

## FINANCIAL POSITION AND ASSETS AND LIABILITIES

### Principles and aims of financial management

#### Principles

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

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

#### Aims


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

#### Cash and liquidity management

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

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

### Managing market risk

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

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### Group financing

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

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

### Guarantees and letters of support

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

### Creditworthiness of the Group

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

#### Ratings

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

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

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

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

Detailed analyses by the rating agencies and full information on the rating categories are contained on our [i](#) website.

## Liquidity and sources of funds

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

### Financial liabilities, 2007 (Postbank at equity)

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

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

**i** Note 42

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

**i** Group financing, page 39

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

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

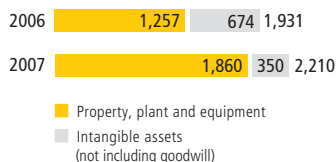
As regards financing business, two transactions stood out in 2007:

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

## Capital expenditure

### Capital expenditure

€m



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

### Capex and depreciation

€m

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

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

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

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

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

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

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

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

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

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

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

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

## Cash flow disclosures (Postbank at equity)

### Selected cash flow indicators (Postbank at equity)

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

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

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

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

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


### Free cash flow €m


2006	1,307
2007	1,900

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

## Assets and liabilities

### Consolidated balance sheet

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

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

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

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

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

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

### Selected indicators for the "Postbank at equity" scenario

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

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

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

### Selected indicators for net assets (Postbank at equity)

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

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

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