 million) were sold, however, in the financial year at a disposal loss of €3 million (previous year: €14 million).

The Group is allowed only to reclassify financial instruments out of the category "available for sale" into the category "held to maturity". No assets were reclassified in financial years 2007 and 2006.

The net gains and losses from financial instruments classified in accordance with the measurement categories of IAS 39 and the total interest income and expense of financial instruments not included in profit or loss at fair value are composed as follows:

Net gains and losses of the measurement categories

€m	2006	2007
Loans and receivables	93	175
Held-to-maturity financial assets	0	0
Financial liabilities recognised at fair value through profit and loss		
Trading	-217	-375
Fair value option	-19	-20
Other financial liabilities	-102	-110

The net gains and losses mainly account for the effects of fair-value measurement, valuation allowances and disposals (disposal gains/losses). No dividends or interest are taken into account in the financial instruments recognised in profit or loss at fair value. Details of net gains or losses on the financial assets available for sale can be found in Note 36.

Income and expense from interest and commission agreements of the financial instruments not measured at fair value through profit or loss are explained in the income statement disclosures.

49 Contingent liabilities

The Group's contingent liabilities total €2,058 million (previous year: €2,840 million). €1,552 million of this relates to guarantee obligations and €204 million to liabilities from litigation risks. In addition to these contingent liabilities, the Deutsche Postbank Group has irrevocable loan commitments amounting to €23,480 million (previous year: €21,369 million).

50 Litigation

Due to our market-leading position, a large number of Deutsche Post AG services are subject to sectoral regulation in accordance with the *Postgesetz* (German postal act). The regulatory authority approves or reviews prices in particular, formulates the terms of downstream access and conducts general checks for market abuse. Any resulting proceedings may lead to a drop in revenue and earnings.

Legal risks arise from, amongst other things, appeals pending before the administrative courts against the regulatory authority's July 2002 ruling concerning the conditions for the price-cap procedure, from two appeals each against price approvals granted under the price-cap procedure for the years 2003, 2004 and 2005, and from appeals against other price approval decisions handed down by the regulatory authority.

European Commission competition proceedings were initiated on the basis of allegations about excessive mail prices made by the *Deutscher Verband für Post und Telekommunikation* (German association for posts and telecommunications). In these proceedings, Deutsche Post AG has presented detailed evidence to support its argument that the prices are reasonable.

Conditions determined by the regulator oblige Deutsche Post AG to allow customers and competitors downstream access to its network. Proceedings are pending before German administrative and civil courts and the European courts against the relevant rulings by the regulatory authority, the *Bundeskartellamt* (German federal antitrust authority) and the European Commission. Deutsche Post AG believes that the postal act (including the exclusive licence up to its expiry on 31 December 2007) is in compliance with EU and anti-trust law, and more specifically with the EU Postal Directive and the anti-trust rules stipulated by the EC Treaty. Depending on the outcome of the proceedings, Deutsche Post AG could be faced with further losses of revenue and earnings.

In response to a complaint from a third party, the European Commission made requests for information to the German government concerning an allegation by the *Monopolkommission* (German monopoly commission). The allegation is that Deutsche Post AG contravenes the prohibition on state aid under the EC Treaty by allowing Deutsche Postbank AG to use Deutsche Post outlets at below-market rates. In the opinion of Deutsche Post AG and Deutsche Postbank AG, this allegation is incorrect and the fee paid by Deutsche Postbank AG complies with the provisions on competition and state aid stipulated in European law. The European Commission is also asking the Federal Republic of Germany to comment on the sale of its entire interest in Deutsche Postbank AG to Deutsche Post AG in 1999. However, the Commission has already investigated the acquisition of Postbank as part of the state aid proceedings that were concluded with the ruling dated 19 June 2002. At the time, it explicitly concluded that the acquisition of Postbank involved "no grant of state aid".

The German government has already argued before the European Commission that the allegations are in its opinion unfounded. Nevertheless, with regard to the two allegations relating to the requests for information, no assurance can be given that the Commission will not find that the facts of the case constitute state aid.

On 12 September 2007, the European Commission initiated a formal investigation against Germany concerning possible subsidies to Deutsche Post. The investigation will focus on whether Germany, using state resources, overcompensated Deutsche Post AG or its legal predecessor Deutsche Bundespost POSTDIENST for the cost of providing universal services between 1989 and 2007 and whether the company was thereby granted state aid incompatible with EU law. According to the decision opening the investigation, the Commission intends to examine all public transfers, public guarantees, statutorily granted exclusive rights, the price regulation of letter services and the public funding of civil servants' pensions during the period in question. Also to be investigated is the cost allocation within Deutsche Post AG and its predecessor between the regulated letter service, the universal service and competitive services. This also relates to co-operation agreements between Deutsche Post AG and Postbank as well as between Deutsche Post AG and the business parcel service marketed by DHL Vertriebs GmbH.

Deutsche Post AG and Deutsche Postbank AG hold that the new investigation lacks any factual basis. All public transfers associated with the privatisation of Deutsche Bundespost, the public guarantees and the funding of pension obligations formed part of the subject matter of the state aid procedure closed by the decision of 19 June 2002. That decision did not identify the measures concerned as incompatible state aid. Deutsche Post AG and Deutsche Postbank AG are further of the opinion that the statutorily granted exclusive rights and the regulated letter prices do not fulfil the legal criteria to be considered a form of state aid in the first place. Deutsche Post AG also considers the internal allocation of costs with its subsidiaries to be consistent with EU state aid rules and the case law of the European Court of Justice. Nonetheless, based on an overall appraisal the possibility of the Commission finding a case of incompatible state aid cannot be ruled out.

On 22 November 2006, the European Commission opened formal proceedings with regard to possible state aid in connection with the construction of the DHL European air hub at Leipzig/Halle airport. The Commission notably has doubts that the financing of the new southern runway by the German state of Saxony, financial guarantees endorsed by Saxony and certain operational undertakings on the part of the airport operator are compatible with European law on state aid. In the opinion of Deutsche Post AG and DHL, the arrangements entered into with the state of Saxony and the airport comply with the law relating to state aid. It cannot be ruled out, however, that the Commission will deem specific features of these arrangements to be unlawful. This could result in additional costs for DHL in operating the air hub.

In October 2007 DHL Global Forwarding, along with all other major players in the freight forwarding industry, received a request for information from the Competition Directorate of the European Commission, a subpoena from the United States Department of Justice's Antitrust Division, and information requests from competition authorities in other jurisdictions, in connection with a formal investigation into the setting of surcharges and fees in the international freight forwarding industry.

In January 2008, an anti-trust class action law suit was initiated in the New York district court on behalf of purchasers of freight forwarder services in which Deutsche Post AG and DHL are named as defendants. This civil law suit appears to be based on the fact that anti-trust investigations are on-going, but not on any known outcome or quantified loss.

Deutsche Post World Net is not able to predict or comment on the outcome of the investigations or the merits of the class action law suit, but believes its financial exposure in relation to both is limited and has not, therefore, taken any provision in its accounts.

51 Other financial obligations

In addition to provisions, liabilities and contingent liabilities, there are other financial obligations amounting to €7,041 million (previous year: €6,414 million) from non-cancellable operating leases as defined by IAS 17.

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

€m	2006	2007
Land and buildings	5,637	6,310
Technical equipment and machinery	214	470
Other equipment, operating and office equipment	324	96
Aircraft	222	165
Other	17	0
Leases	6,414	7,041

€m	2006	2007
Year 1 after reporting date	1,160	1,285
Year 2 after reporting date	958	1,069
Year 3 after reporting date	779	871
Year 4 after reporting date	611	700
Year 5 after reporting date	468	561
Year 6 after reporting date and thereafter	2,438	2,555
Maturity structure of minimum lease payments	6,414	7,041

The present value of discounted minimum lease payments is €5,326 million (previous year: €4,975 million), based on a discount factor of 5.75% (previous year: 5.00%) Overall, rental and lease payments of €2,390 million (previous year: €2,140 million) arose in 2007, of which €1,709 million (previous year: €1,297 million) relates to non-cancellable leases. Future lease obligations from non-cancellable leases relate primarily to the following companies:

€m	2006	2007
Deutsche Post AG/ Deutsche Post Immobilien GmbH	2,306	2,468
Express and logistics companies	3,392	4,182
Other Group companies (including Deutsche Postbank Group)	716	391
Future lease obligations	6,414	7,041

The purchase obligation for investments in non-current assets amounted to €332 million.

52 Related-party disclosures

52.1 Related-party disclosures (companies and Federal Republic of Germany)

All companies classified as related parties that are controlled by Deutsche Post World Net or on which the Group can exercise significant influence are recorded in the list of shareholdings together with information on the equity interest held, their equity and their net profit or loss for the period, broken down by division. The list of shareholdings is filed with the commercial register of the Bonn Local Court.

Deutsche Post AG and Deutsche Postbank AG have a variety of relationships with the Federal Republic of Germany and other companies controlled by the Federal Republic of Germany.

The federal government is a customer of Deutsche Post AG and as such uses the company's services. Deutsche Post AG's business relationships are entered into with the individual public authorities and other government agencies as independent individual customers. The services provided to the respective individual customers are immaterial to the overall revenue of Deutsche Post AG.

Relationships with the *Bundesanstalt für Post und Telekommunikation* (BAStPT)

The Federal Republic of Germany manages its interest in Deutsche Post AG and exercises its shareholder rights via the *Bundesanstalt für Post und Telekommunikation* ("Bundesanstalt") which has legal capacity and falls under the supervision of the German Federal Ministry of Finance. The *Gesetz über die Errichtung einer Bundesanstalt für Post und Telekommunikation* or *Bundesanstalt Post Gesetz* (BAStG – German act to establish a Deutsche Bundespost Federal Posts and Telecommunications Agency) transferred specific legal rights and duties to the Bundesanstalt that relate to matters jointly affecting Deutsche Post AG, Deutsche Postbank AG and Deutsche Telekom AG. In addition, the Bundesanstalt manages the Postal Civil Service Health Insurance Fund, the recreation programme, the *Versorgungsanstalt der Deutsche Bundespost* ("VAP") and the welfare service for Deutsche Post AG, Deutsche Postbank AG, Deutsche Telekom AG and the Bundesanstalt. The co-ordination and administration tasks are performed on the basis of agency agreements. In 2007, Deutsche Post AG was invoiced for €65 million (previous year: €68 million) in instalment payments relating to services provided by the Bundesanstalt, and Deutsche Postbank AG was invoiced for €4 million (previous year: €5 million).

Relationships with the German Federal Ministry of Finance

In financial year 2001, the *Bundesministerium der Finanzen* (BMF – German Federal Ministry of Finance) and Deutsche Post AG entered into an agreement that governs the terms and conditions of the transfer of income received by Deutsche Post AG from the levying of the settlement payment under the *Gesetze über den Abbau der Fehlsubventionierung im Wohnungswesen* (German acts on the reduction of misdirected housing subsidies) relating to housing benefits granted by Deutsche Post. In financial year 2007 Deutsche Post AG paid to the federal government the aggregate amount of approximately €1.3 million for financial year 2006 and around €1 million in monthly instalments relating to financial year 2007. As agreed, the final settlement for financial year 2007 will be made by 1 July 2008.

Deutsche Post AG also entered into an agreement with the BMF dated 30 January 2004 relating to the transfer of civil servants to German federal authorities. Under this agreement, civil servants are seconded with the aim of transferring them initially for six months, and are then transferred permanently if they successfully complete their probation. Once a permanent transfer is completed, Deutsche Post AG contributes to the cost incurred by the federal government by paying a flat fee. In 2007, this initiative resulted in 33 permanent transfers (previous year: 37) and two secondments with the aim of a permanent transfer (previous year: 22).

Relationships with Deutsche Telekom AG and its subsidiaries

In financial year 2007, Deutsche Post World Net provided goods and services for Deutsche Telekom AG amounting to €0.4 billion (previous year: €0.6 billion). These were mainly transportation services for letters and parcels. In the same period, Deutsche Post World Net purchased goods and services (including IT products and services) worth €0.4 billion (previous year: €0.3 billion) from Deutsche Telekom. Deutsche Telekom AG and Deutsche Postbank AG have also entered into a master loan agreement for €0.6 billion (previous year: €0.6 billion). In addition, there are links between Deutsche Post AG and Deutsche Telekom AG in terms of personnel. For example, the chairman of the Board of Management of Deutsche Post AG, Dr Klaus Zumwinkel, is also chairman of the Supervisory Board of Deutsche Telekom AG.

Bundes-Pensions-Service für Post und Telekommunikation e.V.

Information on the Bundes-Pensions-Service für Post- und Telekommunikation e.V. can be found in Note 6.

Deutsche Post Pensions-Fonds GmbH & Co. KG

The real estate, with a fair value of €1,040 million, of which Deutsche Post Betriebsrenten Service e.V. (DPRS) and/or Deutsche Post Pensionsfonds GmbH & Co. KG are the legal or beneficial owners, is exclusively let to Deutsche Post Immobilien GmbH. Rental expense for Deutsche Post Immobilien GmbH amounts to €56.4 million in 2007 (previous year: €34.7 million). The rent was always paid on time. Therefore no expense was incurred for bad debt losses in 2007 and is not expected to be incurred in future years. There were no sales relationships between external authorities and a Group company of Deutsche Post AG in 2007.

Relationships with unconsolidated companies and associates

In addition to the consolidated subsidiaries, Deutsche Post World Net has direct and indirect relationships with a large number of unconsolidated subsidiaries and associates deemed to be related parties to the Group, in the course of its ordinary business activities. In the course of these activities, all transactions for the provision of goods and services entered into with unconsolidated companies were conducted on an arm's length basis at standard market terms and conditions. Transactions were made in financial year 2007 with major related parties, resulting in the following items in the financial statements of Deutsche Post World Net:

€m	2006	2007
Receivables	73	43
Loans	18	17
Receivables from inhouse banking	14	6
Financial liabilities	-32	-45
Liabilities	-61	-57
Liabilities from inhouse banking	-13	-15

52.2 Related-party disclosures (individuals)

In accordance with IAS 24, Deutsche Post World Net also reports on transactions between Deutsche Post World Net and related parties or the members of their families. Related parties are defined as the Board of Management, Supervisory Board, heads of corporate departments or business departments (second-level executives) and the members of their families.

There were no reportable transactions between members of the Board of Management and their families and Deutsche Post World Net in financial year 2007. In some cases, members of the Supervisory Board were involved in legal transactions with Deutsche Post AG. These mainly related to services rendered and loans granted by Deutsche Postbank AG. The volume of these transactions was approximately €2 million. In two cases, second-level executives indicated to have concluded agreements with Deutsche Post. The transactions mainly consisted of rendering consulting and other services for Deutsche Post World Net; the transactions had a total volume of €0.5 million. Deutsche Postbank AG granted loans to the second-level executives in the total amount of €2.6 million. The terms to maturity vary between five and 15 years. Unless a variable interest rate had been agreed, the rate is between 3.20% and 4.79%. The amount of the loans was €2.3 million as at 31 December 2007. All transactions were conducted at conditions customary in the market and within the scope of global authorisations adopted in relation to loans to managers by Deutsche Postbank AG in accordance with Section 15 of the *Kreditwesengesetz* (German banking act).

The remuneration of key management personnel of the Group requiring disclosure under IAS 24 comprises the remuneration of the active Board of Management and Supervisory Board members. The active members of the Board of Management and the Supervisory Board were remunerated as follows:

T €	2006	2007
Short-term employee benefits (less share-based remuneration)	19,555	16,599
Post-employment benefits	4,227	4,066
Termination benefits	0	8,363
Share-based remuneration	3,620	3,571
Total	27,402	32,599

The post-employment benefits are recognised as the service cost resulting from the pension provisions for active members of the Board of Management.

The share-based remuneration amount relates to the share-based remuneration expense recognised in 2007.

The share-based remuneration expense for financial year 2007 is shown in the table below:

€	Stock options	SARs	Total
Dr Klaus Zumwinkel, Chairman	241,616	646,850	888,466
John Allan	0	34,833	34,833
Dr Frank Appel	161,076	431,233	592,309
Prof. Dr Edgar Ernst (Member of the Board of Management until 30 September 2007)	139,366	288,592	427,958
Jürgen Gerdes (Member of the Board of Management since 1 July 2007)	11,366	104,672	116,038
Dr Wolfgang Klein (Member of the Board of Management since 1 July 2007)	0	0	0
John P. Mullen	106,270	431,233	537,503
Dr Hans-Dieter Petram (Member of the Board of Management until 30 June 2007)	117,656	145,950	263,606
Walter Scheurle	161,076	431,233	592,309
Prof. Dr Wulf von Schimmelmann (Member of the Board of Management until 30 June 2007)	117,656	0	117,656
Share-based remuneration	1,056,082	2,514,596	3,570,678

Further details on the remuneration of, and the shares held by, the Board of Management and the Supervisory Board can be found in the Corporate Governance Report. The remuneration report contained in the Corporate Governance Report also forms part of the Notes.

Reportable transactions

For the transactions of Board of Management and Supervisory Board members involving securities of the company and notified to Deutsche Post AG in accordance with Section 15a of the *Wertpapierhandelsgesetz* (German securities trading act), please refer to the company website at www.dpwn.com.

53 Significant subsidiaries, joint ventures and associates

	Country	Equity interest and share of voting rights %		Revenue ¹⁾ €m	
		31 Dec. 2006	31 Dec. 2007	2006	2007
Significant subsidiaries					
MAIL					
DHL Vertriebs GmbH & Co. OHG	Germany	100.00	100.00	1,576	1,597
Global Mail Inc.	USA	100.00	100.00	647	556
Williams Lea Limited	UK	66.15	66.15	336	484
Williams Lea Inc.	USA	66.15	66.15	182	249
DHL Global Mail (UK) Ltd.	UK	–	100.00	–	172 ²⁾
Koba SA	France	100.00	100.00	41	113
The Stationery Office Limited	UK	–	66.15	–	106 ³⁾
Williams Lea Inhouse Solutions GmbH	Germany	100.00	100.00	71	81
Interlanden B.V.	Netherlands	100.00	100.00	71	73
Deutsche Post Customer Service Center GmbH	Germany	100.00	100.00	69	69
Deutsche Post Selekt Mail Nederland C.V.	Netherlands	51.49	51.49	64	65
EXPRESS/LOGISTICS					
Exel Europe Ltd.	UK	100.00	100.00	2,303	3,283
DHL Express (USA) Inc.	USA	100.00	100.00	3,359	3,127
Air Express International USA Inc.	USA	100.00	100.00	1,574	1,848
Exel Inc.	USA	100.00	100.00	1,420	1,508
DHL Freight GmbH	Germany	100.00	100.00	1,307	1,434
DHL Express (France) SAS	France	100.00	100.00	988	999
DHL Global Forwarding GmbH	Germany	100.00	100.00	625	964
DHL Express (Sweden) AB	Sweden	100.00	100.00	901	957
DHL Express (Italy) S.r.L.	Italy	100.00	100.00	851	891
Danzas Z.F. Freight Agency Co. Ltd.	China	100.00	100.00	444	719
DHL Express (UK) Ltd.	UK	100.00	100.00	526	714
Exel UK Ltd.	UK	100.00	100.00	795	708
DHL Global Forwarding (UK) Ltd.	UK	100.00	100.00	426	687
DHL Express (Netherlands) B.V.	Netherlands	100.00	100.00	390	682
DHL Global Forwarding (HK) Ltd.	China	100.00	100.00	451	628
DHL Solutions GmbH	Germany	100.00	100.00	612	623
DHL International (UK) Ltd.	UK	100.00	100.00	582	607
DHL Express Germany GmbH	Germany	100.00	100.00	557	581
DHL Express Iberia S.L. (Group)	Spain	100.00	100.00	549	533
Exel Transportation Services Inc.	USA	100.00	100.00	570	490
DHL Global Forwarding (Italy) S.p.A.	Italy	100.00	100.00	469	479
DHL Danzas Air & Ocean (France) SAS	France	100.00	100.00	423	477
DHL Sinotrans International Air Courier Ltd.	China	51.68	51.68	416	458
DHL Exel Supply Chain (Spain) S.L.	Spain	100.00	100.00	359	420
DHL Global Forwarding (Sweden) AB	Sweden	100.00	100.00	211	411
DHL Logistics (Schweiz) AG	Switzerland	100.00	100.00	233	400
FINANCIAL SERVICES					
Deutsche Postbank AG (Group)	Germany	50.00 + 1 share	50.00 + 1 share	9,525	10,344
SERVICES⁴⁾					
Significant joint ventures⁵⁾					
Exel-Sinotrans Freight Forwarding Co. Ltd.	China	50.00	50.00	316	211
Express Couriers Ltd.	New Zealand	50.00	50.00	72	84
AeroLogic GmbH	Germany	–	50.00	–	– ⁶⁾
Significant associates					
Polar Air Cargo Worldwide Inc.	USA	–	49.00/25.00		⁷⁾
Air Hong Kong Ltd.	China	40.00	40.00		

1) IAS amounts reported in single-entity financial statements.

2) Transfer of operations of several companies to DHL Global Mail (UK) Ltd. after merger.

3) Acquired on 10 January 2007.

4) Almost exclusively internal revenue.

5) Proportionate amounts.

6) Established on 26 September 2007. Start of aircraft movement operations planned for April 2009.

7) Acquired on 25 June 2007.

54 Making use of Section 264 (3) HGB

For financial year 2007, Deutsche Post AG has exercised the simplification options allowed by Section 264(3) of the *Handelsgesetzbuch* (HGB – German commercial code) and applicable to Subpart One (annual financial statements of the corporation and management report) and Subpart Four (publication) for the following companies:

- Deutsche Post Beteiligungen Holding GmbH
- Danzas Deutschland Holding GmbH
- InterServ Gesellschaft für Personal- und Beraterdienstleistungen mbH
- Deutsche Post Ventures GmbH
- DHL Global Management GmbH
- DHL Express Germany GmbH
- Deutsche Post Immobilien GmbH
- Deutsche Post Shop Essen GmbH
- Deutsche Post Shop Hannover GmbH
- Deutsche Post Shop München GmbH
- DHL International GmbH
- Deutsche Post Fleet GmbH
- Deutsche Post Customer Service Center GmbH
- DHL Verwaltungs GmbH
- Deutsche Post Direkt GmbH
- Deutsche Post Technischer Service GmbH
- DHL Airways GmbH
- European Air Transport Leipzig GmbH
- DHL Hub Leipzig GmbH
- Williams Lea Deutschland GmbH
- Williams Lea Inhouse Solutions GmbH
- Williams Lea Direct Marketing Solutions GmbH
- Williams Lea Document Solutions GmbH
- Williams Lea Print Solutions GmbH

55 Declaration of Conformity with the German Corporate Governance Code

On 13 December 2007, the Board of Management and the Supervisory Board of Deutsche Post AG together published the Declaration of Conformity with the German Corporate Governance Code for financial year 2007 required by Section 161 of the *Aktengesetz* (AktG – German stock corporation act).

The Board of Management and the Supervisory Board of Deutsche Postbank AG, whose financial statements are included in the consolidated financial statement of Deutsche Post AG, made the Declaration of Conformity on 30 November 2007. The Declarations of Conformity can be accessed on the Internet at www.corporate-governance-code.de and on the homepage at www.dpwn.com and/or www.postbank.com.

56 Significant events after the balance sheet date

Deutsche Postbank Group intends to sell the credit card and sales financing business of BHW Bank AG to Landesbank Berlin (Note 34) in January 2008.

Deutsche Post World Net and Hewlett-Packard Services (HP) signed a letter of intent in January 2008 with the aim of delegating responsibility for parts of the world-wide IT activities of Deutsche Post World Net to

HP Services. Pursuant to the planned agreement Deutsche Post World Net expects to save costs of at least €1 billion over a period of seven years. This cost reduction is to be achieved on the one hand by reducing general IT costs. On the other hand, IT resources required to manage own business and to render customer services are intended to be used more efficiently. The parties are confident that a binding agreement will be signed by the middle of 2008. HP would then take over the approximately 2,500 employees who are currently providing services for the IT centres of Deutsche Post World Net – including information and data management, infrastructure and networking management as well as application management. The IT locations affected are Prague (Czech Republic), Scottsdale (Arizona, USA), Cyberjaya (Malaysia) and locations in some European countries.

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

57 Auditors' fees

The following fees for services rendered by the auditor of the consolidated financial statements, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, in financial year 2007 and in the preceding financial year, were recognised as expense:

€m	2006	2007
Audits of the financial statements	14.2	13.7
Other assurance or valuation services	3.5	5.9
Tax advisory services	0.4	0.3
Other services	7.6	4.6
Auditors' fees	25.7	24.5

58 Miscellaneous

DHL Exel Supply Chain Hong Kong intends to acquire the remaining 50% interest in its joint venture Exel-Sinotrans Freight Forwarding from Sinotrans Air Transportation Development in financial year 2008.

59 Additional information: Consolidated financial statements including the Deutsche Postbank Group at equity

In addition to the consolidated financial statements with their full inclusion of Deutsche Postbank Group, consolidated financial statements were prepared including the Deutsche Postbank Group at equity, since the activities of the Deutsche Postbank Group differ substantially from the ordinary activities of the other companies in Deutsche Post World Net. Deutsche Postbank Group was excluded from full consolidation in the following consolidated financial statements as at 31 December 2007. The Deutsche Postbank Group is accounted for in these supplemental financial statements only as a financial investment carried at equity. The accounting treatment in these financial statements differs from the standards required by the IFRSs to the extent that the Deutsche Postbank Group was not fully consolidated, as required by IAS 27, but was accounted for at equity.

The following tables show the reconciliation of the financial statements of Deutsche Post World Net to those of Deutsche Post World Net including Postbank at equity. Transactions between the Deutsche Postbank Group and the other Group companies are generally included in the financial statements.

Explanations to the reconciliation of the income statement

As the starting point of the reconciliation of the income statement, column 1 contains the data for Deutsche Post World Net including the fully consolidated Deutsche Postbank Group.

Column 2 contains the IFRS income statement of the Deutsche Postbank Group that has been excluded from the overall financial statements here. The income statement of the Deutsche Postbank Group shown here in the standard commercial and industrial format includes all transactions for the provision of goods and services entered into with the rest of Deutsche Post World Net.

The intra-Group relationships recognised in the income statement between the Deutsche Postbank Group and the rest of Deutsche Post World Net that were eliminated during the transition to the overall Group are reincluded in column 3. In particular, these relate to the counter services provided by Deutsche Post AG for the Deutsche Postbank Group.

Column 4 contains the interest of Deutsche Post AG in the net profit for the period of the Deutsche Postbank Group. Column 5 contains the data for Deutsche Post World Net including Postbank at equity.

Explanations to the reconciliation of the balance sheet

As the starting point of the reconciliation of the balance sheet, column 1 contains the data for Deutsche Post World Net including the fully consolidated Deutsche Postbank Group.

Column 2 contains the IFRS balance sheet of the Deutsche Postbank Group that is excluded from the overall financial statements here. The balance sheet of the Deutsche Postbank Group shown here in the standard commercial and industrial format includes all transactions for the provision of goods and services entered into with the rest of Deutsche Post World Net.

The intra-Group relationships between the Deutsche Postbank Group and the rest of Deutsche Post World Net that were eliminated during the transition to the overall Group are reincluded in column 3.

Column 4 contains the investments in the Deutsche Postbank Group reported under non-current financial assets and measured at equity. Column 5 contains the data for Deutsche Post World Net including Postbank at equity.

Cash flow disclosures

The cash flow statement including Postbank at equity is based on the consolidated financial statements including Postbank at equity. This means that the cash flows of Deutsche Postbank Group are eliminated, but the cash flows between Deutsche Post World Net and Deutsche Postbank Group are reincluded. In addition, net income from the measurement of Deutsche Postbank Group at equity is included as non-cash income in net cash from operating activities. The dividend paid by Deutsche Postbank AG to Deutsche Post AG is included in cash flows from investing activities. All other items are treated in the same way as in the consolidated cash flow statement. Further disclosures relating to the cash flow statement can be found in Note 47.

59.1 Additional information: Reconciliation of the income statement (Postbank at equity)

€m	(1)	(2)	(3)	(4)	(5)	
	Deutsche Post World Net	Deutsche Postbank Group	Consolidation of income and expense and inter-company balances	Other	Deutsche Post World Net (Postbank at equity)	Deutsche Post World Net (Postbank at equity)
	2007	2007	2007	2007	2007	2006
Revenue	63,512	-10,344	875	0	54,043	51,939
Other operating income	2,586	-477	234	0	2,343	2,295
Total operating income	66,098	-10,821	1,109	0	56,386	54,234
Materials expense	-36,875	7,061	-889	0	-30,703	-28,928
Staff costs	-18,471	1,311	-9	0	-17,169	-17,301
Depreciation, amortisation and impairment losses	-2,357	161	0	0	-2,196	-1,601
Other operating expenses	-5,193	1,219	-211	0	-4,185	-3,805
Total operating expenses	-62,896	9,752	-1,109	0	-54,253	-51,635
Profit or loss from operating activities (EBIT)	3,202	-1,069	0	0	2,133	2,599
Net income from associates	3	0	0	0	3	4
Net income from measurement of Deutsche Postbank Group at equity	0	0	0	435	435	663
Other financial income	998	-7	104	-103	992	189
Other finance costs	-2,011	72	-1	0	-1,940	-1,159
Net other finance costs	-1,013	65	103	-103	-948	-970
Net finance costs	-1,010	65	103	332	-510	-303
Profit before income taxes	2,192	-1,004	103	332	1,623	2,296
Income tax expense	-307	134	0	0	-173	-315
Consolidated net profit for the period	1,885	-870	103	332	1,450	1,981
attributable to						
Deutsche Post AG shareholders	1,389	-869	103	766	1,389	1,916
Minorities	496	-1	0	-434	61	65

59.2 Additional information: Reconciliation of the balance sheet (Postbank at equity)

€m	(1)	(2)	(3)	(4)	(5)	Deutsche Post World Net (Postbank at equity) 31 Dec. 2006
	Deutsche Post World Net	Deutsche Postbank Group	Consolidation of inter-company balances	Other	Deutsche Post World Net (Postbank at equity)	
	31 Dec. 2007	31 Dec. 2007	31 Dec. 2007	31 Dec. 2007	31 Dec. 2007	
ASSETS						
Intangible assets	14,226	-2,425	0	991	12,792	13,138
Property, plant and equipment	8,754	-928	0	0	7,826	8,446
Investment property	187	-72	0	0	115	50
Investments in associates	203	0	0	0	203	63
Investments in Deutsche Postbank Group	0	0	0	1,662	1,662	1,611
Other non-current financial assets	857	-103	0	0	754	829
Non-current financial assets	1,060	-103	0	1,662	2,619	2,503
Other non-current assets	497	0	0	0	497	376
Deferred tax assets	1,020	-483	0	0	537	298
Non-current assets	25,744	-4,011	0	2,653	24,386	24,811
Inventories	248	0	0	0	248	268
Income tax assets	312	-117	0	0	195	195
Receivables and other assets	9,806	-961	532	0	9,377	8,808
Receivables and other securities from financial services	193,986	-193,986	0	0	0	0
Financial instruments	72	2	0	0	74	42
Cash and cash equivalents	4,683	-3,352	8	0	1,339	1,761
Non-current assets held for sale	615	-565	0	0	50	56
Current assets	209,722	-198,979	540	0	11,283	11,130
Total assets	235,466	-202,990	540	2,653	35,669	35,941
EQUITY AND LIABILITIES						
Issued capital	1,207	-410	0	410	1,207	1,202
Other reserves	875	-485	0	485	875	1,528
Retained earnings	8,976	-4,412	0	4,412	8,976	8,490
Equity attributable to Deutsche Post AG shareholders	11,058	-5,307	0	5,307	11,058	11,220
Minority interest	2,801	-2	0	-2,653	146	128
Equity	13,859	-5,309	0	2,654	11,204	11,348
Provisions for pensions and other employee benefits	5,989	-1,143	0	0	4,846	5,019
Deferred tax liabilities	1,569	-1,102	0	0	467	452
Other non-current provisions	3,015	-942	0	0	2,073	2,243
Non-current provisions	10,573	-3,187	0	0	7,386	7,714
Non-current financial liabilities	8,625	-4,963	160	0	3,822	3,495
Other non-current liabilities	361	0	4	0	365	242
Non-current liabilities	8,986	-4,963	164	0	4,187	3,737
Non-current provisions and liabilities	19,559	-8,150	164	0	11,573	11,451
Income tax provisions	334	-121	0	0	213	155
Other current provisions	1,703	-23	0	0	1,680	1,616
Current provisions	2,037	-144	0	0	1,893	1,771
Current financial liabilities	1,556	-642	242	0	1,156	1,948
Trade payables	5,384	-173	0	0	5,211	4,930
Liabilities from financial services	187,787	-187,787	0	0	0	0
Income tax liabilities	139	0	0	0	139	101
Other current liabilities	5,101	-741	134	-1	4,493	4,375
Liabilities associated with non-current assets held for sale	44	-44	0	0	0	17
Current liabilities	200,011	-189,387	376	-1	10,999	11,371
Current provisions and liabilities	202,048	-189,531	376	-1	12,892	13,142
Total equity and liabilities	235,466	-202,990	540	2,653	35,669	35,941

59.3 Additional information: Cash flow statement (Postbank at equity)

€m	2006 restated ¹⁾	2007
Net profit before taxes	2,296	1,623
Net finance cost excluding net income from measurement at equity	966	945
Net income from measurement at equity	-663	-435
Profit from operating activities (EBIT)	2,599	2,133
Depreciation/amortisation of non-current assets	1,601	2,196
Net income from disposal of non-current assets	-174	-226
Non-cash income and expense	115	47
Change in provisions	-1,055	-877
Change in other assets and liabilities	-19	-146
Taxes paid	-251	-278
Net cash from operating activities before changes in working capital	2,816	2,849
Changes in working capital		
Inventories	-54	10
Receivables and other assets	-824	-657
Liabilities and other items	240	606
Net cash from operating activities	2,178	2,808
Proceeds from disposal of non-current assets		
Divestitures	239	62
Other non-current assets	925	756
	1,164	818
Cash paid to acquire non-current assets		
Investments in companies	-440	-334
Other non-current assets	-1,813	-2,009
	-2,253	-2,343
Interest received	86	514
Postbank dividend	137	103
Current financial instruments	-5	0
Net cash used in investing activities	-871	-908
Change in financial liabilities	272	-757
Dividend paid to Deutsche Post AG shareholders	-836	-903
Dividend paid to other shareholders	-37	-56
Issuance of shares under stock option plan	124	73
Interest paid	-399	-660
Net cash used in financing activities	-876	-2,303
Net change in cash and cash equivalents	431	-403
Effect of changes in exchange rates on cash and cash equivalents	-38	-46
Change in cash and cash equivalents due to changes in consolidated group	-16	27
Cash and cash equivalents at 1 January	1,384	1,761
Cash and cash equivalents at 31 December	1,761	1,339

1) Prior-period amounts restated in accordance with the consolidated financial statements.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bonn, 15 February 2008

The Board of Management



Dr Klaus Zumwinkel



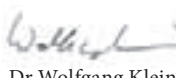
Dr Frank Appel



John Allan



Jürgen Gerdes



Dr Wolfgang Klein



John P. Mullen



Walter Scheurle

Auditor's Report

We have audited the consolidated financial statements prepared by the Deutsche Post AG, Bonn, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 15 February 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Brebeck
Wirtschaftsprüfer
(German Public Auditor)

Klaus-Dieter Ruske
Wirtschaftsprüfer
(German Public Auditor)