Building on our strategic strengths

Annual Report 2006

Deutsche Post World Net

MAIL EXPRESS LOGISTICS FINANCE

2006

What we achieved:

The Group improved its operating performance, increasing revenue by 35.8% to €60.5 billion and earnings by 2.9% to €3.87 billion, largely thanks to the successful integration of Exel into its logistics business and of BHW into the Postbank Group. We have combined all freight forwarding activities by air, sea and, in Europe, also over land in the LOGISTICS Division, focused the EXPRESS Division increasingly on the growing international business, and placed each segment under a central management.

What we plan to achieve in 2007:

At the start of 2007, the First Choice program was launched throughout the Group. Our aim is to establish customer focus within our company in such a way that it generates profitable organic growth. In the mail business, we plan to gain a foothold in important markets around the globe, relying increasingly on value-added services. The integration of Exel is to be completed as successfully as it has begun.

Key figures for the Group

		2005 restated	2006	+/–%
Revenue	€m	44,594	60,545	35.8
of which generated abroad	€m	22,150	35,716	61.2
Profit from operating activities (EBIT)	€m	3,764	3,872	2.9
Consolidated net profit[1]	€m	2,235	1,916	–14.3
Operating cash flow (Postbank at equity)	€m	1,715	2,178	27.0
Net debt (Postbank at equity)	€m	4,193	3,083[2]	–26.5
Earnings per share	€	1.99	1.60	–19.6
Dividend per share	€	0.70	0.75[3]	7.1
Number of employees	headcount	502,545	520,112	3.5

1) Consolidated net profit excluding minorities.
2) Adjusted for financial liabilities to Williams Lea minority shareholders.
3) To be proposed to the AGM.

Title

Our aim is not only to be the biggest logistics company worldwide, but also the best. We are building on our strategic strengths to achieve this. Relying on innovative offerings, the personal commitment of our employees and a global network, we are creating the basis for continued growth on the highly competitive logistics market.

Please open here >

The Group

Deutsche Post World Net is the global market leader for logistics. Our Deutsche Post, DHL and Postbank brands stand for a wide range of services for managing and transporting mail, goods and information. Some 500,000 employees in more than 220 countries and territories provide superior logistics services to help our customers be even more successful in their markets.

Deutsche Post World Net
MAIL EXPRESS LOGISTICS FINANCE

MAIL

Deutsche Post

- Europe's largest postal company
- Leading the field in quality and automation
- Business with value-added services expanded

www.deutschepost.com

EXPRESS

DHL

- Europe's largest provider of courier, express, and parcel services
- Market leader in the Asia Pacific region and the Emerging Markets
- Third largest provider of international express services in the USA

www.dhl.com

MAIL	2006
Workforce[1]	129,922
Private customers	over 39 million
Business customers	3 million
National items transported[2]	over 70 million
Transit time (D+1)[3]	over 95%
International items transported	7,124 million
Production facilities	129

1) FTEs on the reporting date.
2) Average per working day.
3) Proportion of all letters in Germany reaching their recipient the next day after posting.

EXPRESS	2006
Workforce[1]	124,280
DHL international	
Countries and territories	over 220
Hubs	36
Bases	4,700
Vehicles	72,000
Aircraft[2]	420
DHL in Germany	
Parcel centers	33
Packstations	over 720

1) FTEs on the reporting date.
2) Operating for DHL.

Cross-references and websites

LOGISTICS

DHL

- Number one in air and ocean freight worldwide
- Global market leader in contract logistics
- Number two in European overland transport

www.dhl.com

FINANCIAL SERVICES

Postbank

- Leading provider of financial services to private customers in Germany
- Bank with the largest mobile sales force
- Technology leader in payment transactions

www.postbank.com

SERVICES

- Group-wide in-house services
- Global Business Services
- Corporate Center
- Deutsche Post retail outlets

www.dpwn.com

LOGISTICS	2006
Workforce[1]	162,706
DHL Global Forwarding	
Countries and territories	220
Branches	640
Air freight volume	4.1 million t
Ocean freight volume	2.4 million TEUs[2]
DHL Exel Supply Chain	
Countries and territories	220
Distribution centers	over 1,400
Warehouse space	3.5 million m²
DHL Freight	
Countries and territories	over 30
Transport volume	40 million t per year

1) FTEs on the reporting date.
2) Twenty-foot equivalent units.

FINANCIAL SERVICES	2006
Workforce[1]	22,570
Customers	14.6 million
Checking accounts	4.7 million
€bn	
Savings volume	58.8[2]
Volume of brokerage accounts	10.5
Private loans	2.4
Corporate customer loans	13.6
Private mortgage lending	62.3

1) FTEs on the reporting date.
2) Including mortgage savings.

SERVICES	2006
Global Business Services	
Workforce[1]	15,943
Procurement volume	€9.5 billion
Real estate	approx. 14,000
Vehicle fleet, Germany	approx. 50,000
Deutsche Post retail outlets	
Workforce[1]	7,929
Retail outlets	12,628
of which own outlets	5,566
of which partner outlets	7,062
Weekly opening hours[2]	42 hours

1) FTEs on the reporting date.
2) Average per outlet.

The Group

Once more, we succeeded in reaching important milestones in 2006. We are focusing on improving our customer orientation and achieving continued organic growth.

Group Management Report

The Group completed the fiscal year as planned and as communicated to the capital markets, generating revenue of €60.5 billion and EBIT of €3.87 billion.

Corporate Governance

We attach particular importance to achieving a sustained increase in enterprise value and to building the trust of investors, customers, and employees in the company's management.

Consolidated Financial Statements

Consolidated net profit declined to €1.92 billion as, among other things, the Group reduced its interest in the Deutsche Postbank Group to 50% plus one share.

Innovations for the success of our customers

RFID is a technology with which objects can be fitted with a microchip that sends information about their current whereabouts to a reading device via electromagnetic waves. Thanks to this 'radio labeling,' large volumes can be easily tagged and shipped. Since the mid-nineties, we have been testing a large number of applications of benefit to our customers: They reduce their warehousing needs, save time and costs and give them the reassurance of always knowing where their goods are at any one time.

Delivering life

Logistics services for healthcare call for particular care. Here, DHL Exel Supply Chain is a highly experienced partner. Which is why the British government has commissioned us to cover the entire supply chain of the National Health Service, leaving it to focus exclusively on the job of providing medical care. It's a move that will save the service around one billion pounds over the next ten years.

Dear Shareholders,

We are both the market leader and a pioneer in our industry, always a step ahead of the competition. And our next mission is not just to be the biggest logistics company in the world, but also the best.

Dr. Klaus Zumwinkel, Chairman of the Board of Management

We are building on our strategic strengths to achieve this goal. As well as size, global reach and our knowledge of the markets, one of these strengths is surely the perseverance with which we have pursued our mission over the years.

Deutsche Post World Net faced three major challenges in 2006: firstly, the integration of Exel; secondly, the reorganization of Postbank after the acquisition of BHW and 850 Deutsche Post retail outlets; and thirdly, the expansion of our international mail business.

The integration of Exel and DHL is the largest project of its kind to date in the logistics industry. Our objective was to merge both companies quickly, efficiently, and without adversely affecting business. I am proud to report that we have succeeded in this endeavor. A particular highlight of this project was the fact that for our logistics business we not only hit our promised revenue target of €20 billion and earnings target of €750 million, but actually exceeded these figures.

Postbank wrapped up its integration project in September, three months earlier than planned.

Our MAIL Division further increased its international reach. Thanks to the acquisition of Williams Lea, the leader in value-added services, we now hold a strong position in that market.

One year before the complete elimination of the mail monopoly, deregulation is a reality we already face. Our earnings target underscores that we are excellently prepared for this challenge. At €2.1 billion, we actually slightly exceeded this target although the number of competitors on the German mail market keeps increasing.

What makes us so different from our competitors? We are among the best postal services in the world. Ninety-five percent of all mail in Germany reaches customers the next day, despite a population of 82 million. We have set a very high bar for other companies to reach.

We have also succeeded in improving the quality of our EXPRESS Division's services. In the past, particularly in the United States, our express services had considerable room for improvement. But my employees did it: Customer satisfaction is up measurably.

Deutsche Post World Net has turned the corner financially. We were able to limit losses from operations in the United States in the second half of 2006. However, the road ahead is still less than smooth and it will take some time before we have attained our goals and met the expectations that others, including you, have set for us.

Our express activities have recently been consolidated under the leadership of John Mullen. In addition, we rolled our European overland transport business, DHL Freight, into our LOGISTICS Division. We can now turn our EXPRESS Division's focus fully toward our growing international business. In Germany, the parcel business is being transferred to the MAIL Division. This will enable us to lower our costs by harnessing synergies.

A new Global Business Services board department is the home for cross-divisional functions, such as procurement and real estate. This approach has already brought initial successes. Strict cost management has resulted in substantial savings and allowed us to make good on our promise early in the year to generate EBIT of €3.9 billion.

Today, we can see that our strategy of focusing on our international logistics and express businesses, as well as the profitable German mail market, was the right one. Revenue growth in the international business and value-added services more than offsets the expected decline in our traditional mail business in Germany. Our company already generates around 60% of revenue outside Germany, with 80% of revenue attributable to activities other than mail services.

We are perfectly poised for the future. No logistics company is as big or as well represented worldwide as Deutsche Post World Net. Financial strength, familiar brands with a clear selling proposition, employees and executives with international expertise, and a global network: Those are our strengths and the pillars on which to build our continued profitable growth.

We have set ambitious targets for 2007 and beyond. I would like to outline three of the most important here.

First of all, we aim to be not only the biggest, but also the best company in our industry. To make this happen, we launched the First Choice program in order to focus our business even more on our customers and commit all our employees to this goal.

Secondly, we aim to consolidate our express activities. Quality is also an important driver of this business. On the intensely competitive US market, the personal touch is key in every single customer contact. In addition, we are continuing to expand our network infrastructure. One milestone in this effort will be the commissioning of the European air hub in Leipzig.

And thirdly, after acquiring numerous companies in recent years, we plan to focus on organic growth and attracting new customers in the future.

Our company was successful in 2006. And as you know, we like to share our success. I will therefore propose a dividend of €0.75 per share to you at the Annual General Meeting in May, a full 7.1% above last year's already healthy dividend.

Sustainable business practices are also a key part of our Group's strategy. Our Code of Conduct, which was introduced throughout the Group in the past year, stipulates important guidelines for conduct for our approximately 500,000 employees around the globe. And you hold an example of our sustainable approach to business in your hand: This annual report is the first we have printed entirely on recycled paper.

I would like to thank all those who believe in our strengths and assure you that in the coming year we will again make every effort to increase the quality of our services and sustain the value of your investment.

Yours sincerely,
Dr. Klaus Zumwinkel
Chairman of the Board of Management

Deutsche Post Stock

Thanks to the good macroeconomic situation, the equity markets again recorded substantial price gains in 2006. The DAX reached the 6,500 mark again for the first time.

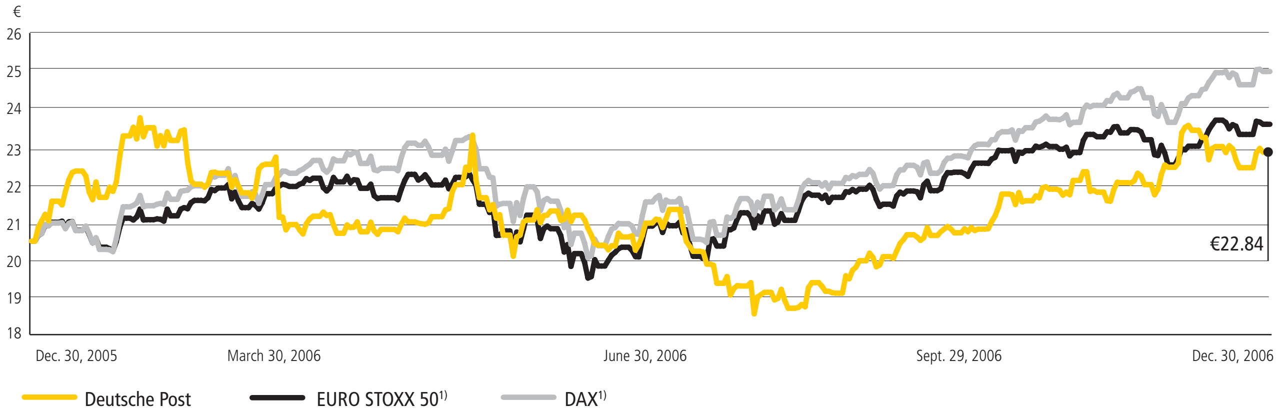
Over the course of the year, our shares rose by around 12%. They were particularly popular in the United States and the United Kingdom: 57% of our institutional investors are now from these two countries.

Our stock data

		2004	2005	2006	+/–%
Year-end closing price	€	16.90	20.48	22.84	11.5
High	€	19.80	21.23	23.75	11.9
Low	€	14.92	16.48	18.55	12.6
Number of shares	millions	1,112.8	1,193.9[1]	1,202.3[1]	0.7
Market capitalization	€m	18,840	24,425	27,461	12.4
Average trading volume per day	shares	2,412,703	3,757,876	5,287,529	40.7
Annual performance with dividend	%	6.4	24.1	14.9	
Annual performance excluding dividend	%	3.4	21.2	11.5	
Beta factor[2]		0.84	0.75	0.80	6.7
Earnings per share[3]	€	1.44	1.99	1.60	–19.6
Cash flow per share[4]	€	2.10	3.23	3.28	1.5
Price/earnings ratio[5]		11.7	10.3	14.3	38.8
Price/cash flow ratio[4, 6]		8.1	6.4	7.0	9.4
Dividend	€m	556	836[1]	902[7]	7.9
Payout ratio	%	34.8	37.4	47.1	
Dividend per share	€	0.50	0.70	0.75[7]	7.1
Dividend yield	%	3.0	3.4	3.3	

1) Increase due to exercise of stock options, see Note 36.
2) From 2006: Beta 3 years; source: Bloomberg.
3) Based on consolidated net profit excluding minorities, see Note 21.
4) Cash flow from operating activities.
5) Year-end closing price/earnings per share.
6) Year-end closing price/cash flow per share.
7) To be proposed to the AGM.

Deutsche Post stock



1) Rebased to the closing price of Deutsche Post stock on December 30, 2005.

Closing prices on the last trading day

		2005	2006	+/–%
Deutsche Post	€	20.48	**22.84**	11.5
TNT	€	26.40	**32.58**	23.4
FedEx	US$	103.39	**108.62**	5.1
UPS	US$	75.15	**74.98**	–0.2

Stock prices surge ahead

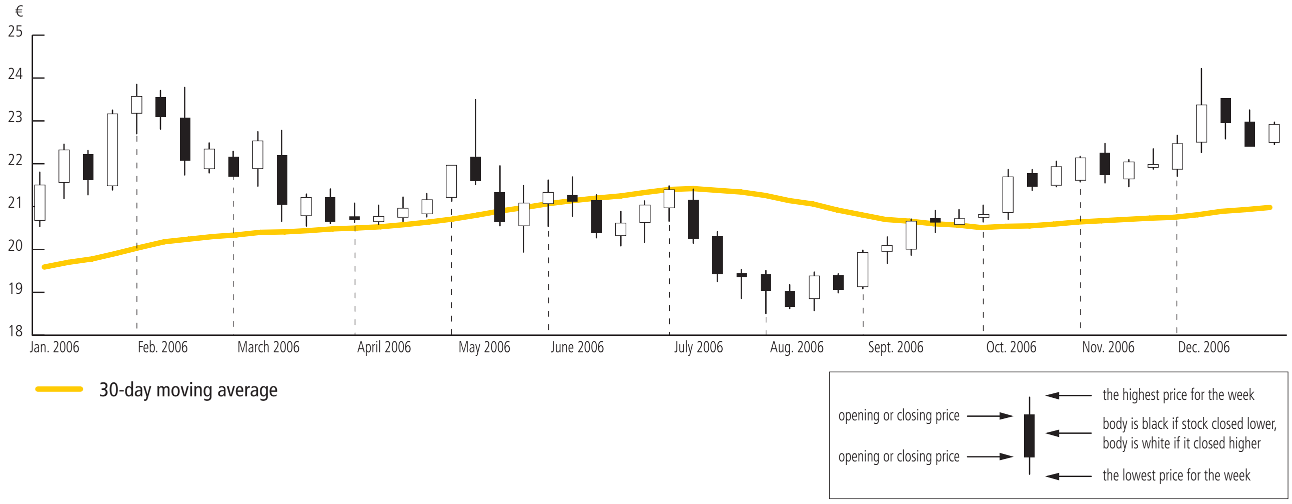
The capital markets continued their upward trend in 2006. After a good start to the year, this trend was slowed from mid-May by the uncertain outlook for the economy – notably in the US – and by fears of interest rate rises. Sentiment then recovered in the second half-year thanks to the sustained strength of the world economy and positive impetus from the labor market. Once again, Germany's DAX index topped the 6,500 mark and gained 22% over the year, comfortably beating the 15% rise in the EURO STOXX 50.

Our stock tracked the positive market trend for the first few weeks but came under pressure after publication of the annual results on February 15. The stock price briefly peaked again in the run-up to the Annual General Meeting on May 10 before easing back – in line with the market – to its August 15 low point for the year of €18.55. After that, however, the Deutsche Post stock price rose steadily and closed December at €22.84. This represents an 11.52% gain in value on the beginning of the year.

i http://investors.dpwn.com

The average trading volume on the German Xetra trading system was 5,287,529 shares – an increase of 40.7% on the prior year. A total return calculator is available on our i website, allowing you to determine how much profit your shares have actually made including dividend payments.

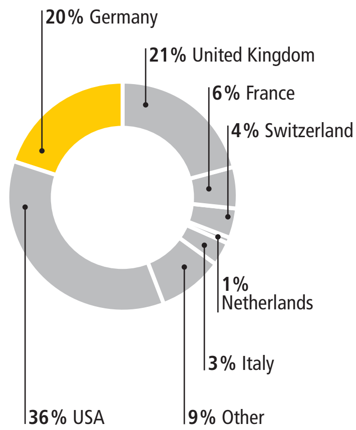
Candlestick graph/30-day moving average



Share of foreign investors growing

Our shareholder structure underwent a significant change in 2006. Free float rose again as a result of the disposal of further shares by KfW. The regional distribution also changed: The share of investors in English-speaking countries rose significantly, both as a percentage and in absolute terms. 57% of institutional investors are now from the United States and the United Kingdom, with Germany only accounting for 20%.

Regional distribution of identified institutional investors



Source: Thomson Financial, December 2006

Targeted communication with capital markets

As in previous years, we kept up our intensive communication with the capital markets in 2006. Attention in the second half of the year focused on the EXPRESS and LOGISTICS Divisions, for each of which we held an investors' day in December. A year after the Exel takeover, John Murray Allan and his team presented themselves, their strategy and achievements to date. John P. Mullen outlined his expanded area of responsibility, encompassing the entire EXPRESS segment. Both events were broadcast live and are available in recorded form on our website.

Change in reporting

We have restructured our report this year in line with new statutory requirements. Information on dividend and equity changes and on our ownership structure is now contained in the i Group Management Report. The outcomes of this year's Annual General Meeting are covered in the i Corporate Governance section.

i Pages 43 and 53
i Page 94f

Milestones of the Year

DHL secures a partnership with Polar Air Cargo, gaining long-term access to the routes between Asia and the USA.

DHL Global Mail expands its cooperation with Yamato and is the first foreign company to operate in the Japanese mail market.

DHL is building one of the three most important hubs of its network in Leipzig. (Germany's Chancellor Dr. Angela Merkel and Dr. Klaus Zumwinkel)

Acquisitions and disposals

January Postbank acquires home loan specialist BHW, which makes it the leading financial services provider for private customers in Germany.

March Deutsche Post World Net sells the courier company Marken to the financial investor 3i.

Deutsche Post acquires a majority stake in the British company Williams Lea, the world's leading provider of corporate information solutions.

August DHL submits an offer for the remaining 19% of the shares in Blue Dart Express to completely take over this Indian express service provider.

October DHL acquires a 49% interest in Polar Air Cargo Worldwide. The agreement signed has a term of 20 years and guarantees DHL long-term access to air freight capacities on trans-Pacific routes.

November Williams Lea takes over The Stationery Office, the market leader in public-sector printing services and document management in the UK.

Partnerships and joint ventures

March DHL Global Mail expands its partnership with Yamato and now offers a full range of direct marketing services in the Japanese market.

May DHL signs a seven-year agreement to become the leading logistics supplier for the parts supply chain of the international IT specialist Unisys.

June DHL will handle the entire logistics operations for the home shopping channel HSE24. The state-of-the-art logistics center commissioned for this purpose in Greven, Germany, can ship up to 40,000 parcels a day.

DHL signs a five-year contract with EMI Music France to provide the entire logistics for that company's European CD and DVD business as well as promotional materials for retail stores.

September DHL signs a ten-year deal with the National Health Service in the UK to handle the ongoing procurement of some 500,000 products as well as take on the logistics for 600 hospitals and service providers under the name NHS Supply Chain.

November DHL Exel Supply Chain offers a new service in Australia for direct deliveries to pharmacies so that people living in even the remotest areas can be provided with pharmaceuticals within 24 hours.

The Supervisory Board elects Dr. Jürgen Weber as its new Chairman, following the Annual General Meeting on May 10, 2006.

Deutsche Post World Net joins the UN Global Compact. (Kofi Annan and Dr. Monika Wulf-Mathies)

The Group combines all of its forwarding activities by air, sea and, in Europe, also by land in its LOGISTICS Division.

Products and services

May To continue its growth in Russia, DHL plans onsite investments of around US$250 million over the next four years in infrastructure, products, technologies, and employees.

July DHL lowers parcel prices in Germany and reduces the number of weight classes from three to two, making parcel shipments even more attractive for private customers.

September Williams Lea opens a 6,500m² center for mail and document solutions in Norwich in the UK with an approximately 400-strong workforce.

October The topping-out ceremony takes place at DHL's new European air hub at Leipzig/Halle airport. With a total area of some 48,000m², the distribution center scheduled to go into operation in 2008 will generate approximately 3,500 jobs by 2012.

November Postbank takes on HypoVereinsbank payment transactions, thus expanding its market leadership position in this segment.

December Deutsche Post merges its national mail and parcel business. This will allow us to optimize internal workflows and further enhance service quality.

Group milestones

May Deutsche Post AG and ver.di agree to a 3% increase in wages and salaries to be implemented between November 2006 and October 2007, and a further 2.5% by April 2008.

The Annual General Meeting approves a dividend of €0.70 per share for 2005, which represents a 40% increase on the previous year and more than one-third of consolidated net profit. The Supervisory Board elects Dr. Jürgen Weber as its new Chairman.

July The strong performance of Postbank stock prompts Deutsche Post to redeem the exchangeable bond on Postbank stock before maturity. A total of 27.3 million shares are converted, reducing the share of Deutsche Post in Postbank to 50% plus one share.

Deutsche Post World Net joins the UN Global Compact which works to promote globalization in line with social and environmental principles.

KfW Bankengruppe sells 63.6 million Deutsche Post shares. Including the greenshoe, this transaction increases the number of freely tradeable shares by 73.1 million and the share of Deutsche Post stock in free float from 58% to 65.9%.

September The Group transfers its European overland transport business, DHL Freight, from the EXPRESS to the LOGISTICS Division.

The personal commitment of our people

We regard the international reach of the Group and the diversity of its staff as our most valuable asset. Every day, over half a million people learn with and from one another, drawing on their different strengths and skills to deliver shared service excellence.

Group Management Report

Individual strengths

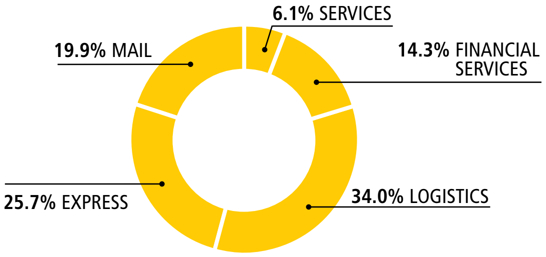
For us, every idea counts. The in-house "Thinkers' Club" has been in existence for six years. Its aim is to promote the exchange of ideas among employees and jointly develop new approaches. Ralph Müller, engineer at the mail center in Elmshorn, has been a member since the club's inception and has already submitted a wealth of award-winning ideas. His prototype for a drive shaft for large-scale sorting facilities which is less prone to malfunction is meanwhile being used in all mail distribution centers.

Group Management Report

Key figures		2005 restated	2006	+/–%
The Group				
Revenue	€m	44,594	60,545	35.8
Profit from operating activities (EBIT)	€m	3,764	3,872	2.9
Return on sales[1]	%	8.4	6.4	
MAIL				
Revenue	€m	12,878	13,286	3.2
Profit from operating activities (EBIT)	€m	2,030	2,054	1.2
Return on sales[1]	%	15.8	15.5	
EXPRESS				
Revenue	€m	16,831	17,195	2.2
Profit from operating activities (EBIT)	€m	–23	325	–[2]
Return on sales[1]	%	–0.1	1.9	
LOGISTICS				
Revenue	€m	9,933	22,739	128.9
Profit from operating activities (EBIT)	€m	346	762	120.2
Return on sales[1]	%	3.5	3.4	
FINANCIAL SERVICES				
Revenue	€m	7,089	9,593	35.3
Profit from operating activities (EBIT)	€m	863	1,004	16.3
SERVICES				
Revenue	€m	3,874	4,048	4.5
Profit or loss from operating activities (EBIT)	€m	679	–237	–[2]
Consolidation				
Revenue	€m	–6,011	–6,316	–5.1
Loss from operating activities (EBIT)	€m	–131	–36	72.5
Other key figures				
Consolidated net profit[3]	€m	2,235	1,916	–14.3
Operating cash flow (Postbank at equity)	€m	1,715	2,178	27.0
Net debt (Postbank at equity)	€m	4,193	3,083[4]	–26.5
Return on equity (ROE) before taxes	%	28.7	21.6	
Earnings per share	€	1.99	1.60	–19.6
Dividend per share	€	0.70	0.75[5]	7.1
Number of employees	headcount	502,545	520,112	3.5

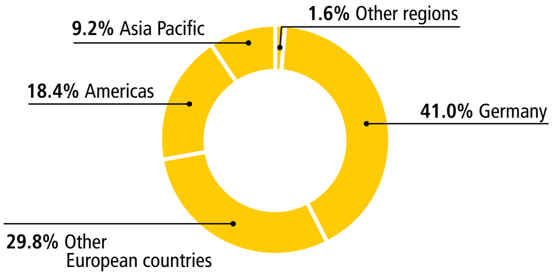
1) EBIT/revenue.
2) n/a.
3) Consolidated net profit excluding minorities.
4) Adjusted for financial liabilities to Williams Lea minority shareholders.
5) To be proposed to the AGM.

Revenue by segment[1]



1) Excluding consolidation.

Revenue by region



Contents

Contents

Business and Environment

"In recent years, the Group has built up a unique platform on which to support its customers worldwide with services in the management and transportation of mail, goods and information. Between 2006 and 2009, we have set our sights on using this platform even more effectively and profitably. The lever by which we aim to achieve it: quality!"

Dr. Klaus Zumwinkel, Chairman of the Board of Management

Strategic strengths

Customers

First Choice

Most of our business is network-driven. The structure, reach, and cost of a network are driven by the targeted level of service quality, while its profitability depends on capacity utilization. Profitability is good when operating business grows. In turn, growth can only be achieved through outstanding service geared to the needs of our customers. Hence, the aim of our Group-wide First Choice program is to establish customer focus within our company in such a way that it generates profitable organic growth.

We aim systematically to improve our performance and to use it as a tool to foster even greater loyalty among our customers. In preparation, we conducted a number of pilot projects in 2006. At the start of 2007, the program was launched throughout the Group: In the next two years, it will encompass over 5,000 individual projects focused exclusively on improving our quality even further.

In 2007, we will introduce the program within the Group, support it with effective communications and foster our employees' commitment to it. The goal is to provide first-class services in all key areas in which we are in contact with our customers, thus enhancing our Deutsche Post, DHL and Postbank brands and boosting our performance.

Employees

Dedicated employees

Above all, the program will mobilize our over 500,000 employees. It is designed to embed customer focus deep into our corporate mindset and will as a result have a lasting impact on the way we do business.

In the service industry, the conduct and attitude of employees determine the success of a company's business. For this reason, we have devised special training programs in which employees at all levels will take part. We aim to bring home to them our aspiration of not just meeting customers' expectations, but actually exceeding them. Alongside intensive training courses, the program comprises a Group-wide rewards and incentive system.

Networks

Global networks

As a leading logistics service provider, we can achieve benefits for ourselves and our customers by bundling volumes. The resulting economies of scale benefit our customers with shorter transit times and lower unit costs.

Networks have to be adapted to the global flow of goods, the competitive landscape and shifting customer requirements all the time. Here, we pay special attention to the intercontinental air express business – one of the most attractive segments in which we operate. In the coming years, DHL will strengthen its leading position on the route between Europe and Asia and expand overnight delivery between Europe and the USA. In addition, we will boost our transport capacities between Asia and the USA. We took a step toward this goal in the year under review with our stake in Polar Air.

Growth

Organic growth

Globalization is the growth driver in the logistics industry. The elimination of international barriers and customs hurdles coupled with technological advances and falling transaction costs has prompted companies to relocate activities such as procurement and production to those markets which promise competitive advantages. At the same time, they are offering their products and services in more and more countries. This has the effect of boosting global demand for logistics services. Thanks to our strong presence in intercontinental trade as well as in emerging economies – including Asia, Eastern Europe, the Middle East and Latin America – we are able to fully utilize our networks and gain market share.

Yet globalization also has its downside. International companies must face the competitive pressure exerted by new market players and take ever greater risks. In order to meet these challenges, they need a logistics partner with the expertise it takes to operate their value chain reliably and cost-effectively. We believe this can only be achieved by providers with an end-to-end portfolio of services, and we have taken strategic steps to position ourselves accordingly. Since 2004, we have been serving our major customers through a dedicated account management organization, Global Customer Solutions. Our success proves this formula right: An increasing percentage of customers are requesting services from not one but several of our divisions.

Management and organization

Five segments, three brands

Deutsche Post World Net provides national and international services in five divisions under three brand names.

As a German stock corporation, Deutsche Post has a dual management and supervisory structure. The Group is managed by the Board of Management whose members are appointed for a maximum of five years by the Supervisory Board. Members can be reappointed, or their terms extended, by a maximum of five years. The Supervisory Board advises the Board of Management and oversees its management activities. The key features of the remuneration system for the Board of Management and Supervisory Board are shown in the remuneration report. The appointment and dismissal of members of the Board of Management is subject to the provisions of the *Aktiengesetz* (German Stock Corporation Act). Changes to the Articles of Association are adopted by resolution of the Annual General Meeting. Such resolutions require a simple majority of votes cast and a simple majority of the represented share capital. In instances where a majority consisting of three-quarters of the represented share capital is required by law, that majority applies.

Starting on page 96

The Group is subdivided into five divisions. The functions of Group management are performed at the Corporate Center. The divisions are responsible for business operations and constitute the reporting segments as required by International Financial Reporting Standards (IFRSs). They are managed by separate, centralized divisional headquarters.

Deutsche Post World Net

	MAIL	EXPRESS	LOGISTICS	FINANCIAL SERVICES	SERVICES
Division	MAIL	EXPRESS	LOGISTICS	FINANCIAL SERVICES	SERVICES
Brand	Deutsche Post	DHL	DHL	Postbank	
Business unit	• Mail Communication • Direct Marketing • Press Distribution • Value-added Services • Mail International[1]	• Europe • Americas • Asia Pacific • Emerging Markets	• DHL Global Forwarding • DHL Exel Supply Chain • DHL Freight[2]	• Deutsche Postbank AG • Postbank branches • Pension Service[3]	• Global Business Services • Corporate Center • Deutsche Post retail outlets[3]

1) Operates under the DHL Global Mail brand.
2) As of July 1, 2006.
3) Operates under the Deutsche Post brand.

Organizational changes

Following the acquisition of Williams Lea, the MAIL Division was augmented by a divisional board member in charge of international business with corporate information solutions. Our sales force in Germany was reinforced; instead of one divisional board member, there are now three members responsible for sales in the area of key accounts, large businesses and small businesses. The divisional board member in charge of retail outlets is responsible for private customer business. With effect from December 31, 2005 we transferred 850 retail outlets to Postbank.

Since the beginning of 2006, internal services have been grouped within the new SERVICES Division. The new division includes Global Business Services, covering Legal, Insurance, Procurement, Finance Operations, IT Services, Real Estate, Fleet Management, Global Customer Solutions and Business Consulting. Also under the SERVICES umbrella are the Corporate Center and those retail outlets which still belong to Deutsche Post. Reporting is done globally and regionally.

Global management structure streamlined

Following the highly successful integration of Exel in the summer, the Group pooled all air, ocean and land transport business. The European overland transport business was spun off from the EXPRESS Division with effect from July 1, 2006 and transferred to the LOGISTICS Division as a separate business unit DHL Freight. Responsibility for the now expanded logistics segment lies with Board of Management member John Murray Allan. The EXPRESS Division, previously divided into two departments, will now be managed by one Board of Management member, namely John P. Mullen, rather than by two on a shared basis.

Our markets

We operate worldwide and are represented in over 220 countries and territories, including all major economic regions. An overview of our locations can be found on our website.

Global
- Air freight market, value: €19.8bn
- Ocean freight market, value: 22.9m TEUs[1]
- Contract logistics market, value: €179bn
- Cross-border mail market, value: €10bn

As of 2005

1) Twenty-foot equivalent units.
2) Courier, express and parcel services.
3) Company estimates.
4) Including Germany, the UK, France, the Netherlands, Italy, and Spain.

Economic environment

Global economic growth continues

The year 2006, and particularly the first half of the year, was characterized by strong economic growth that extended to all regions of the world. Growth in global economic output, at approximately 5%, was somewhat stronger than a year earlier.

Growth indicators for 2006

%	GDP	Exports	Domestic demand
USA	3.4	8.9	3.2
Japan	2.2	9.7	1.4
China	10.7	27.2	n/a
Euro zone	2.7	8.3 [1]	2.5 [1]
Germany	2.7	12.5	1.6

1) Estimates, as of February 22, 2007.

Source: Postbank Research, national statistics

The US economy was stimulated above all by corporate investments and consumer demand, while investments in housing dropped sharply. Growth in the gross domestic product (GDP), at 3.4%, was slightly higher than in 2005. Foreign trade did not hold back growth as in recent years, but the already high current account deficit reached a new peak of around US$880 billion, or 6.6% of GDP.

Asia remained a reliable driver of economic growth and, in the year under review, posted by far the strongest growth rate of any economic region. Japan's GDP grew by 2.2%, buoyed by a strong rise in exports and increasing domestic demand. China was once more the leader in economic performance, with GDP up by 10.7%, industrial production by 17% and exports actually 27.2% higher than a year earlier.

The upswing also gained momentum in the euro zone where GDP grew at a rate of 2.7% – the strongest rise seen since the boom year of 2000 – driven primarily by a noticeable pick-up in domestic demand, but above all by investments.

In Germany, economic performance exceeded all expectations, with 2.7% growth in total output as well as particularly strong gains in exports (12.5%) and investments (5.6%). There was even a 0.8% rise in consumer spending, although to some extent this is likely attributable to purchases moved forward in anticipation of the value-added tax increase.

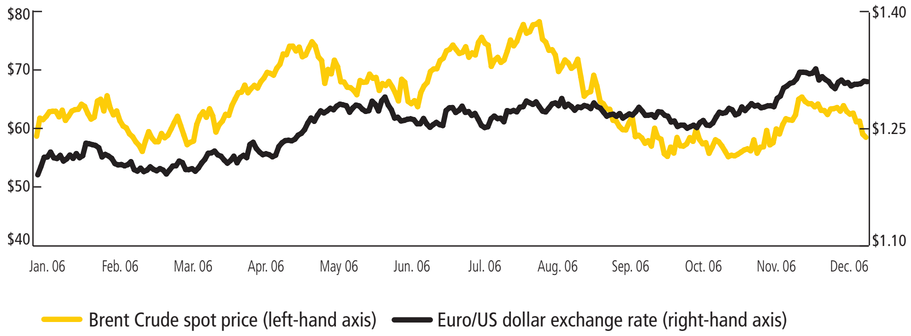
The healthy economy helped the stock markets post strong gains yet again in 2006. Share prices rose in line with corporate profits. The DAX was up 22%, outperforming by a wide margin the EURO STOXX 50 index, which gained 15.1%, and the S&P 500 (13.6%).

On average, long-term interest rates in the euro zone increased by 0.6% over the course of the year, but are still very low in historical terms. Yields in the USA were 0.3% higher at year's end than at the beginning of the year. As a result, the environment for corporate bonds remained favorable.

Prices in the international oil markets continued rising well into 2006, with the price per barrel of Brent Crude hitting a record US$78 in August. Although the prices returned to lower levels over the remainder of the year, the average in 2006 was approximately 20% above the previous year's level.

At the end of 2006, the euro was quoted at US$1.32, representing an increase of 11.5% over the course of the year. The convergence of yields with those of the euro zone and fears of a lengthy economic slowdown led to a substantial decline in the US dollar versus the euro toward the end of the year. Pound sterling posted even stronger gains than the euro against the US dollar.

Brent Crude spot price and euro/US dollar exchange rate



Increased international trade

As the global economy continued to grow in 2006, world trade also expanded, at a rate of 7.25%, according to the economic forecasting institute Global Insight. In the European economies, consumer goods from Asia were in even greater demand than before. The USA continues to labor under enormous fiscal and trade deficits, but remained the world's largest importer. In terms of 1997 commodity prices, China has overtaken Germany to become the world's top exporting nation. This favorable environment has produced positive trends in the express and logistics services markets.

According to a current study by the British consultancy Triangle, customers in Germany are expecting a slowdown in price increases for parcel and express services. In addition, quality has now moved ahead of price in the list of determining factors for choosing a service provider. The national mail market was characterized by intensifying competition in 2006; the direct marketing segment was sluggish. According to Standard and Poor's, the German banking market peaked in the first half of 2006 and then leveled off.

MAIL Division

"We are ideally positioned in Germany with a broad array of mail and parcel services. What's more, we offer innovative solutions for business customers worldwide. I am proud of our global quality leadership and confident that we are fully prepared for the forthcoming liberalization of mail markets in Europe."

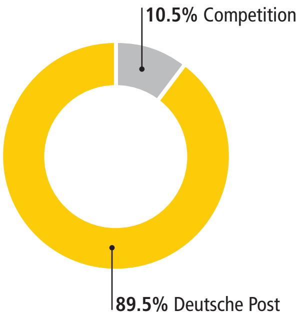
Dr. Hans-Dieter Petram, MAIL

Business units and products

Mail Communication	Direct Marketing	Press Distribution	Value-added Services	Mail International
• Mail products • Special services • Franking • Philately	• Advertising mail • Tailored end-to-end solutions • Special services	• Distribution of newspapers and magazines • Special services	• Corporate communications solutions • Address and document management • Printing and lettershop services • Mailroom services • Outsourcing solutions • Special services	• Import and export of mail • Cross-border mail • Domestic mail services in other countries • Special services

Market share (volume) in mail communication in Germany

Market volume: 9,335 million items



Source: company estimates

Market leader in mail communication

We carry mail products – from standard letters to merchandise – for private and business customers. We also offer special services such as cash-on-delivery and registered mail. Our customers have three options for franking their mail items: the conventional postage stamp, the new Internet postage stamp and, for mass mailings, fully computer-based solutions. Every month, we issue new stamps, printed at the highest quality standards and often elaborately designed. The more than one million collectors (philatelists) who subscribe to these new issues have them delivered postage-paid, including accessories. Since 2006, we have also been marketing and selling German collectors' coins under a contract with the German government.

Over and above our basic products, we develop tailor-made mail solutions for our business customers. In addition, we are broadening our range of services as part of a shift toward a multi-channel communications offering, and are developing solutions for business process outsourcing.

Historically, our mail business is focused in Germany. In the reporting period, the domestic market for mail communication had a total volume of approximately €6.7 billion. This was nearly 3% less than in the previous year, primarily because of the increasing substitution of electronic communication media such as fax, e-mail and text messaging in place of conventional mail. Our key segments and markets – including mail-order and financial services – have not yet been able to benefit from the stronger domestic economy. At the same time, competition has intensified. These two factors resulted in a slight decline in our market share; however, it still remains at approximately 90%. The mail market is still regulated, as we describe in the risk report.

Starting on page 65

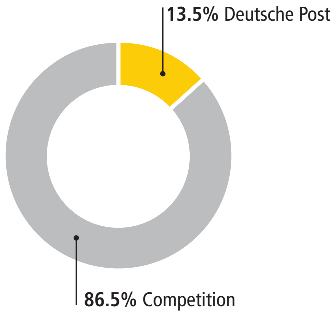
Solutions for direct customer dialog

With conventional direct marketing instruments, we support our business partners in targeted communications with their clients. We provide sophisticated IT solutions that enable companies to handle mailshots easily while optimizing postage costs. In addition, we have developed cross-media customer dialog solutions. In everyday operations, we implement end-to-end advertising campaigns for our customers or provide them with individual components. We offer a full range of services, starting with consulting and concept development geared to the needs of target groups, all the way to media planning and buying as well as the production and dispatch of advertising materials. We support these activities with market research to document the impact of the campaigns. In this way, we combine dialog marketing with conventional advertising.

2006 is the first year that our relevant market sector – direct marketing in the narrower sense, i.e. advertising mailings, telephone and e-mail marketing – showed a slight decline in volume, at €20.5 billion. We were able to maintain our market share of around 14%.

Market share (revenue) in direct marketing

Market volume: €20.5 billion



Source: company estimates

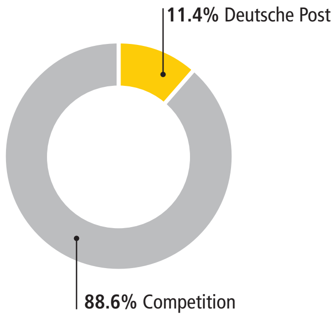
Nationwide distribution of newspapers and magazines

We deliver newspapers and magazines nationwide and on the day specified by the customer. In our Press Distribution Business Unit, we offer two product groups. The preferred periodicals segment is traditionally used by publishers to mail subscribed publications, while standard periodicals are used for distribution purposes primarily by companies that publish customer magazines to advertise their products and services. Special services include the electronic updating of addresses as well as complaint management and quality management.

According to market studies, the total volume of the press distribution market amounted to 18.2 billion items in the year under review, down 1% compared with the previous year. Increases in the segment of program listing magazines enabled us to offset decreases, particularly in the area of daily newspapers, so that we maintained our 11.4% market share. An overall trend is evident toward heavier items and thus higher average prices.

Market share (volume) in press distribution

Market volume: 18.2 billion items



Source: company estimates

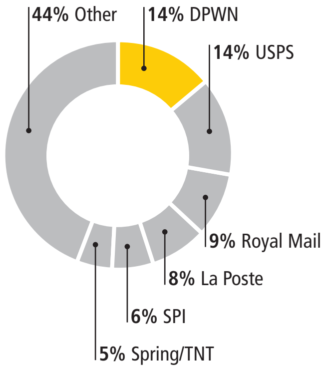
Leader in international value-added services

Companies need to process and transfer large quantities of documents and data every day. The management of their business processes is becoming increasingly complex – particularly when they do business at an international level. Following the acquisition of Williams Lea, the world's leading provider of corporate information solutions with its headquarters in London, we now have a global network for the international transfer of data and business process outsourcing.

Our domestic business for value-added services will also benefit from the know-how of the world market leader in the three areas of document management, financial process management and customer management. We capture, digitize, print, store, sort, address, envelope, dispatch, and archive documents. Companies can exchange invoices via our Internet platform without incurring high costs.

Global cross-border mail market 2005

Market volume: €10.0 billion



Sources: Deutsche Post World Net, UPU statistics 2005 (8.3), 2005 annual reports for USPS, Royal Mail, La Poste, SPI and TNT, additional calculations and estimates

Success in international mail markets

Deutsche Post is also among the leaders in the international mail business. We transport mail across borders, serve the domestic markets of other countries and provide value-added services. We serve business customers in key national mail markets, including the USA, the Netherlands, the UK, Spain, and France and we are the first foreign company to operate in the Japanese mail market. In the year under review, we intensified our cooperation with Yamato Holdings. Yamato Dialog & Media is the first company of its kind in Japan to offer a full range of direct marketing services.

The global market volume for cross-border mail was approximately €10.0 billion in the year under review, and was thus equal to the previous year's level. Despite a marked rise in the intensity of competition, we were able to retain our 14% market share. We succeeded in increasing our volume of mail from Germany, Austria, Switzerland, and the USA, and thus maintained our position in the rankings alongside the US Postal Service (see chart). The domestic mail market in the USA grew by some 4% in fiscal 2006. We were able to exploit this growth and capture additional market share.

Quality as a competitive advantage

We reach our customers in Germany via a nationwide transport and delivery network. At the heart of this network are 82 mail centers processing an average of more than 70 million items per day. The automation rate at our centers remains at the same high level of 89% reported in the previous year.

We use all available technical and operational options to ensure high-quality mail processing combined with maximum efficiency. For example, we have reduced the number of mail delivery districts from 54,900 to 54,300. This has allowed us to improve our efficiency with no loss in the quality of mail processing.

The criterion for the quality of our services is how quickly mailed items reach their recipients with nothing missing and without damage. To achieve this, we have taken the following quality assurance measures:

- The *Technischer Überwachungsverein* (TÜV – German Technical Inspection Association) again audited the quality management procedures in our mail production and certified the continued validity of the ISO certificate.
- We made technological improvements to our system for measuring mail transit times by implementing radio frequency identification (RFID). All test letters are now provided with a transponder that reports their location using electromagnetic waves. With this technology, we can track letters at all times and quickly identify and eliminate weak spots.

In the reporting period, we again improved on the already good results in mail transit times. In Germany, well over 95% of the letters posted during our daily opening hours or before the last mailbox pick-up are delivered to their recipients the next day.

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

In fiscal 2006, we focused our sales activities even more closely on the needs of our customers. We have placed responsibility for our customer segments – private customers, small and large businesses as well as key accounts – at the top management level, thus ensuring that each customer group is offered the solution ideally suited to its needs. To support this objective, we have harnessed market research studies in developing measures to boost customer satisfaction.

Goals and strategy

Our goal is to offset impending losses in market share in the domestic mail market and maintain our profitability. We intend to apply three approaches toward achieving this goal: We are expanding the range of services offered to business customers; we are increasing our presence abroad; and finally, we are optimizing the costs of our transportation and delivery network and making them more flexible.

Deutsche Post has moved far beyond its image as a mere mail-carrying and delivery company. We have today evolved into a provider of end-to-end services at every link in the mail value chain. To this end, we are focusing our sales and marketing activities more closely on the needs of individual customer groups and adapting our organizational structures accordingly. We are devising and gradually expanding specific product offerings for individual customer segments. In addition to our traditional services, we are bundling products from various business units, ranging from individual services to the performance of a company's entire business processes. For example, under the Williams Lea brand we offer our customers outsourcing solutions for document management and corporate information solutions.

Through direct marketing, we aim to maintain the loyalty of existing customers, attract new customers, and generate additional revenue. At the same time, we provide advice to our customers, for instance, on how to optimize their processes in order to save costs.

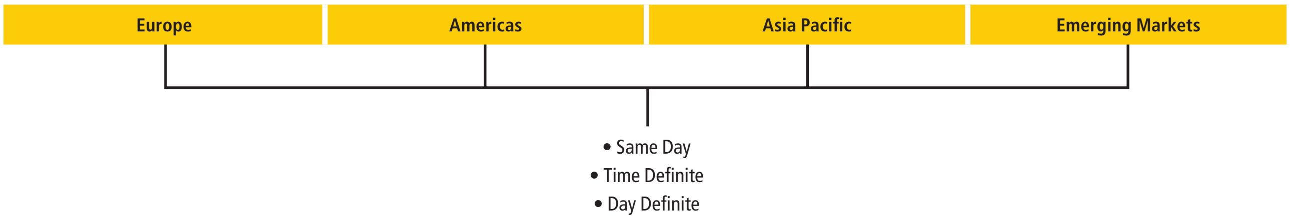
While liberalization of the German mail market poses a challenge, we see this development as an opportunity at the international level. We are intensifying our activities in markets outside Germany where acquisitions, cooperative activities, and the creation of our own networks will ensure that we stay on course for growth.

EXPRESS Division

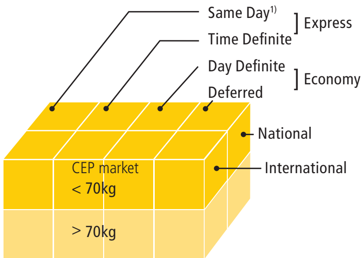
"In 2006, we strengthened our leading position in the global express market and are ideally placed to profit from increasing global trade flows. In the USA, we are more than on a par with the competition in terms of delivery reliability. Now operating in a unified management structure, we believe we are well placed to grow our business in the next years."

John P. Mullen, EXPRESS

Regions and products



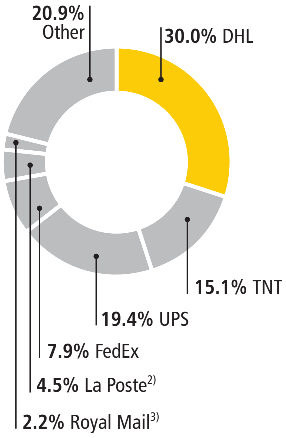
CEP market segmentation model



1) Includes all shipments that are collected and delivered on the same day, not counting cycle couriers and transport providers who are only active locally.

European international CEP markets 2005[1]

Market volume: €7.6 billion



1) Comprises Germany, the UK, France, Italy, the Netherlands and Spain.
2) Including DPD Geopost UK.
3) Including GLS.

Source: Market Research Service Center, Market Intelligence 2006

We offer companies and private customers courier, express, and parcel (CEP) services via three product lines defined according to speed: Same Day, Time Definite and Day Definite deliveries. Our model of the market for CEP services covers the three dimensions of speed, reach, and weight. We move shipments via the most extensive international network, our gateway to reaching 220 countries and territories worldwide. Our business is structured according to the regions in which we are active.

European market lead sustained

We lead the market in the European express business by a wide margin. The CEP markets in the core European countries – Germany, France, the UK, Italy, the Netherlands, and Spain – have grown by an average of between 5% and 6% in recent years. Due to additional trade with Asia and the countries of Eastern Europe, international business alone has increased by about 8%. We have sustained our market leadership.

We are constantly improving our service, above all when it comes to time-definite delivery: Pre-12 deliveries are now available in 27 European countries and from Europe to 55 countries outside the continent. This means that we now reach 74% of all business addresses in Europe and Germany virtually seamlessly. We continue to expand this service in order to meet our customers' wish for time-certain delivery.

Our European overland transport business covering less-than-truckload, part-truckload and full-truckload services was transferred to the LOGISTICS Division as of July 1, 2006 and since then has been reported on as DHL Freight. In Germany, responsibility for the parcel business was transferred to the MAIL Division with effect from January 1, 2007.

Gaining a firm foothold in the US market long term

For a global express carrier such as DHL, it is of great strategic importance to be operating in the USA as this is the world's largest express market. Secondly, given the rate of globalization, offering a high-performance range of products and services in the USA is also a guarantee of long-term business success in other regions.

In the USA, we operate an air and ground-based transport network through which we move all domestic and international shipments, with domestic express products accounting for more than 90% of the total market.

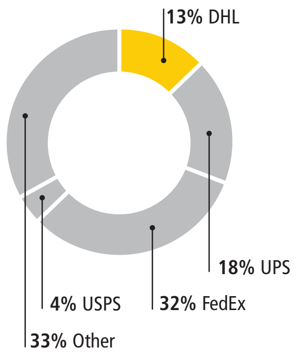
In 2006, we stabilized our service operations. We are becoming successfully established as a long-term force in the market. We have improved quality, invested in our network, developed innovative products, and today rank among the most reliable express and logistics service providers in the USA. This is corroborated not only by an external study devoted to comparing the transit times of the major competitors but also by satisfied customers. Within the space of just three years, our brand awareness rating has leapt from 19% to 57%.

Our efforts have borne fruit: We have secured new contracts despite the fact that competition in the export market has increased significantly. We occupied third place in the international CEP market in the USA.

In Canada as well as in Central and Latin America, import shipments and domestic products are the primary growth drivers; this is something we benefit from as the undisputed market leader. Here we have expanded and enhanced our range of offerings with, for instance, time-definite deliveries within Latin America as well as between Mexico and the USA.

US international CEP market 2005

Market volume: €4.4 billion



Source: Market Research Service Center in association with Colography Group 2006

Leading the field in the growth market of Asia

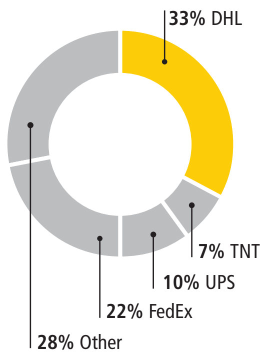
Asia's main CEP markets continued to grow strongly, especially China (24%) and India (16%). The market comprising the 13 largest economies in the Asia Pacific region generated total revenue of €21.2 billion in 2005. With a 6% market share, we are the largest international provider in this market, which is dominated by regional operators.

DHL is the only international logistics service provider to offer its customers domestic services in China, India, and New Zealand. Thanks to our 20-year alliance with Sinotrans in China, we can provide a seamless supply chain, express shipment, air and ocean freight, overland transport and logistics services – all of which adds up to a distinct competitive advantage. With the First in China program launched in April 2006 and the associated investments, we are underscoring our long-term commitment to this dynamic market. Today, the DHL-Sinotrans network encompasses 318 cities – giving us access to 95% of the Chinese population.

Our core international express market continued its double-digit growth, attaining some €4 billion. We hold about 33% of this market. In our main markets of Japan and China including Hong Kong, which account for €2.3 billion or over 50% of volume in this region, our share stands at approximately 30%. What's more, we are

Asian international express markets 2005

Market volume:[1] €4.0 billion



1) Comprises Singapore, Hong Kong, China, Japan, Taiwan, Thailand, the Philippines, Indonesia, India, Australia, New Zealand, Malaysia and South Korea.

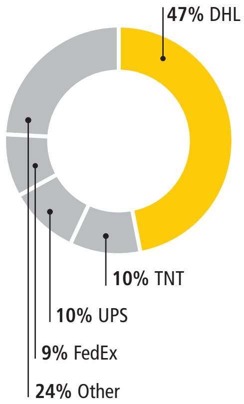
Source: Market Research Service Center in association with L.E.K. Consulting 2006

Group Management Report

the leader for international express shipments in the core Asian countries of Japan, China, South Korea and India, as well as in Australia.

EMA international express markets 2005

Market volume:[1] €464 million



1) Comprises Turkey, Greece, Saudi Arabia, Russia, South Africa, United Arab Emirates.

Source: Market Research Service Center in association with Crescendo Partners/L.E.K. Consulting 2006

Number one in the strong import markets of the EMA

In the Emerging Markets (EMA) region, 90% of business is performed with business customers. Alongside traditional products, the greatest growth potential is offered by Import Express since the EMA region is primarily an inbound market. However, domestic goods transportation is also increasing, as is the flow of goods between different regions. This is a result of industrial mass production and the increasing demand for reliable service.

The CEP market in the main countries of the region – South Africa, Turkey, Greece, Saudi Arabia, United Arab Emirates and Russia – ran to some €1.5 billion in 2005, of which we took an 18% share. Our share of the international express segment came to 47%, in a market worth €464 million.

Service as a competitive advantage

Faster, better, more attractive – as an express service provider, we are the link between producers, retailers and end consumers and must never cease to explore innovative new paths to meet the needs of customers who want simple and convenient solutions at competitive prices. DHL is capable of delivering to virtually all business addresses in Germany before noon, which makes us the leader in this segment. We have also continued to expand this service for deliveries within Europe and have introduced it in Asia. That means we are now also active in the major economic hubs in the area of time-critical express shipments.

Today, over half a million registered customers in Germany can send and pick up parcels using a machine 24 hours a day at our 720 Packstations in 120 cities and communities, thus saving themselves the trip to their nearest outlet. A total of 120 new Packstations were installed in 2006 alone. Over 85% of customers rate this service as good or very good. For private customers in Germany, we have further simplified the process of sending parcels by offering prepaid parcel stamps which can be bought online and printed out. In addition, we are testing the Paketbox – a letterbox for parcels where customers can drop off shipments at any time.

In the USA, DHL is systematically working toward honoring its brand promise of supreme customer satisfaction. Two newly introduced services are based on state-of-the-art Internet technology: ProView provides DHL customers with the ability to access status information for shipments. DHL Import Express Online gives global shippers the chance to prepare and monitor their imports from 46 countries the swift, simple, and sure way.

In early 2006, we launched a new generation of a quality shipment monitoring system in Asia which monitors all operational processes, reports and analyzes the minutest deviations and proposes countermeasures. At the same time, it allows us to actively notify the customer where necessary.

In the Emerging Markets region, more and more heavy goods are being transported. And we have developed a special product to match: With XL Express, customers can move heavier shipments just as easily as small, lightweight parcels.

In 2006, we once again garnered a number of awards which serve to underline the company's appeal to customers and employees alike. The most important are:

- "Best Express Operator of the Year Award" in Asia
- "International Express Operator of the Year Award" in the UK
- "Best Call Center Award" for DHL-Sinotrans in China
- "Userware Award" for the especially user-friendly design of the Packstation
- The 2006 Business Traveler USA Award: "Best International Courier Service"
- The newly designed website www.dhl-usa.com was recognized as one of "10 Great Web Sites" of the year by *BtoB Magazine*.
- The readers of Latin Trade voted DHL one of the top-ten "Employers of Choice" in Latin America.

Goals and strategy

1. Our focus is on service to the customer.
   We set ourselves apart from our competitors through the quality of our services: We are accordingly developing systems and products for our customers that make it even easier for them to use DHL for their shipping needs. To this end, we continue to improve transit times and services on an ongoing basis, at the same time harnessing cutting-edge technologies that make it easier for customers to access our services.

2. We connect customers and markets worldwide.
   We aim to forge closer links between customers and markets, thereby leveraging the growing importance of the international flow of goods. With our unified, global management structure, we will enhance inter-regional cooperation, providing our customers with better service. We will selectively expand our intercontinental networks and gear our sales activities to the global trade flow.

3. Higher earnings through efficiency and growth.
   Our aim is to boost our earnings power still further: We have set our sights on increasing the efficiency of our operational networks and forging ahead with standardization of systems and processes. We will continue to invest in the world's major growth regions, thereby consolidating our market leadership.

LOGISTICS Division

"We are well positioned to seize opportunities in markets which are growing through the continued trend towards outsourcing, the development of emerging markets and the complex needs of modern supply chains. As the integration with Exel draws to a successful close, we shall further strengthen our position as the global market leader."

John Murray Allan, LOGISTICS

Business units and products

DHL Global Forwarding	DHL Exel Supply Chain	DHL Freight
• Air freight • Ocean freight • Industrial projects	• Contract logistics • Ground-based transportation • Value-added services	• Full truckload • Less than truckload • Specialities

Number one in the intercontinental freight business

DHL Global Forwarding is the international market leader in the air and ocean freight business. As forwarders, we move goods and merchandise to an agreed destination at an agreed delivery time and for an agreed price. We do not maintain a transportation fleet of our own, but act as brokers between customers and carriers. As we move large quantities, we can buy in freight capacity from airlines and shipping companies at competitive cost. In addition, we use our own DHL EXPRESS air fleet to move air freight volumes where possible.

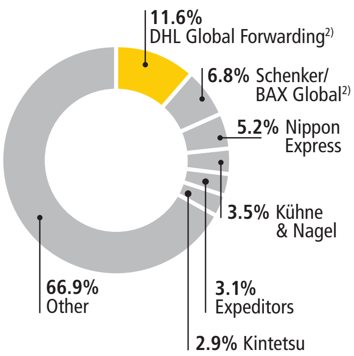
Our business is founded on a solid customer base. This includes small and medium-sized businesses as well as multinationals in almost every industry. Special skills are required in niche businesses like wine and spirits where our list of customers includes many major producers and distributors. For the life sciences industry, we have joined forces with Lufthansa Cargo and our LifeConEx venture is now the world's leading provider of temperature-controlled transport. Products such as vaccinations or blood plasma require a continuous, verified supply chain operation with exact, steady temperatures throughout transportation.

In the air freight business, we offer direct shipments and air consolidations, including time-defined services that operate on an airport-to-airport or door-to-door basis. The air freight market grew by around 5% in the year under review, as compared with 3% in the previous year. We are the global leader in this area.

In ocean freight, we provide full-container-load and less-than-container-load services between the world's most important markets as well as non-containerized transportation. The ocean freight market grew by some 10–12%, mainly driven by exports from Asia.

Market shares in air freight 2005

Market volume: €19.8 billion[1]



1) Market volume and market share data were taken from IATA statistics and do not correspond to the company's published revenue.
2) Pro forma.

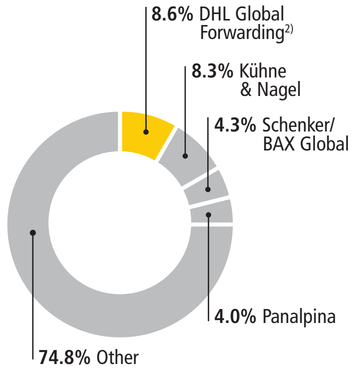
Sources: IATA/CASS, company estimates

DHL Global Forwarding also plans and undertakes major logistics projects, mostly for the oil and energy industries.

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

Market shares in ocean freight 2005

Market volume for forwarding: 20.9 million TEUs[1]



1) Twenty-foot equivalent units.
2) Pro forma.

Sources: Global Insight, annual reports/other publications and company estimates

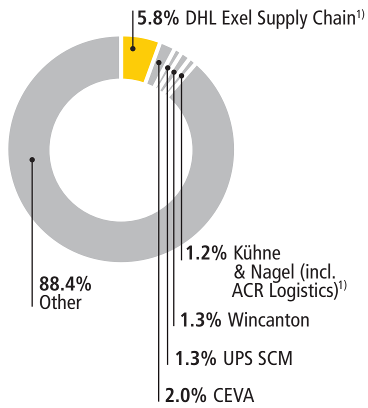
Market leader in contract logistics

In our DHL Exel Supply Chain Business Unit, we provide warehousing and ground-based transportation services. These services are mostly performed on the basis of long-term contracts, hence the term "contract logistics." In the year under review, we renewed the vast majority of existing agreements and gained new ones.

Following the acquisition of Exel in 2005, DHL Exel Supply Chain is the market leader, as the adjacent chart shows.

Market shares in contract logistics 2005

Market volume: €179 billion



1) Pro forma.

Sources: annual reports, press releases, Transport Intelligence, Datamonitor

We develop and offer customized logistics solutions along the entire supply chain, from producers to retailers and consumers. We have specialist knowledge and many years' experience in industrial sectors including automotive, pharmaceuticals and healthcare, electronics and telecommunication, fast-moving consumer goods as well as textiles and fashion. Co-pack and reverse logistics services are among the customized value-added services we provide in addition to warehousing and ground-based transportation.

The market for contract logistics continues to benefit from the trend toward outsourcing. Increasing numbers of companies are focusing on their core businesses and realizing that they can save time and money by contracting out their logistics to a service provider such as DHL.

Synergies from the freight business

In July 2006, we added our European overland transport business to the activities of our LOGISTICS Division. This division is now able to offer, manage and combine the full range of forwarding services by air, sea and, in Europe, also over land.

We offer full-truckload, less-than-truckload and part-truckload services in ground-based transportation. This range of capabilities is complemented by customs brokerage services as well as intermodal and conventional rail freight.

The fact that the entire freight business operates on the same basic principles gives us potential for efficiency gains; we can combine volumes, buy in freight capacity on a joint basis and exploit cross-selling opportunities within the division and with our express business. This enables us to meet customer expectations even better and more extensively than before, thus giving us a decisive competitive edge.

We have also stepped up collaboration with Global Customer Solutions, the DHL account management organization for multinational key accounts requiring services from all our divisions.

Integration as a competitive advantage

For our customers, our acquisition of Exel has created a one-stop logistics shop with global reach, local knowledge, a full product portfolio and end-to-end logistics services across the supply chain.

The logistics industry's biggest ever integration project continues apace. We are on track to comfortably meet our synergy target of €220 million, before taxes, in 2008. Management positions have been filled by Exel and DHL employees at all levels. We have co-located operations, made joint use of buildings and are consolidating two previously separate freight forwarding networks into one. In total, we have identified some 930 integration projects, of which over 85% are under way.

We are integrating information technology across the Group and have relaunched the DHL website, to which all employees and customers now have access. We have set up dedicated account management teams for key customers. In all regions and sectors, we have renewed existing contracts and gained new business.

We received several awards for our services in 2006, the most important of which are as follows:

- Sun Microsystems named us "Supplier of the Year."
- Our international supply chain team was selected as "Partner of the Year" by the Avon North American Logistics Conference.
- At the "Transport & Logistics Awards" in Ireland, DHL Exel Supply Chain was named "Logistics Operator of the Year."
- We secured a number of awards in Asia, including "Airfreight Forwarder of the Year" (for the fourth time) and "3PL Operator of the Year."
- *Logistics Management* magazine honored DHL Global Forwarding with its "2006 Quest for Quality" award in the category of freight forwarding.

Goals and strategy

1. We operate in attractive growth markets.
   The division is already well positioned in many of the logistics growth markets of the future such as Asia, the Middle East, Latin America and Eastern Europe. We plan to further strengthen our position in these key markets with particular focus on China and India. We continue to see attractive opportunities for growth, primarily organic, in more mature markets.

2. We know and meet customer needs.
   We intend to strengthen customer loyalty, increase the number of long-term contracts and raise contract volumes. This requires a consistently high quality of service. To achieve this, we continuously analyze customer needs and gear our services to not only meeting, but exceeding, their expectations.

3. We pursue medium-term financial and growth goals.
   In air and ocean freight, we plan to enhance our product capabilities to match market and customer needs and to further increase the levels of standardization of our internal workflows. We will combine freight volumes where possible, further improve freight capacity procurement and achieve economies of scale. In contract logistics, we aim to continually improve warehouse infrastructure and productivity. In European overland transport, the goal is for the DHL brand to increase market penetration while boosting earnings power.

FINANCIAL SERVICES Division

"For Postbank, 2006 was one of the most momentous years in the company's history. With the takeover of BHW we achieved the biggest acquisition since we were formed – marking a quantum leap for the selling power of Postbank."

Prof. Dr. Wulf von Schimmelmann, FINANCIAL SERVICES

Postbank business units and products

Retail Banking	Corporate Banking	Transaction Banking	Financial Markets
• Services and loans • Savings and mutual funds • Mortgages • Insurance products	• Payment transactions • Investments • Financing • Leasing and factoring	• Payment transaction processing	• Money market and capital market investments • Risk management • Asset management

The FINANCIAL SERVICES Division consists primarily of Postbank as well as the Pension Service. Following Postbank's acquisition of 850 retail outlets from Deutsche Post AG at the beginning of the year, we now report the remaining outlets in the SERVICES Division.

Leading financial services provider for private customers

Fierce competition in the German banking market is squeezing margins. Banks are responding. They are comprehensively restructuring their business activities, cooperating with competitors and in some cases even taking them over. Deutsche Postbank is one of the driving forces in this consolidation process.

With the purchase of 850 Deutsche Post retail outlets and the acquisition of BHW Holding at the start of 2006, Postbank further consolidated its position as the largest, single institution in the German retail banking market. It is now also the largest provider of financing for owner-occupied residential property in Germany. The integration of BHW and the outlets progressed faster than projected, with central integration projects and training programs being completed on September 30 – three months ahead of schedule. The takeover resulted above all in a significant boost to sales capacity. With its 850 branches, approximately 4,400 mobile financial advisors, online banking, direct sales channels and the sales activities through cooperation partners, Postbank is now ideally positioned as a multi-channel bank.

As before, it offers a wide range of standardized banking products that meet the typical needs of private and business customers. Along with traditional savings and checking account products, these primarily include private real estate financing and home loan savings products. In addition to these products, private loans, life insurance and securities are steadily growing in importance. Postbank is also Germany's largest issuer of debit cards ("ec" cards) and credit cards.

In terms of the number of customers, Postbank had an 8.8% market share in 2006, and thus maintained its position as the largest single institution in the German retail banking market. In the savings segment, where the total volume of deposits including home loan savings deposits rose from €42.0 billion to €58.7 billion, Bundesbank statistics show an increase in Postbank's market share from 5.3% to 8.2% through the end of September 2006.

Postbank was again successful in business with new customers, with a market share of 13% (previous year: 14%) and 14% of new checking account business (previous year: 16%). Effective September 30, 2006, Postbank accounted for 6.2% of the total volume of private real estate financing in Germany as compared with 3.7% in the previous year.

New products for corporate customers

The corporate banking business primarily involves products related to payment transactions and commercial real estate financing. Alongside the investment credit product, which has already been successfully launched, Postbank will soon begin arranging development loans from renowned public-sector development agencies, thus making a second important addition to its product range.

In commercial real estate financing, Postbank's New York and London offices represent important bridgeheads in foreign markets. Our favorable risk profile is achieved through a highly selective lending policy.

Strong position in transaction banking

In transaction banking, Postbank has a strong market position: In addition to handling its own payment transactions, it has already begun providing this service to other banks including Deutsche Bank, Dresdner Bank and, starting in 2007, HypoVereinsbank.

Postbank is now leveraging its traditional strength in this area to join forces with BHW in building a highly efficient platform for the settlement of real estate loans. For this purpose, processing has been switched to standard SAP software; it is now far more efficient and, as a result, more cost effective. Moreover, the credit organization structures have been standardized.

Active in financial markets

In the Financial Markets Business Unit, Postbank manages its money market and capital market transactions. The bank invests its liquid funds in financial markets and manages the market price risk, particularly the interest rate risk.

Sales channels as a competitive advantage

The bank's highly diverse sales channels make it easily accessible to its customers at all times: at its branches, through its mobile sales force, online or by telephone. It has the most extensive branch network of any bank in Germany. In its own 850 branches, acquired from Deutsche Post at the beginning of 2006, it offers its full product portfolio as well as expert advice on financial services. These outlets are complemented by the several thousand Deutsche Post outlets where selected Postbank services are available. The advisors with Postbank Finanzberatung AG make up the new Postbank mobile sales force.

The approximately 4,400 independent agents specialize in private mortgage lending, asset accumulation and retirement pension products.

Postbank is still number one in online banking in Germany. Customers now do their banking online for 2.4 million checking accounts and 480,000 brokerage accounts. Telephone banking has also retained its strong appeal: The number of users was up from 3.2 million to 3.4 million.

Goals and strategy

Postbank plans to stay on course for profitable growth in the private customer segment, to gain new customers and to intensify existing relationships on the strength of more extensive, higher-quality advice and consultation. In 2007, all integration measures will be completed, including those on the operational side, ensuring that we will gradually achieve our synergy targets.

Various strategic measures will bolster our sales and marketing activities, including an increase in the quality and quantity of mobile sales activities, the introduction of a new outlet concept within the framework of the Changing Branches project, and the implementation of a relationship management concept for those customers whose product utilization already indicates a heightened need for service and advice.

In corporate banking, Postbank will press ahead with the selective, risk-conscious implementation of its growth strategy. In transaction banking, we will focus above all on integrating the processing services of our new partner, HypoVereinsbank, and completing the necessary groundwork for the launch of the SEPA (Single Euro Payment Area) payment system.

Postbank's goal is to become a leading financial services provider for private customers and a service partner of choice for companies.

SERVICES Division

"Global Business Services – a core part of our operation – is responsible for services within the Group. We keep basic functions running worldwide and provide the infrastructure to keep the operating divisions working smoothly and cost-effectively. In this way, we make an important contribution to the Group's success."

Dr. Frank Appel, Global Business Services

The SERVICES Division bundles Group-wide internal services with the aim of enhancing service quality and cutting costs. The division includes the Global Business Services (GBS), the retail outlets of Deutsche Post and the Corporate Center, our headquarters in Bonn. SERVICES also reports income and expenses that cannot be allocated to an individual division.

Global Business Services – the internal service provider

Global Business Services was established as a new board department in January 2006 to provide internal services to all divisions. With a worldwide workforce of approximately 13,000 employees, GBS supports the Group in the following areas: Law, Insurance, Procurement, Finance Operations, IT Services, Real Estate, Fleet Management, Business Consulting and Global Customer Solutions.

GBS bundles cross-divisional internal functions and ensures efficient business processes to enable the remaining units to focus on their core tasks. This new structure reflects the Group strategy of recent years.

A good example of this is IT. After the individual divisions define their requirements, we bundle these needs and efficiently provide the requisite products and services. They are delivered by three global data centers (moving from east to west): Cyberjaya in Malaysia, Prague in the Czech Republic and Scottsdale in the USA.

As an internal partner, we can implement so-called shared-services models. For example, all divisions can use Finance Operations for operational accounting purposes, and Procurement can pool orders to make high-volume purchases. We thus benefit from economies of scope and scale while improving the quality of our services.

Occupying a special place within GBS is Global Customer Solutions, our account management organization for the Group's 100 largest customers. With this structure, we have implemented an integrated, customer-focused approach that goes beyond the perception of sales in terms of product categories or regions. For each major international customer, an individual contact person is responsible for coordinating all express and logistics services by air, land or sea, thus leveraging cross-selling potential within the Group.

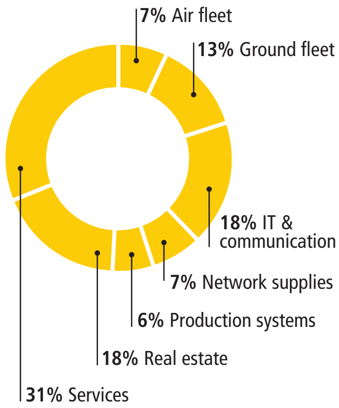
Retail outlets – our sales network in Germany

Our more than 12,500 retail outlets in Germany comprise the "non-mobile" sales network for the products and services of the MAIL, EXPRESS and FINANCIAL SERVICES Divisions. Every day, these outlets welcome 2–3 million customers who come there to use postal services and, in many cases, to take care of their banking needs. More than 7,000 retail outlets are operated by partners: A successful model that benefits everyone concerned, since the partners have more customers visiting their retail premises, customers benefit from longer opening hours, and we save costs. Postbank operates 850 retail outlets as financial centers which also offer postal services.

Procurement

Procurement expenses

Volume: €9.5 billion



Savings through central procurement organization

The Group has a centrally managed procurement organization. Goods and services are grouped into 17 product groups and, for each one, worldwide procurement activities are coordinated by a single product group manager who works closely with the local and regional procurement managers. Product group managers and regional procurement managers report to the head of Corporate Procurement. This matrix structure enables us to pool our needs worldwide while satisfying the service and quality requirements of internal customers.

Corporate Procurement purchases goods and services that are not direct components of pricing, such as vehicles and IT. Transportation services, which account for the majority of direct products and services, are procured mainly by the divisions.

With the integration of Exel into the Group, our procurement volume increased to €9.5 billion. We have created a new procurement region – UK/Ireland – especially for this business segment, complementing the existing regions of Germany, Americas, Emerging Markets, Asia Pacific and Europe.

Pooling the procurement requirements of Deutsche Post World Net and Exel has yielded synergies. For example, we issued a new worldwide call for tenders to meet our needs for temporary staff and, in this way, achieved substantial cost savings.

Under the Fit4Procurement project, we developed and implemented training programs geared to the specific needs of our procurement staff.

Significant procurement initiatives in 2006 included:

- In 16 European countries, we assessed and consolidated the service requirements for landline and mobile telephony, thus exploiting the currently favorable market conditions and achieving substantial savings.
- When the Group's engineering staff specified the conveyor and sorting technology requirements for the new air hub in Leipzig, Procurement provided support with the cost/benefit analysis.
- We further reduced our road fleet costs through calls for tenders.
- For several years, we have been inviting tenders for marketing and media services for the Group and reducing the number of global suppliers. In 2006, we have focused these efforts on event and web design agencies as well as suppliers of lithography and printing services.

Processes and systems standardized

For the past few years, we have been processing orders electronically in Germany, France, Poland and the USA. In the year under review, we made improvements to this order-processing platform, integrated additional business units into the process and launched a comparable system in the Asia Pacific region.

The supplier management system launched in 2005 was implemented globally. Under this system, Procurement regularly reviews the services of key suppliers with its internal customers to spot possible weaknesses at an early stage and arrange suitable corrective measures with the suppliers. This review process also takes into account whether the suppliers are meeting our ethical and ecological standards.

Research and development

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

Internal Group management system

As in previous years, we are again reporting economic profit in addition to the EBIT performance indicator as part of our value-based Group management. With economic profit, we measure the value we create for our shareholders from operations, taking into account the total cost of capital used to generate revenue and profits.

We define the cost of capital as the Group's weighted average net cost of interest-bearing debt and equity expressed as a percentage, taking into account division-specific risk factors. We then multiply this rate by the average net assets employed to obtain the total cost of capital.

We calculate economic profit by subtracting the total cost of capital from the net operating profit after taxes. The calculation is based on the consolidated financial statements for the "Postbank at equity" scenario and includes the net financial obligations from non-cancelable operating leases.

With an economic profit of €1,419 million, Deutsche Post World Net again generated considerable value through its operations in the year under review. As a result of non-recurring items reported in the previous year, net operating profit after taxes was virtually unchanged year on year despite operational improvements. By contrast, there was a sharp rise in average net assets employed, primarily due to the inclusion of Exel. Consequently, the economic profit was down 26.9% compared with the previous year. The cost of capital was set at an unchanged rate of 5.9% at the start of the year.

For fiscal 2007, the weighted average cost of capital after taxes at the Group level was increased to 6.7% due to the generally higher yield expectations for debt and equity.

Economic profit (Postbank at equity)

€m	2005 restated	2006	+/–%
Net operating profit after taxes[1]	3,073	3,029	–1.4
Average net assets employed[2]	19,167	27,292	42.4
Total cost of capital	–1,131	–1,610	42.4
Economic profit	1,942	1,419	–26.9

1) Net operating profit = EBIT + net income from associates + net income from measurement of Deutsche Postbank Group at equity + interest component of operating lease expenses.
2) Net assets employed = segment assets – segment liabilities including non-interest-bearing provisions + investments in associates + investments in the Deutsche Postbank Group + investment property + net present value of operating lease obligations.

Revenue and Earnings Development

Overview

The Group improved its operating performance in 2006: Revenue rose by 35.8% to €60,545 million, slightly in excess of our expectations. This rise is due in particular to the successful integration of Exel in our logistics business and of BHW in the Postbank Group. EBIT improved by 2.9% to €3,872 million, in line with expectations. Whereas a large number of non-recurring income and expense items were recorded in the previous year, relatively few such one-time factors occurred in 2006, as has already been reported in the course of the year.

In the MAIL Division, we recorded EBIT of €2,054 million, slightly in excess of our target figure of €2 billion, thanks to effective cost management and foreign expansion. This result was achieved despite the continuing decline in volumes in the domestic mail business.

At €325 million, EBIT in our EXPRESS Division was within our target range of €300 to €400 million. The monthly results for the second half of the year show that a turnaround is now under way in the USA. Europe, Asia Pacific and the Emerging Markets all recorded improvements in earnings.

The LOGISTICS Division continued its positive development this year while integrating Exel, generating EBIT of €762 million, corresponding to our forecasts.

FINANCIAL SERVICES also maintained its existing trend: Thanks to Postbank's ongoing strong operating performance, EBIT improved by 16.3% to €1,004 million, despite the charges incurred in relation to the integration of BHW.

The new SERVICES segment recorded EBIT of €–237 million. This figure also includes one-time factors that cannot be allocated to individual divisions. Chief among these were income of €276 million from the early redemption of the exchangeable bond on Postbank stock and income of €89 million resulting from the positive outcome of arbitration proceedings against Deutsche Telekom.

Earnings per share dropped to €1.60, mainly due to the increase in finance costs and minorities.

Selected indicators for results of operations

		2005 restated	2006	+/–%
Revenue	€m	44,594	60,545	35.8
Profit from operating activities (EBIT)	€m	3,764	3,872	2.9
Return on sales[1)]	%	8.4	6.4	
Consolidated net profit excluding minorities	€m	2,235	1,916	–14.3
Earnings per share	€	1.99	1.60	–19.6

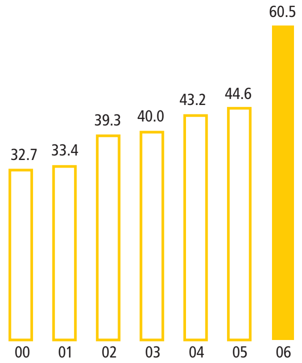
1) EBIT/revenue.

Group Management Report

The Group

Consolidated revenue

€bn



Consolidated revenue increases for the sixth year in succession

In fiscal year 2006, consolidated revenue and income from banking transactions rose by 35.8% in total to €60,545 million (previous year: €44,594 million). Acquisitions such as Exel, BHW and Williams Lea contributed to the positive trend in consolidated revenue by generating €13,945 million. The diagram opposite shows how this positive performance by Deutsche Post World Net marks a continuation of the trend seen in previous years. The share of consolidated revenue generated outside Germany continued to grow, rising from 49.7% to 59.0%. Negative currency effects reduced consolidated revenue by €374 million.

As in previous years, the EXPRESS Division made a decisive contribution to consolidated revenue, generating €17,195 million. For the first time, the LOGISTICS Division generated the most revenue, in the amount of €22,739 million. In the FINANCIAL SERVICES Division, revenue rose by 35.3% to €9,593 million.

Income and expense

Other operating income declined by 23.5% to €2,821 million (previous year: €3,685 million). In the previous year, it had shown an above-average increase due, among other things, to the following one-time factors: income of €1,208 million from the reversal of provisions for the Postal Civil Service Health Insurance Fund of Deutsche Post AG (€1,141 million) and Deutsche Postbank AG (€67 million), and a further €369 million from the reversal of VAT provisions.

Note 4

Note 4

The main factors driving income in the year under review were the exercise of the exchangeable bond on Postbank stock and the related sale of shares in the Deutsche Postbank Group (totaling €276 million). In addition, a positive conclusion to arbitration proceedings against Deutsche Telekom resulted in net income of €89 million, and the disposal of the 50% interest in Czech building society Modra Pyramida in income of €64 million. Overall, however, the positive effects were on a much smaller scale than in the previous year, resulting in a decline in other operating income compared with 2005. At €4,758 million, other operating expenses exceeded the prior-year figure by €309 million, due mainly to the first-time consolidation of Exel.

Materials expense and expenses from banking transactions rose by €10,581 million to €34,349 million. This increase was largely due to the transportation services that needed to be purchased following our expansion of the express and logistics businesses, primarily in Europe and Asia. In addition, expenses from banking transactions rose by €1,950 million to €5,708 million, mainly on account of higher interest expenses following the acquisition of BHW.

These company acquisitions also increased the number of employees and therefore resulted in a clear rise in staff costs, from €14,337 million to €18,616 million. In the previous year, by contrast, a €462 million reduction in pension provisions (curtailment) had a one-time effect on staff costs.

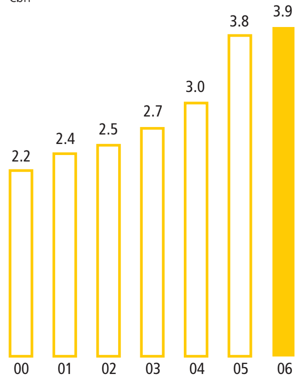
At €1,771 million, depreciation, amortization, and impairment losses were 9.7% lower than the prior-year figure. The increase in 2006 as a result of acquisitions was offset by the impairment loss of €434 million recognized in 2005 on the goodwill for the EXPRESS Americas region. Depreciation, amortization, and impairment losses therefore fell by a total of €190 million.

Further improvement in EBIT

The profit from operating activities (EBIT) rose by a further 2.9% to €3,872 million.

Consolidated EBIT

€bn



Net income from associates fell by 94.4% to €4 million. In the previous year, the disposal of trans-o-flex Schnell-Lieferdienst GmbH and France Handling S.A. in particular had lifted it to €71 million. In fiscal year 2006, however, there were no significant effects. Net other finance costs rose by €252 million to reach €1,034 million (previous year: €782 million). This increase is primarily due to the finance costs resulting from the first-time inclusion of Exel. Overall, net finance costs therefore rose by €319 million.

In contrast, profit before income taxes fell by 6.9% to €2,842 million, a slight decrease on the prior-year figure of €3,053 million. Income tax expense amounted to €560 million (previous year: €605 million). At 19.7%, the tax rate remained almost unchanged.

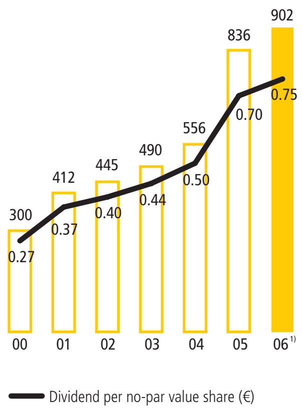
As a result, consolidated net profit declined by €166 million to €2,282 million. Due to the disposal of the Postbank shares, minorities increased from €213 million to €366 million. The consolidated net profit attributable to Deutsche Post AG shareholders fell from €2,235 million to €1,916 million in line with this. The average number of shares rose in the year under review due to shares being issued as part of acquiring Exel. This resulted in basic and diluted earnings per share decreasing to €1.60 (previous year: €1.99).

Dividend increases to €0.75

We will propose the payment of a dividend per share of €0.75 to the Annual General Meeting on May 8, 2007. This represents an increase of 7.1% compared with the previous year. The total dividend will therefore amount to €902 million, equating to a payout ratio of 71.4% of Deutsche Post AG's net profit for the year and 47.1% of the consolidated net profit attributable to Deutsche Post AG shareholders. Based on the share price as of December 31, 2006, the net dividend yield is therefore 3.3%. The dividend will be disbursed on May 9, 2007. As in previous years, it is tax-free for shareholders resident in Germany.

Total dividend and dividend per no-par value share

€m



1) To be proposed to the AGM.

Group Management Report

Divisions

Revenue by segment			
€m	2005 restated	2006	+/–%
Consolidated revenue	**44,594**	**60,545**	**35.8**
MAIL revenue	**12,878**	**13,286**	**3.2**
of which Mail Communication	6,442	6,147	–4.6
Direct Marketing	2,820	2,766	–1.9
Press Distribution	805	818	1.6
Mail International/Value-added Services	2,098	2,818	34.3
Internal revenue	713	737	3.4
EXPRESS revenue	**16,831**	**17,195**	**2.2**
of which Europe	10,034	10,106	0.7
Americas	4,466	4,379	–1.9
Asia Pacific	2,163	2,443	12.9
Emerging Markets (EMA)	845	969	14.7
Consolidation	–677	–702	–3.7
LOGISTICS revenue	**9,933**	**22,739**	**128.9**
of which DHL Global Forwarding	5,723	9,271	62.0
DHL Freight	1,958	1,999	2.1
DHL Exel Supply Chain	2,279	11,957	–[1]
Consolidation/other	–27	–488	–[1]
FINANCIAL SERVICES revenue	**7,089**	**9,593**	**35.3**
SERVICES revenue	**3,874**	**4,048**	**4.5**
Consolidation revenue	**–6,011**	**–6,316**	**–5.1**

1) n/a.

Revenue growth in international mail activities

In the MAIL Division, we increased revenue again in 2006, by 3.2% to €13,286 million (previous year: €12,878 million). The traditionally strong fourth quarter was a key contributing factor. We were more than able to offset the expected decline in the German mail market with growth abroad, thanks not least to the first-time inclusion of Williams Lea as of April 1, 2006. As in the past, we recorded only minor currency effects, amounting to €–22 million in the year under review.

As expected, revenue in the Mail Communication Business Unit fell, by 4.6% to €6,147 million (previous year: €6,442 million). Traditional letters are increasingly being replaced by electronic forms of communication, and competition has become fiercer. As the following table shows, the sales volumes generated with both business and private customers continued to fall.

Mail Communication (Deutsche Post AG share)			
mail items (millions)	2005	2006	+/–%
Business customer letters	7,216	6,988	–3.2
Private customer letters	1,398	1,369	–2.1
Total	**8,614**	**8,357**	**–3.0**

We were obliged to cut the price of compact letters by five cents in 2006 in accordance with the price-cap procedure; this had a negative impact on revenue in the amount of around €38 million. The prices for standard letters and postcards remained unchanged at €0.55 and €0.45 respectively. However, through strict cost management, we have reduced our expenses significantly.

German mail prices are among the lowest in Europe, according to a comparative study conducted by ourselves. In addition to nominal prices for a standard letter (20 grams) in the fastest category, the study also takes into account significant macroeconomic factors, such as purchasing power and labor costs.

In the Direct Marketing Business Unit, the favorable business climate in Germany has not yet spread to the marketing sector to the same degree. Our relevant customer groups – primarily mail-order services – have made very modest investments in advertising. Furthermore, the prices for Infobrief Standard and Infobrief Compact products (addressed advertising mailings) had to be cut, reducing revenue by around €20 million. Thanks to intensified sales activities, however, we were able to attract new customers in this area and so almost match the high prior-year figure with revenue of €2,766 million (previous year: €2,820 million).

Direct Marketing (Deutsche Post AG share)

mail items (millions)	2005	2006	+/–%
Infopost/Infobrief (addressed advertising mail)	6,889	6,699	–2.8
Postwurfsendung/Postwurf Spezial (unaddressed/partially addressed advertising mail)	3,904	3,756	–3.8
Total	**10,793**	**10,455**	**–3.1**

The Press Distribution Business Unit recorded another slight increase in revenue to €818 million (€805 million).

Our international business once again recorded the strongest growth. In the year under review, revenue in the Mail International and Value-added Services Business Units rose to €2,818 million (previous year: €2,098 million), an increase of 34.3% on the previous year. This primarily reflects the inclusion of Williams Lea as of April 1, 2006. We have also achieved substantial organic growth, for example at our US subsidiary DHL Global Mail. These two business units now account for just over one-fifth (21%) of the division's revenue.

With a profit from operating activities (EBIT) of €2,054 million, we exceeded our declared target figure of around €2 billion and achieved an increase of 1.2% over the prior-year figure (€2,030 million). In addition to higher revenue from the international mail business, the factors contributing to this included increased productivity and our cost management initiatives. Our return on sales amounted to 15.5%, again reaching the high level of the previous year.

Turnaround under way in US express business

Revenue in the EXPRESS Division rose by 2.2% to €17,195 million (previous year: €16,831 million (restated)). Organic growth produced a 3.5% increase, which was offset to the tune of €150 million by negative currency effects and €78 million due to divestments and transfers of business activities.

The prior-year figures have been restated to reflect various changes. Since the beginning of 2006, we have reported on cross-segment service functions as part of the SERVICES Division. Internal revenue is additionally reduced by changes to the method of transfer pricing between the regions. Our European overland transport business was transferred from the EXPRESS Division to the LOGISTICS Division with effect from July 1, 2006. Finally, in a reorganization of our global express network, hubs and global network aviation were transferred from the SERVICES segment to the EXPRESS Division.

In Europe, our revenue in the major national markets such as Italy and Spain showed gratifying increases. In Germany, we recorded revenue growth with international express products, although competitive pressure in domestic parcel business did not ease. We countered this pressure with price cuts in the summer, which served to reduce the volume shortfall in the fourth quarter. Total revenue in the region rose only slightly, standing at €10,106 million (previous year: €10,034 million).

As expected, revenue in the Americas was down year on year by 1.9% to €4,379 million (previous year: €4,466 million). In the USA, the Domestic Air product in particular was impacted by the drop in revenue and volume in the first six months of 2006. However, revenue leveled out in the second half of the year. The other markets in the region reported an increase in revenue of around 13%. Negative currency effects reduced revenue by €74 million.

Supported by sustained economic growth, revenue in the Asia Pacific region rose by 12.9% to €2,443 million (previous year: €2,163 million). Growth rates even exceeded 17% in some countries, including China, India and Malaysia.

In the Emerging Markets (EMA), revenue increased year on year by 14.7% to €969 million (previous year: €845 million). Here, the high levels of awareness of the DHL brand had a positive impact.

Profit from operating activities (EBIT) improved from a negative €23 million to €325 million. The previous year's figure contained a write-down of goodwill for the Americas of €434 million. Further improvements in earnings in the Asia Pacific and EMA regions contributed to the development. In the Americas, the earnings situation improved markedly during the course of the year. The monthly results in the second half of 2006 show that a turnaround is under way in the USA. In Europe, we succeeded in further improving our earnings. The operating results from countries other than Germany compensated for the dip in earnings in the German parcel business. Return on sales in the express business was 1.9%.

Enlarged logistics business developing strongly

In 2006, the LOGISTICS Division smoothly and almost completely integrated Exel, grew more strongly than expected and attained its targeted performance levels. As of July 1, 2006, we transferred our European overland transport business – now the DHL Freight Business Unit – from the EXPRESS Division to the LOGISTICS Division. The prior-year figures have been restated accordingly.

Revenue totaled €22,793 million (previous year: €9,933 million). All three business units contributed to this figure with sustained organic growth. Acquisitions accounted for €11,639 million, mostly from the purchase of Exel. Exchange rate effects had a negative impact amounting to €202 million.

DHL Global Forwarding continued its growth across the board, as shown by the table below. Revenue grew both organically and as a result of acquisitions by a total of 62.0% to €9,271 million (previous year: €5,723 million).

DHL Global Forwarding: volumes

thousands		2005	2006	+/–%
Air freight	Tonnage	2,380	4,110	72.7
Ocean freight	TEUs[1]	1,240	2,400	93.5

1) Twenty-foot equivalent units.

In addition to the acquisition effect, our air freight business also recorded organic growth. Fuel and security surcharges also had a positive impact on the revenue trend for the year as a whole, while a changed trade lane mix and lower freight rates contributed negatively.

Revenue from ocean freight grew in particular as a result of acquiring Exel. In addition, we notched significantly increased volumes from existing business and with new customers. A dip in freight rates on certain high-volume routes had an opposite effect.

The increase in the Other segment was essentially the effect of the Exel acquisition and was bolstered by organic growth.

DHL Global Forwarding: revenue by segment

€m	2005	2006	+/–%
Air freight	2,925	4,956	69.4
Ocean freight	1,883	2,657	41.1
Other[1]	915	1,658	81.2
Total	**5,723**	**9,271**	**62.0**

1) Previously reported under Projects/other.

We also achieved strong growth in the DHL Exel Supply Chain Business Unit, with revenue pulling ahead significantly from €2,279 million in the previous year to €11,957 million in 2006. Exel's business provided a major boost in contract logistics. The result was a sharp increase in revenue across nearly all sectors, as shown by the table on the following page. As Exel leads the key fast-moving consumer goods markets, the largest absolute growth was attained in this sector.

DHL Exel Supply Chain: revenue by sector			
€m	2005	2006	+/–%
Automotive	81	1,517	–[1]
Pharma/healthcare	60	723	–[1]
Electronics/telecommunications	851	1,358	59.6
Fast-moving consumer goods	750	5,330	–[1]
Textiles/fashion	418	1,243	–[1]
Other	119	1,786	–[1]
Total	**2,279**	**11,957**	**–[1]**

1) n/a.

We have reported on the DHL Freight Business Unit since the third quarter of 2006. This unit generated organic revenue of €1,999 million in the second half of 2006 (previous year: €1,958 million), 2.1% more than in 2005.

Profit from operating activities (EBIT) totaled €762 million (previous year: €346 million). The 120.2% increase is due to both organic growth and the acquisition of Exel. This includes an expected return on plan assets of €235 million, which is related to pension obligations. Return on sales was 3.4% compared with 3.5% in the previous year.

Postbank increases income and profit

At the turn of the year, Postbank acquired 850 retail outlets from Deutsche Post AG, as announced in the 2005 Annual Report. Since then, we have reported on the larger number of retail outlets retained by Deutsche Post in the SERVICES Division. The prior-year figures have been restated accordingly.

In 2006, the FINANCIAL SERVICES Division generated revenue of €9,593 million (previous year: €7,089 million). In the banking business, income from interest, fees and commissions and net trading income are equivalent to an industrial company's revenue. The takeover of BHW resulted in acquisition effects in relation to revenue totaling €1,998 million.

Despite the expenses arising from the integration, the division increased its profit again: Thanks to Postbank's continued healthy operating performance, EBIT rose by 16.3% to €1,004 million (previous year: €863 million).

Postbank increased its balance sheet-related revenues and net fee and commission income by a substantial 45.4% to €4,117 million (previous year: €2,831 million). The balance sheet-related revenues – net interest income, net trading income and net income from investment securities – increased by 27.1% to €2,710 million (previous year: €2,132 million). Although the interest rate environment provides little stimulus, net interest income rose sharply, by 29.7% to €2,173 million as a result of acquisitions, among other things. At €292 million, net income from investment securities was 15.9% up on the previous year. Net trading income increased by 19.5% to €245 million.

Net fee and commission income more than doubled to €1,407 million (previous year: €699 million), mainly as a result of acquiring BHW and 850 Deutsche Post retail outlets. The proportion of total income accounted for by net fee and commission income rose from 24.7% to 34.2%.

At 64.4%, the allowance for losses on loans and advances for the credit business including BHW rose by less than the rate of growth in the volume of customer credits. Administrative expenses increased by 49.1% to €2,812 million as a result of acquisitions.

Net other operating income and expenses amounted to €–27 million (previous year: €–21 million). This item included a large proportion of the integration costs. Postbank's return on equity (ROE) before taxes rose year on year from 15.0% to 18.9%. The cost/income ratio in the traditional banking business was slightly higher as a result of the acquisition, amounting to 66.7% at the end of 2006 compared with 63.7% at the end of the previous year. Including transaction banking, which is dominated by industrial processing, it amounted to 68.3% (previous year: 66.6%). The tier 1 ratio, calculated in accordance with the BIS standards, amounted to 5.5% at December 31, 2006 compared with 8.3% at the end of the previous year.

Deutsche Postbank AG provides details of its business development in 2006 in its own i annual report, published on March 19, 2007.

i http://ir.postbank.com

Revenue growth for SERVICES

On January 1, 2006, we created a new SERVICES segment. This includes internal services throughout the Group, which we list in detail on page 37. As already communicated, SERVICES also reports income and expenses recorded by Deutsche Post AG that cannot be allocated to an individual division. We report the services provided by internal service providers as internal revenue. The prior-year figures were restated accordingly.

In the first half of the year, we also reported on hubs and global network aviation in the SERVICES segment. As part of the reorganization of the global express network, these were then transferred to the EXPRESS Division as of July 1, 2006.

In fiscal year 2006, revenue increased by 4.5% to €4,048 million (previous year: €3,874 million).

In the period under review, the loss from operating activities (EBIT) amounted to €237 million, a significant deterioration compared with the prior-year figure (profit of €679 million). However, the prior-year profit included income of €1,141 million resulting from the reversal of provisions for the Postal Civil Service Health Insurance Fund of Deutsche Post AG. In the period under review, we mainly benefited from the following extraordinary factors: income of €276 million generated by calling the exchangeable bond on Postbank stock prior to maturity and a positive conclusion to arbitration proceedings against Deutsche Telekom resulting in net income of €89 million.

Net Assets and Financial Position

Acquisitions and disposals

Exel and BHW integrated successfully

In December 2005, we acquired the UK company Exel plc (Exel), which was included in the consolidated group as of December 31, 2005. Our Group subsidiary Deutsche Postbank AG acquired a majority interest in BHW Holding AG (BHW) with effect from January 2, 2006. These two key acquisitions were integrated quickly and smoothly during the period under review. We also rounded off our portfolio by making selected acquisitions and disposals.

Note 3

International platform for mail logistics expanded

In the MAIL Division, we made the following important investments:

- On March 24, 2006, we acquired 66.15% of the shares, and hence a majority stake, in the UK company Williams Lea, the global leader in corporate information management solutions. With the acquisition of this interest, we are expanding both our international presence and our range of value-added services.
- As announced in November 2006, Williams Lea acquired 100% of the shares in the UK company The Stationery Office, the public-sector leader in print and document management with excellent contacts in public administration. The transaction was completed on January 10, 2007.

Air freight capacity secured in the express business

In the EXPRESS Division, we made considerably fewer acquisitions in the period under review. The only major acquisition was that, on November 28, 2006, we agreed to purchase 49% of US airline Polar Air Cargo Worldwide. The transaction is likely to take legal effect in the first half of 2007. It guarantees DHL long-term access to air freight capacity on trans-Pacific routes.

Logistics business consolidated following the acquisition of Exel

In 2006, in the course of integrating Exel, we made a series of smaller acquisitions to complement the business area.

Postbank becomes the leading financial services provider for private customers

The acquisition of BHW Holding was completed on January 2, 2006. Postbank now holds 98.43% of the shares in the home financing specialist, making it Germany's leading financial services provider for private customers. With approximately 4,400 mobile financial advisors, it offers the largest network of advisors controlled by a bank. The official program for integrating Postbank, BHW and the retail outlets was completed on October 1, 2006, three months ahead of schedule.

Ongoing portfolio management

In addition to making acquisitions in 2006, we continued to optimize our portfolio by disposing of activities that were not part of our core business. These included activities that were acquired together with Exel and classified as non-core activities. The key disposals were:

- McPaper AG, Germany, as of January 1, 2006
- Marken Ltd., UK, as of March 21, 2006
- Vfw Thermomed GmbH & Co. KG, Germany, as of October 19, 2006
- Building society Modra Pyramida Stavebni Sporitelna, a. s., as of October 10, 2006

Consolidated balance sheet

As of the balance sheet date, total assets amounted to €217,698 million, a year-on-year increase of €45,058 million (+26.1%). This was mainly due to the acquisition-related increase in receivables and other securities, as well as liabilities from financial services items, both of which reflect the operating business of Postbank.

At €26,074 million, noncurrent assets were 3.4% higher than the prior-year figure (€25,223 million). Intangible assets increased by €1,626 million to €14,652 million due to the first-time consolidation of companies, including BHW and Williams Lea. Property, plant, and equipment fell by 5.2% to €9,388 million (previous year: €9,908 million). At the end of the year, Deutsche Post AG transferred real estate with a fair value of €319 million (carrying amount: €311 million) to Deutsche Post Pensionfonds GmbH & Co. KG.

Noncurrent financial assets increased by 16.4% to €994 million. This change was due in particular to the increase in other noncurrent financial assets, as well as to the acquisition of BHW and Williams Lea. At €376 million, other noncurrent assets were almost unchanged year on year (previous year: €373 million). Deferred tax assets declined by 43.2%, from €955 million to €542 million.

As of the balance sheet date, current assets amounted to €191,624 million, an increase of 30.0% on the prior-year figure (€147,417 million). The expansion of the operating business of Deutsche Postbank AG resulted in particular in an increase in receivables and other securities from financial services, from €136,213 million to €179,280 million. This growth is reflected in the loans and advances to customers from mortgages in the amount of €30,195 million.

Equity was strengthened primarily as a result of the net profit attributable to shareholders of Deutsche Post AG in the amount of €1,916 million. As of the balance sheet date, it amounted to €13,952 million (previous year: €12,415 million). In the period under review, a dividend of €836 million was paid for the previous fiscal year. As a result of the exchangeable bond being exercised, minority interests increased by 52.5%, from €1,791 million to €2,732 million.

Under the "Postbank at equity" scenario, i.e. excluding banking operations, the equity ratio amounts to 31.6%. This is 2.7 percentage points higher than the 28.9% calculated as of December 31, 2005. The ratio of equity to noncurrent assets for the "Postbank at equity" scenario increased from 40.4% to 46.3%.

Current and noncurrent liabilities increased by 28.0% to €189,513 million (previous year: €148,064 million). This was mainly attributable to the growth in liabilities from financial services, which rose by €39,970 million. Group financial liabilities (excluding Postbank) declined by €460 million to €5,440 million. This was mainly due to the fall in noncurrent financial liabilities following the exercise of the exchangeable bond in the amount of around €1 billion, less Deutsche Post AG's current borrowings. At €5,069 million (previous year: €4,952 million), trade payables were almost unchanged. Other current and noncurrent liabilities rose sharply, from €7,844 million to €9,449 million, mainly because Postbank's subordinated debt increased by €1,264 million to €5,048 million. Of this increase, €802 million relates to subordinated liabilities and €549 million to profit participation certificates. The first-time consolidation of BHW was a major influencing factor.

Current and noncurrent provisions increased by 17.0% to €14,233 million. The increase of €378 million in pension provisions relates mainly to the acquisition of BHW. Other provisions increased by €1,871 million, also primarily as a result of acquisitions.

Share capital

The share capital is €1,202,319,860 and divided into the same number of shares of common stock (no-par value shares). All shares have the same rights. Each no-par share grants one vote at the Annual General Meeting.

The Board of Management is authorized, with the approval of the Supervisory Board, to increase the share capital by up to €174,796,228 by issuing up to the same number of no-par value shares against non-cash contributions by May 17, 2010 (2005 authorized capital). The shareholders' subscription right is excluded.

The Board of Management may also issue new shares from Contingent Capital I and II in accordance with our Articles of Association. The issuance of shares from Contingent Capital I and II is allowed solely for the purpose of servicing subscription rights issued on the basis of Deutsche Post AG's Stock Option Plans 2000 and 2003.

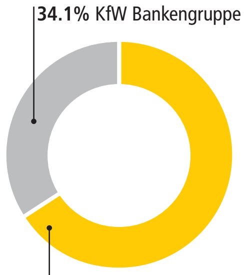
http://investors.dpwn.com

Furthermore, the Board of Management is authorized, with the approval of the Supervisory Board, to effect one or more issues of warrant-linked and/or convertible bonds with a total nominal value of up to €1 billion by or before May 5, 2007. These may confer the right to buy, and/or convert bonds into, new shares in Deutsche Post AG constituting a total proportionate amount of up to €56 million of the company's share capital; such shares may be issued from Contingent Capital III (Article 5(5) of the Articles of Association). The Annual General Meeting in May 2006 also renewed the global authorization allowing the Board of Management to acquire own shares amounting to up to a total of 10% of the share capital. No use has yet been made of this authorization.

Shareholder structure

As expected, our largest shareholder, KfW Bankengruppe (KfW), continued to reduce its interest in our company. In July 2006, it sold around 73.1 million of its Deutsche Post shares – around 6% of the share capital. The shares were placed with institutional investors using the accelerated bookbuilding procedure. On December 31, 2006 KfW held approximately 411 million Deutsche Post shares. The free float amounted to 65.9%, as the diagram opposite shows.

Shareholder structure, December 2006



The exchangeable bond on Deutsche Post AG stock issued by KfW in December 2003 fell due in January 2007. Investors were able to exercise the option of exchanging the bond for Deutsche Post stock until December 21, 2006. The exchange placed approximately 55.8 million of KfW's shares onto the market. KfW now holds 368.3 million Deutsche Post AG shares, or 30.6% of the share capital.

These two transactions increased our free float from 58.4% to 69.4%, taking us a step closer to our goal of a 100% free float. A high free float improves the share's liquidity and makes it more attractive to institutional investors around the globe.

A total of 9,686,121 options were exercised under our stock option plan in the year under review.

Note 36

Cash flow disclosures

Note 51

In order to illustrate the financial position, we have summarized the major items in the cash flow statement (Postbank at equity) below.

Selected indicators for financial position (Postbank at equity)

€m	2005 restated	2006
Cash and cash equivalents at December 31	1,384	1,761
Change in cash and cash equivalents	–3,397	377
Net cash from operating activities	1,715	2,178
Net cash used in investing activities	–3,860	–871
Net cash used in financing activities	–1,207	–876

Net cash from operating activities increased by €463 million to €2,178 million (previous year: €1,715 million) even though EBIT declined by €407 million. This was primarily the result of a fall in non-cash income from the reversal of provisions, which was partly offset by lower depreciation and amortization of noncurrent assets. The net outflow of working capital increased from €303 million to €657 million. This negative effect reduced the increase in operating cash flow compared with the previous year.

Net cash used in investing activities amounted to €871 million in the year under review. This was mainly due to investments in other noncurrent assets (capital expenditure including other noncurrent financial assets) amounting to €1,813 million. Disposals of other noncurrent assets amounting to €925 million only partially offset this cash outflow. In the previous year, net cash used in investing activities reflected in particular the cash outflow of €3,720 million arising from the acquisition of Exel, as a result of which the 2005 financial statements showed net cash used in investing activities of €3,860 million in total.

Net cash used in financing activities decreased from €1,207 million to €876 million. While, in the previous year, financial liabilities were reduced by €324 million, in the year under review, there was a cash inflow of €272 million from additional financial liabilities. Interest payments of €399 million (previous year: €384 million) and the dividend paid to Deutsche Post AG shareholders of €836 million (previous year: €556 million) resulted in an overall net cash outflow. There was also a cash inflow of €124 million (previous year: €65 million) from the issue of Deutsche Post AG stock under the stock option plan.

As a result of the net cash flows shown above, cash and cash equivalents for the Group excluding Postbank increased by €377 million in fiscal year 2006. As of December 31, 2006, cash and cash equivalents therefore amounted to €1,761 million, compared to €1,384 million as of December 31, 2005.

Selected indicators for the "Postbank at equity" scenario

The business activities of the Deutsche Postbank Group differ fundamentally from those of the other companies in the Group. For this reason, we present an additional analysis of the balance sheet indicators under the "Postbank at equity" scenario. In this perspective, Postbank is treated as a financial investment carried at equity.

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. Net debt was reduced from €4,193 million to €3,083 million which was due in particular to calling the exchangeable bond.

At the same time, the ratio of net debt to the total of equity and net debt combined also fell: Net gearing decreased from 28.1% to 21.4%.

Selected indicators for net assets (Postbank at equity)

		2005 restated	2006
Equity ratio	%	28.9	31.6
Ratio of equity to fixed assets	%	40.4	46.3
Net debt	€m	4,193	3,083
Net gearing	%	28.1	21.4
Net interest cover		19.0	8.3
Dynamic gearing ratio	years	2.4	1.4

Net interest cover of 8.3 indicates that EBIT exceeds net interest payment liabilities by a factor of 8.3. In the previous year, this indicator stood at 19.0.

The dynamic gearing ratio expresses the average number of years required to repay outstanding debt using the whole of the operating cash flow generated in the year under review. Accordingly, in 2006, net debt would have been paid by operating cash flow in 1.4 years (previous year: 2.4 years). The improvement is attributable to the increase in operating cash flow and the decrease in net debt.

Balance sheet structure (Postbank at equity)

as of December 31	2005 restated €m	2005 restated %	2006 €m	2006 %
ASSETS				
Intangible assets	12,804	34.4	13,138	36.6
Property, plant, and equipment	9,155	24.6	8,446	23.5
Investment property	35	0.1	50	0.1
Noncurrent financial assets	4,186	11.2	2,503	7.0
Other noncurrent assets	373	1.0	376	1.0
Deferred tax assets	521	1.4	298	0.8
Noncurrent assets	**27,074**	**72.8**	**24,811**	**69.0**
Inventories	279	0.7	268	0.7
Noncurrent assets held for sale	28	0.1	56	0.2
Tax receivables	526	1.4	576	1.6
Receivables and other assets	7,883	21.2	8,427	23.4
Cash and cash equivalents including financial instruments	1,419	3.8	1,803	5.0
Current assets	**10,135**	**27.2**	**11,130**	**31.0**
Total assets	**37,209**	**100.0**	**35,941**	**100.0**
EQUITY AND LIABILITIES				
Equity attributable to Deutsche Post AG shareholders	10,624	28.6	11,220	31.2
Minority interest	110	0.3	128	0.4
Equity	**10,734**	**28.8**	**11,348**	**31.6**
Noncurrent provisions	7,799	21.0	7,714	21.5
Noncurrent financial liabilities	5,045	13.6	3,495	9.7
Other noncurrent liabilities	233	0.6	242	0.7
Noncurrent provisions and liabilities	**13,077**	**35.1**	**11,451**	**31.9**
Current provisions	2,363	6.4	1,771	4.9
Current financial liabilities	930	2.5	1,948	5.4
Trade payables	4,869	13.1	4,930	13.7
Tax liabilities	558	1.5	751	2.1
Liabilities associated with noncurrent assets held for sale	20	0.1	17	0.0
Other current liabilities	4,658	12.5	3,725	10.4
Current provisions and liabilities	**13,398**	**36.0**	**13,142**	**36.6**
Total equity and liabilities	**37,209**	**100.0**	**35,941**	**100.0**

Investments

At a total of €1,931 million as of December 2006, investments (capital expenditure) were at the previous year's level, as can be seen from the diagram opposite. €1,257 million of this figure related to investments in property, plant, and equipment and €674 million to investments in intangible assets (not including goodwill).

In the MAIL Division, we invested primarily in improving the technical equipment at the national mail centers, modernizing our national and international mail networks and expanding our information technology.

In the EXPRESS Division, our investments in Germany included technical equipment for our express centers and special hardware components that support the distribution of our express products. We also installed additional Packstations. We expanded our network infrastructure across Europe and renewed the vehicle fleet in some countries. One major investment on the agenda is the construction of the new European air hub at Leipzig/Halle airport.

We also improved our network infrastructure in the USA. A considerable sum was spent, for example, on the construction of the central air hub in Wilmington, Ohio. New hubs are being established in Allentown, Pennsylvania and Riverside, California. We also expanded our delivery and collection services.

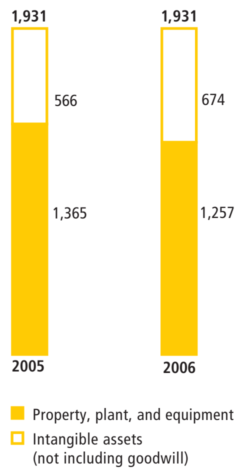
Investments in the Asia Pacific region centered on China, Hong Kong, Malaysia, Thailand, and India. In China, DHL is building a new regional headquarters in Beijing, in Malaysia it is building a service center, and in Thailand it is building an express hub at Bangkok Airport. In Hong Kong, we expanded our Asia Pacific air hub at the international airport there, and in India we invested in our national air fleet (Blue Dart).

In the LOGISTICS Division, we invested mainly in the DHL Exel Supply Chain business, for example in the development of customized transportation and warehousing solutions and the installation of warehousing infrastructure, primarily in the UK, Germany, the Netherlands, the USA, Canada, China, and Australia. In the DHL Global Forwarding business, we improved buildings facilities and processes, and in the DHL Freight business we invested primarily in vehicles and the IT infrastructure. Investing activities in the LOGISTICS Division increased significantly year on year due to the integration of Exel.

The main investments by Postbank centered primarily on the integration of BHW and the 850 retail outlets acquired from Deutsche Post. We also expanded our modern multi-channel banking architecture so as to support sales activities. In transaction banking, we developed the Payment Solution, a payment transactions platform with multi-client capability. At BHW Bausparkasse, we retired the old system for lending and home savings processes, thus paving the way for a loan factory. In addition, we successfully implemented the new supervisory regulations governing risk capital requirements (Basel II), which came into force as of January 1, 2007.

Investments

€m



Group Management Report

In terms of company-wide investments, we renewed our vehicle fleet in Germany and improved the IT infrastructure in the data centers operating worldwide.

Principles and aims of financial management

The primary aim of financial management is to ensure the Group's financial stability and flexibility. This is achieved through a balanced relationship between equity and liabilities. Sources of financing are combined so as to ensure that interests are optimally balanced between the return expected by shareholders and the requirements of rating agencies in their role as the creditors' representatives. In 2006, the equity ratio amounted to 31.6% (previous year: 28.9%). In order to minimize the cost of capital and benefit from economies of scale and specialization, external financing measures, Group-wide finance and liquidity management, and the hedging of interest rate, currency and commodity price risks are all coordinated centrally.

To limit these financial risks, the Group makes use of derivative as well as primary financial instruments. Currently, this involves managing interest rate risk mostly with interest rate swaps and, to a limited extent, with interest rate options. Ordinary forward transactions, cross-currency swaps and options are used to hedge currency risks. Swaps are one of the methods used to limit risks relating to commodities. The necessary universe of actions, responsibilities and controls has been clearly established in internal guidelines.

The Group aims to cover its financial requirements with debt financing structured around a broad mix of financial instruments. We use bilateral credit lines, corporate actions, structured financing transactions and operating leases for this purpose. Operating leases are used mainly to finance aircraft and real estate, but also for vehicles and IT equipment.

By far the most important currency in which debt is denominated is the euro (40%), followed by the US dollar (27%). The Group expects interest rates in the euro zone to increase slightly but to remain below long-term average rates. The negative impact that a rise in interest rates would have on the financial position remains insubstantial.

In addition, the Group currently has unused credit lines amounting to some €4.2 billion. A Group-wide banking policy ensures that it cannot become heavily dependent on the lending policy of a single bank or banking group.

The creditworthiness of the Group is regularly reviewed by the rating agencies Standard & Poor's, Moody's Investors Service and Fitch IBCA. The current ratings are:

Deutsche Post ratings

	Moody's Investors Service	Standard & Poor's	Fitch IBCA
Long-term	A2	A	A+
Outlook	Stable	Negative	Negative
Short-term	P–1	A–1	F1
Last change	July 27, 2006	September 13, 2006	July 24, 2006

Due to Postbank's positive share performance, Deutsche Post AG exercised the option provided for in the bond terms and conditions to call the exchangeable bond on Postbank stock prior to maturity on July 3, 2006. Bondholders were able to exchange the exchangeable bond for Postbank stock until July 24. Following this transaction, Deutsche Post's interest in Postbank stands at 50% plus one share. Information on Deutsche Post's other bonds is contained in the i Notes.

i Note 44

Employees

Number of employees rises

As of December 31, 2006, the Group had a global workforce of 520,112 (463,350 full-time equivalents). The total number of employees rose compared with the previous year, although the number of civil servants dropped further to 62,560.

In the MAIL Division, the number of employees grew by 3.7% to 129,922 as a result of the acquisition of Williams Lea along with its 6,600 employees. The lower net increase of just 4,640 employees was due to our efforts to further optimize workflows and the fact that the weekly working hours of mail carriers were again extended on a voluntary basis.

Employee numbers remained virtually unchanged in the EXPRESS Division, while organic growth in the LOGISTICS Division increased the number there by 2.6% to 162,706.

The FINANCIAL SERVICES Division has 22,570 employees – 11.2% more than in the previous year. The reason for the increase was the acquisition of BHW with 3,900 employees, while McPaper (with 705 employees) was sold.

The number of employees in the SERVICES Division declined by 6.6% to 23,872, primarily due to the continued reorganization of the retail outlet network.

Workforce as of December 31

	2005 restated	2006	+/– %
Headcount[1]	**502,545**	**520,112**	**3.5**
Full-time equivalents[2]	**455,115**	**463,350**	**1.8**
By division			
MAIL	125,282	129,922	3.7
EXPRESS	125,407	124,280	–0.9
LOGISTICS	158,581	162,706	2.6
FINANCIAL SERVICES[3]	20,299	22,570	11.2
SERVICES	25,546	23,872	–6.6
By region			
Europe	330,785	326,099	–1.4
North, Central and South America	74,122	81,175	9.5
Asia Pacific	41,311	46,948	13.6
Other	8,897	9,128	2.6
Average for the year			
Full-time equivalents[2]	348,642	456,344	30.9
Headcount	393,463	507,641	29.0
Hourly workers and salaried employees	324,368	440,203	35.7
Civil servants	64,491	62,560	–3.0
Trainees	4,604	4,878	6.0

1) Including trainees.
2) Excluding trainees.
3) Of which Postbank 19,508 (2005), 21,696 (2006).

Pay increased as planned

The collective agreement on pay of May 13, 2006 was implemented at Deutsche Post AG on November 1, 2006, with a linear wage increase of 3% for hourly workers and salaried employees. Pay will increase by another 2.5% on the same date in the coming year. This represents an increase of 2.3% in the first year of the agreement and 2% in the second year.

Employment pact provisions extended

Deutsche Post AG and its collective bargaining partner ver.di, the German service sector trade union, agreed to outsource 880 parcel delivery districts to third parties as of January 1, 2007. In addition, the following provisions of the employment pact were extended until December 31, 2009: voluntary assumption of additional services, piece-rate provisions for parcel pick-up and delivery of Infopost Schwer items, and exclusion of pay levels 8 and 9 from lay-off protection. Christmas Eve and New Year's Eve remain regular workdays.

Award for health management

For the sixth year in a row, Deutsche Post AG's absence rate due to illness declined and, at 5.1%, reached its lowest level yet. Once again, in the year under review, we received an award for our healthcare policies, with our health management activities ranked first out of 100 companies in a study by the German business newspaper *Handelsblatt*. The quality management system set up by our occupational health and safety organization was again successfully re-certified. We were also recognized for our health promotion activities by the Susan G. Komen Breast Cancer Foundation, which has been fighting this disease worldwide for more than 20 years now.

Focus on safety

In September 2006, we signed the European Road Safety Charter. In order to raise awareness of this topic among our employees, our occupational safety team launched a Global Road Safety Initiative throughout the Group in January 2007. We take the responsibility of managing hazardous goods particularly seriously. Although we have many operating facilities and transport large quantities of these materials, there were no major incidents to report in 2006.

Training pact successfully implemented

In the year under review, we hired around 2,500 up-and-coming employees as trainees, students in *Berufsakademie* (German Universities of Cooperative Education) programs, and interns. A new program for the promotion of young employees was also launched for trainees and *Berufsakademie* students; we will offer the best candidates each year permanent positions after they complete the program. In order to assist disadvantaged youth, we participate in the EQJ (Youth Job-Market Entrance Qualification) program. We were able to offer 90% of participants traineeships after they successfully completed the program.

Worldwide adoption of our corporate values

We have made excellent progress in the worldwide introduction of our seven corporate values. Most of the workshops on this topic planned for the MAIL and

EXPRESS Divisions have now been completed. Our corporate values provide a stable foundation for seamless cooperation among our 500,000 employees from various national, ethnic, and cultural backgrounds.

Code of Conduct ensures integrity

Based on one of our corporate values, which stipulates that we "act with integrity internally and externally," we developed a Code of Conduct that became binding for all divisions and regions in the summer of 2006. The code contains guidelines on various issues and governs behavior in a number of different situations. Our Code of Conduct encourages employees to act responsibly so that the quality of their work, as well as our customer service, improves further as a result. They are also encouraged to report potentially problematic situations where necessary, and to discuss these with their supervisors.

Leveling the playing field

In 2006, Deutsche Post was recognized for the third time by the Total E-Quality initiative for its pioneering human resources management policies aimed at ensuring equal opportunity for all employees. For years now, we have been active in promoting equal opportunity although there is no statutory requirement to do so. Two of our programs received special recognition. One was our mentoring program for supporting women in leadership positions, and the other was "motiv8," a system of individual performance assessment of employees by their supervisors. The opportunities we provide for arranging flexible working hours and maintaining a healthy work-life balance, as well as our wide array of social benefits for employees were also assessed.

First Group-wide employee survey

In the year under review, we conducted our first Group-wide employee survey. Sixty-four percent of employees responded to the survey, expressing their opinions on customer orientation, commitment, active leadership, willingness to change, and general job satisfaction. Based on the results, follow-up processes were initiated in the divisions to analyze the potential for improvement and implement the necessary measures. As a strategic measurement and management tool, the employee survey provides important insight into the overall condition of our entire organization and therefore supports the aims of our First Choice program.

The leader in idea management

Deutsche Post employees submitted 210,588 suggestions during the year under review for €271.4 million in benefits for our company. (Please note that the method for calculating this figure has changed since last year.) In 2006, we were named the top company in the area of idea management for the first time in a study by Deutsches Institut für Betriebswirtschaft (dib). As a result, we were awarded the following prizes: the "dib Wissenschaftspreis" (dib Science Award), the "International Award" for an idea for the cost-effective de-icing of DHL airplanes, and "Best Inventor Team" for a patent on a partially automated method for facilitating the sorting of mail.

Attracting young international managers

In 2006, we offered international traineeships to more than 100 students from AIESEC, the world's largest student organization. Over 60% of the trainees were subsequently appointed to permanent positions within the Group.

Executive development

The Group offers executives specially tailored development programs as well as an International Business Leadership Program which takes place five or six times a year at various locations. The objective of this program is to develop and network selected executives around the globe.

Effective internal talent pipeline

Our aim is to identify early on and then leverage the talents of our employees. To this end, Deutsche Post World Net has set up an internal talent pipeline that is a key tool for succession planning and providing support for hiring from within the company to fill vacant positions. Information is collected on the performance, potential and future employment possibilities of all Group executives. This data is compiled each year during "motiv8" – our Group-wide performance management system. The quality of the information collected in this way has improved greatly. As a result, appropriately-qualified internal applicants can now be recommended for nearly all vacant positions. In 2006, 89% of job openings in the second and third management levels were filled from within the company. The talent pipeline is our effort to ensure that our employees reach their goal of a career within the Group.

Sustainability

The environment, people and society

Sustainable business practices are a key part of our Group's strategy. Our guideline in these efforts is our Code of Conduct, which was introduced and became binding in 2006. This code is based on international agreements and guiding principles such as the Universal Declaration of Human Rights, International Labour Organization Conventions, and the United Nations Global Compact.

Recognized by the capital markets

Our commitment to sustainability has been noted and well received by stock markets. In 2006, we were included in the DJSI STOXX, the respected Dow Jones sustainability index. The FTSE4Good Index also confirmed our company as a member. We are similarly included in the Advanced Sustainability Performance Index Eurozone maintained by the French rating agency Vigeo and listed in the KLD Global Climate 100 Index. Our climate protection efforts earned us the top rating in the air freight and courier services category from the i Carbon Disclosure Project.

i www.cdproject.net

Partnership with the United Nations expanded

www.dpwn.com/sustainabilityreport

Our strategic partnership with the United Nations Development Programme (UNDP) and the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) was expanded again in 2006. We have set up two well-trained disaster response teams which already demonstrated their commitment on two assignments in 2006. Through this project, we offer our core competency in logistics to the international community, free of charge.

In addition, we entered into a partnership with the United Nations Children's Fund (UNICEF). The objective here is to support UNICEF in its fight against child mortality by providing logistics services, financial assistance, and the personal commitment of our employees. The launch of this partnership took place in 2006 in Kenya, where we distributed approximately 3.5 million mosquito nets as part of Africa's largest vaccination campaign.

Environmental and climate protection

As a responsible logistics company, we consider minimizing the adverse effects of our own activities to be one of our most important duties. We aim to reduce our use of fossil fuels, lower CO_2 emissions, and, by 2012, to cut greenhouse gas emissions from our road transport activities in Europe by 5% compared with 1990 levels. Our fleet of natural gas-powered vehicles for parcel delivery in Germany grew by 100 vehicles to a total of 170. In addition, we use alternative engines and fuels, consolidate shipments, and optimize route planning. The new "GOGREEN Pluspäckchen" is a climate-neutral dispatch option that has been available to customers at our retail outlets since August 2006. The emissions associated with mailing this package are offset by climate-protection projects. In January 2007, we also began offering climate-neutral express delivery services to business customers in Europe. Our first international customer was the World Economic Forum, which switched to GOGREEN for all of its express shipments in advance of its annual meeting in Davos.

Strong social commitment

www.dpwn.com/sustainability

Large-scale projects are not the only ones in which we participate. Our social commitment extends to numerous local and regional initiatives, many of which are suggested by our employees. Above all, we support projects in the areas of disaster relief, future generations and the entrepreneurial activities of small companies.

First sustainability report published

www.dpwn.com/sustainabilityreport

In June 2006, Deutsche Post World Net published its first sustainability report outlining our strategy and key sustainability activities. This report combines the formerly separate environmental, human resources, and social reports and was audited externally.

Risk Management

Group-wide opportunity and risk control

In view of the variety of business activities performed, Deutsche Post World Net is exposed to a number of opportunities and risks that go hand-in-hand with business operations and can influence our results both positively and negatively. To ensure that opportunities and risks are identified, analyzed, evaluated and managed early on, we operate a company-wide opportunity and risk management system that is integrated into our existing management and controlling processes. The close intermeshing of opportunity and risk information with this tool enables the Group to guarantee the regular exchange of information between Controlling and the management responsible using standardized processes. We aim to reinforce our culture of opportunity and risk awareness, which is firmly anchored in the company, and to promote cross-divisional communication of opportunity and risk information. This opportunity and risk control process allows us to ensure the future success of our company for the long term.

Postbank's i risk control system is in line with the banking supervision requirements of the Basel Committee on Banking Supervision (Basel II) and the Minimum Requirements for Risk Management (MaRisk). Moreover, Postbank is integrated into the Group's opportunity and risk control process.

i Note 52.1

Central risk control defines uniform processes and standards throughout the Group and ensures compliance with these. The process, which is uniform throughout the Group, has been aligned both in terms of content and timing with a range of management and financial control tools. Opportunities and risks are identified by analyzing events and developments within the company or its environment that could lead to deviations from the financial plan. Responsibility for each opportunity and risk is assigned to a member of staff who assesses these using scenario modeling and implements appropriate measures to take advantage of opportunities or manage risks. The relevant information is communicated from the divisions to Corporate Controlling and then to the Board of Management via the multi-level risk reporting system. Should new opportunities and risks arise, or individual items change significantly, they are also reported outside of the fixed reporting intervals.

The following paragraphs outline the risks which could have a material adverse effect on our net assets, financial position and results of operations. However, these are not necessarily the only risks to which the Group is exposed. Risks of which we are currently unaware or which we do not yet consider to be material could also have an adverse effect on our business activities.

General business environment and industry-specific risks

Our business environment is shaped by the advance of globalization. The increase in outsourcing of services by companies and growth in global purchasing also boost international commodity flows and global trade. Demand for transportation, storage, processing, communications, planning and management services is growing as a result. This presents diverse opportunities for Deutsche Post World Net. At the same time, globalization stokes fiercer competitive rivalry with market players new and old throughout the world.

The volume of our business is broadly linked to the general economic situation in individual countries and regions, and to trade relations between them. Negative economic trends in countries and regions important to the Group can pose risks for our business activities. We do not currently perceive any material general economic risks facing the Group.

The fact that both the Group and its subsidiaries provide some of their services in a regulated market gives rise to risks associated with the general business environment. The MAIL Division notably operates within the following regulatory framework: On January 1, 2003, the EU directive on further deregulation of the European postal markets was implemented into German law. As a result, the exclusive license held by Deutsche Post AG existing until December 31, 2007 according to the law as it currently stands, has been restricted little by little. As of January 1, 2003, letters and addressed catalogs over 100g and/or three times the standard rate, and outgoing cross-border mail services, were opened up to competition. On January 1, 2006, these ceilings were cut to 50g and two-and-a-half times the standard rate. As the law now stands, the mail monopoly in Germany will be abolished as of January 1, 2008.

On October 18, 2006, the European Commission proposed the complete deregulation of EU postal markets starting in January 2009 and therefore confirmed the deadline already stated in the current Postal Directive. The Council and Parliament of the EU will now rule on the proposed directive using the co-decision procedure.

While the deregulation of the postal markets entails risks for Deutsche Post AG due to increased competition in Germany, the deregulation of other European mail markets opens up new opportunities.

The *Postgesetz* (German Postal Act) has allowed exceptions enabling competitors to operate within the weight and price ceilings laid down in our exclusive license since January 1998. As a result, around 50% of the revenue generated by competitors today is within the weight ceilings stipulated by this exclusive license. By the end of 2006, the regulatory authority (*Bundesnetzagentur* – Federal Network Agency) had issued licenses to around 2,300 competitors, of which approximately 750 were active in the marketplace.

In 2002, the regulatory authority specified the conditions which will apply until the end of 2007 to regulation under the so-called price cap procedure for mail prices requiring approval. This stipulates the general rate of inflation and the expected productivity growth rate for Deutsche Post AG as the key factors applicable to mail prices. Prices have to be lowered if the inflation rate in the reference period is less than the specified productivity growth rate. Based on the price approval by the regulatory authority issued on November 9, 2006, the prices for mail products requiring approval will again remain largely stable in the 2007 calendar year.

The general guidelines for the regulation of mail prices requiring approval as of January 2008 will be determined by the regulatory authority during 2007, again using the price cap procedure.

In 2006, cross-border mail in Europe between Deutsche Post AG and 15 other Western European postal operators was governed by the REIMS II agreement and with another eight Eastern European postal companies by the REIMS East agreement. These agreements are currently being renegotiated.

The EU is also discussing the extent to which postal services should be exempt from VAT. In 2003, the European Commission published a directive proposal for a change in the VAT exemption for postal universal services. However, without the required unanimity in the European Council, the legislation was tabled in 2004.

In correspondence dated April 10, 2006, the European Commission initiated infringement proceedings against the Federal Republic of Germany with regard to the VAT exemption of postal universal services provided by Deutsche Post AG. Germany considers the current VAT exemption to be in compliance with applicable law and responded to the European Commission accordingly. The proceedings are still under way. The German federal government has announced that it will review the VAT exemption of Deutsche Post AG against the backdrop of the expiration of the exclusive license on December 31, 2007.

If tax were to be applied, the resulting risk would be cushioned by price increases. The regulatory authority is of the opinion that the prices it approved are net prices not including VAT. VAT could therefore be added to the approved prices. However, it cannot be ruled out that the application of VAT would lead to a decrease in revenue and earnings.

Business strategy risks

The MAIL Division is positioned as a one-stop provider of paper-based and hybrid communication products. We have prepared extensively to face new risks, including the pending deregulation of postal markets in Europe, the increasing competition in Germany and the threat posed by electronic substitution. We intend to mostly offset the expected loss of domestic market share with a consistent focus on customers, new products and further internationalization of our mail business.

International expansion of the EXPRESS Division is a cornerstone of our company's future success. Becoming our customers' preferred provider means fine-tuning our global standardized business processes to meet diverse customer needs and requirements. We are further extending our infrastructure in order to attain this while keeping on track with our cost and earnings targets. In this connection, temporary quality reductions in the course of complex infrastructure projects can produce dips in revenue and earnings.

In the LOGISTICS Division, integration of the logistics provider Exel plc posed a major challenge to the Group. Large numbers of integration projects, particularly measures to boost workforce motivation and a focus on customer interests, have reduced the risk situation to a minimum. To date, no material integration risks have arisen. Having attained market leadership in the logistics business, we now aim to further improve quality.

In the FINANCIAL SERVICES Division, Postbank successfully expanded its sales platform in 2006. Postbank now has over 850 outlets acquired from Deutsche Post in early 2006. Moreover, the acquisition of BHW resulted in the transfer of 3,800 mobile advisors with specialized expertise, particularly in private real estate financing, who enable Postbank to provide its customers with comprehensive financial advisory services. As a result, we anticipate higher sales of loan products to the private customer segment in the future.

Performance and profitability risks

The global expansion of our Group has placed increasing demands on our mission-critical infrastructure. We aim to avoid business interruptions at key operational facilities by continually monitoring our complex sorting and conveyor systems. The precautions we take and our emergency and contingency plans are effective tools for preventing business interruptions or minimizing their effects.

Our MAIL Division is well prepared for the deregulation of the postal markets and the resulting increase in competition. With our high quality standards and an efficient network of state-of-the-art mail centers, we will reinforce our position as a provider of solutions and value-added services to our customers and continue to internationalize our business. We intend to strengthen our presence further, above all in Europe and North America – depending in each case on the regulatory environment in the national postal market.

The EXPRESS Division faces a more hostile competitive environment both nationally and internationally as other providers aggressively contend for shares of the market. We plan to not only maintain our market position, but to expand it. To achieve this, we need high-performance transportation networks that have the capacity to meet our customers' high expectations. Our network architecture generates its greatest share of added value in the use of combined air and ground transport. At the heart of this network architecture lie our central air hubs. In addition to hubs in Hong Kong and Wilmington, Ohio, we are currently building a new European air hub in Leipzig. The new hub is scheduled to be fully operational in 2008.

The logistics business is tied to the performance of the world economy. Healthy world economic growth is therefore a precondition for positive growth rates in our business. Our particular focus in this regard is on economic performance in the USA and in Asia. If slowdowns occurred here, we would face a reduction in logistics business. The loss of major customers due to aggressive competition or, for instance, due to bankruptcy is a constant risk facing logistics service providers. While this risk can be limited by far-sighted management, it cannot be entirely neutralized.

Postbank's extensive experience in monitoring and managing its risks limits the danger of sudden fluctuations in earnings. The banking business is exposed to risks including those arising from changes in market prices, possible loan defaults and operational risks. Postbank's risk management system monitors these risks on a regular basis. The Basel II capital adequacy requirements that apply as of January 1, 2007 and the Minimum Requirements for Risk Management (MaRisk) were integrated into Postbank's risk management system early on.

Postbank was one of the first banks in Germany to receive approval from the *Bundesanstalt für Finanzdienstleistungsaufsicht* (German Financial Supervisory Authority) for its approach to implementing the requirements of Basel II. As a result, Postbank is permitted to use its own rating and scoring models to assess risk and ensure capital adequacy for the majority of its transactions starting on January 1, 2007.

Personnel risks

The performance of our employees is decisive in ensuring the growth and further development of Deutsche Post World Net. We compete with other companies for highly qualified professionals and managers. For this reason, we ensure a sufficient number of potential up-and-coming employees in various ways, including internationalization of our management team. In addition, we promote entrepreneurial thinking by offering attractive job responsibilities, a variety of development prospects, a broad range of continuing education options and performance-based compensation. Satisfied employees and a low turnover rate also minimize the risk of losing experience and knowledge.

Information technology risks

Our company is protected against unauthorized access to data and data manipulation through various measures relating to our employees, organization, applications, systems and networks. We also use firewall systems, virus scanners and access controls at operating system level to protect against data security risks. These standard activities serve to protect the confidentiality, integrity and authenticity of this data.

We have concentrated our information technology at centrally located data centers in three time zones around the world, each operating independent IT risk management systems, to prevent outages or to contain the effects of business interruptions when they do occur.

Note 52.1

Management of financial risks

The following discussion is based on the "Postbank at equity" scenario, as the financial risks of the Deutsche Postbank Group differ fundamentally from the risks to the rest of Deutsche Post World Net.

As a result of its operating activities, Deutsche Post World Net is exposed to financial risks resulting from changes in exchange rates, commodity and fuel prices as well as interest rates. We employ primary and derivative financial instruments to limit these risks which can relate to transactions with fixed contracts as well as planned transactions. The necessary universe of actions, responsibilities and controls has been established in internal guidelines. All financial instruments are recorded, evaluated and processed centrally using risk management software. We only enter into financial transactions with prime-rated counterparties; counterparty limits and remaining limits available are continually monitored and reported. The Board of Management is regularly informed about existing financial risks and the financial instruments used to manage these risks.

The characteristics and hedging goals for individual financial risks are described in more detail as follows.

Currency risks arise mainly from the international business of the MAIL, EXPRESS, LOGISTICS and SERVICES Divisions, a large percentage of which is conducted in foreign currencies. These risks are managed centrally with the objective of limiting possible effects as much as possible while keeping internal cost and effort to a minimum. All Group companies report their foreign-currency positions to Corporate Treasury, which calculates a consolidated position per currency from these reports. Positions in highly correlated currencies are, where possible, offset against each other. The resulting net position is hedged externally with banks, depending on the risk and market estimates. Recorded currency risks are usually hedged in full, and up to 80% of planned currency risks are hedged for a maximum of 18 months. The largest planned net requirements are for US dollars and Czech koruna. The Group generates the most substantial net surpluses in pounds sterling, Chinese yuan, Japanese yen, and Korean won.

Commodity price risks arise from the planned purchase of kerosene, fuel oil, diesel and gasoline. As far as possible, we pass on commodity price increases to customers via surcharges and corresponding contract clauses. In addition, some of these risks are hedged for a maximum period of 18 months in order to minimize the effects of commodity price fluctuation.

Interest rate risks are identified centrally, monitored continually and managed actively in accordance with the resolutions of a committee for this purpose which meets regularly. We record all substantial interest-bearing receivables and liabilities and then use these to calculate the respective positions for the Group's key currency blocks in euros and US dollars. Based on this information, primary and derivative financial instruments are used to reduce financing costs and manage interest rate risks by adjusting the remaining maturity of the overall position.

Risks from pending legal proceedings

Due to our market leadership position, a large number of the services we offer are subject to sector-specific regulation in accordance with the Postal Act. The regulatory authority approves or reviews prices in particular, formulates the terms of downstream access and conducts general checks for market abuse. The resulting proceedings may lead to a decline in revenue and earnings.

Legal risks arise, for example, from the 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 respectively against price approvals granted under the price-cap procedure for the years 2003, 2004 and 2005, as well as other price approval decisions handed down by the regulatory authority.

European Commission competition proceedings were initiated on the basis of accusations about excessive mail prices made by the *Deutscher Verband für Post und Telekommunikation* (German Association for Posts and Telecommunications). In these proceedings, we have presented detailed evidence to support our argument that the prices are reasonable.

Conditions determined by the regulator oblige us to allow customers and competitors downstream access to our network. Proceedings are pending before the administrative or civil courts and the European courts against the relevant rulings by the regulatory authority, the *Bundeskartellamt* (German Federal Antitrust Authority) and the European Commission. We believe that the Postal Act and the scope of the exclusive license are in compliance with EU and anti-trust regulations, more specifically the EU Postal Directive and the anti-trust rules stipulated by the Treaty Establishing the European Community. Depending on the outcome of the proceedings, we could be faced with further losses of revenue and earnings.

An allegation by the *Monopolkommission* (German Monopoly Commission) is the subject of requests for information made by the European Commission to the German federal government in response to a complaint by a third party. The allegation is that Deutsche Post AG contravenes the prohibition on state aid enshrined in the EU Treaty by allowing Deutsche Postbank AG to use Deutsche Post outlets at below-market rates. In our opinion, the fee paid by Postbank 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 European Commission has already investigated the acquisition of Postbank as part of the state aid proceedings that were concluded with the ruling dated June 19, 2002. At the time, it explicitly concluded that the acquisition of Postbank involved "no grant of state aid."

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

On January 21, 2004, the European Commission issued a state aid ruling on the assumption by the Belgian government of pension obligations owed to employees by the Belgian telecommunications company Belgacom. Some press statements reported that the European Commission would consider applying the state aid principles of this decision to Deutsche Post AG if the European courts grant Deutsche Post AG's appeal against the European Commission's state aid ruling dated June 19, 2002. According to these press reports, this could result in a substantial financial burden for Deutsche Post AG.

However, the European Commission has not confirmed these reports. In addition, it is our opinion that the facts of the case governing the ruling of January 21, 2004, differ from the statutory regulation of Deutsche Post AG's pension obligations. We believe that the arrangements for financing pension obligations do not constitute state aid by the Federal Republic of Germany, based on the European Commission's previous decisions. Furthermore, the European Commission has already examined in detail the contributions by the Federal Republic to finance pensions within the scope of the state aid proceedings that have already been concluded, and did not establish any illegal aid in its decision of June 19, 2002. In this respect, Deutsche Post AG therefore claims protection under the principle of legitimate expectations. Nevertheless, no assurance can be given that the European Commission will not find that the facts of the case constitute state aid.

On November 22, 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 European 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 European Commission will deem specific features of these arrangements to be unlawful. This could result in additional costs for DHL in operating the air hub.

Other risks

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

External audits are currently under way at DHL Express (USA) and Airborne Inc. in line with the US unclaimed property laws. These laws state that abandoned assets must either be returned to their rightful owner or transferred to the last known owner's home state or, if this is not known, to the state in which the company is domiciled. In the course of its expansion, the Group has recognized significant goodwill. According to IAS 36, this goodwill must be subjected to an impairment test at least once a year. If the value of the goodwill is determined to be impaired, an impairment loss must be recognized.

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

In view of the current geopolitical situation, the express market – and most of all the air express business – harbors the risk of terrorist attacks, as a consequence of which a rise in insurance premiums cannot be ruled out.

The Group insurance strategy provides for two options: Risks with high probability of occurrence and low potential impact are covered through a captive insurer – an insurance company which is owned by the Group and with which we aim to reduce our insurance costs. Risks with low probability of occurrence and high potential impact, such as air transport risks, are contracted out to third-party insurers.

Overall assessment of the Group's risk position

In the past fiscal year, there were no identifiable risks for the Group which, individually or collectively, cast significant doubt upon the company's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future.

Further Developments and Outlook

Events after the close of the fiscal year

DHL boosts Hong Kong investments

On January 18, 2007, we announced a further US$35 million investment in Hong Kong. The investment project includes a corporate headquarters building and a logistics center in South Kowloon, which will increase DHL EXPRESS' ground handling capacity by around 20% to 45,500 shipments daily. Both new buildings will be operational in 2007. This investment will boost our capital expenditure to US$645 million at this location and to around US$1 billion in greater China.

DHL builds innovative logistics center

DHL Exel Supply Chain began construction on a new logistics center in Unna in the German region of Westphalia in mid-January. The 60,000m² facility is based on an innovative concept. The building will house a logistics campus specially designed for customers in the consumer goods industry combining substantial warehouse capacity with standardized structures and a sector-specific focus. Additional campus sites are planned for Germany.

Future conditions

Global economy still in spirited upswing

The conditions for continued strong growth in the world economy are favorable for 2007. Growth in global gross domestic product (GDP) is expected to be only slightly weaker than in the previous year, while global trade will again grow robustly. Leading economic institutes and organizations forecast an increase of between 7% and 8% (IMF: 7.6%, OECD: 7.7%).

Risks arise from the USA, which has been experiencing an economic slowdown since mid-2006 and where GDP growth is accordingly expected to be noticeably lower at 2.5% in 2007.

Japan saw broad-based economic growth again this year. Exports are anticipated to increase further, although not as sharply as in the previous year. GDP is expected to be up 2%. In China, there are no signs of a slowdown with GDP growth again projected at a healthy 10%.

The upswing in the euro zone will continue. Buoyed by domestic demand and investments, GDP should grow by around 2% – not as robustly as last year.

The German economy will have to absorb a VAT hike from 16% to 19% early in the year, but should not be hampered for long by this development. Exports and investments remain stable, while consumer spending is recovering thanks to improved labor market statistics. GDP will remain on a clear growth path, with this figure forecast to rise by around 2%.

The risk of repeated sharp price increases on the crude oil market has waned, but cannot be ruled out entirely. It is expected that average oil prices for 2007 will remain approximately at last year's levels.

Whereas the US Federal Reserve is expected to hold key interest rates steady in the coming months, the ECB will again raise key rates. As a result, we expect capital market interest rates in the euro zone to rise somewhat from their current low levels during the year.

We continue to see favorable conditions in stock markets, although economic uncertainty in the USA could lead to sharp price volatility in the course of the year.

Future business

Leveraging market opportunities in the mail business

Future demand for mail services in Germany will depend to a great extent on the development of the macroeconomic situation and the extent to which electronic media such as fax, e-mail and text messaging replace conventional mail. We expect a further decline in the domestic market for mail communication in the coming years. Our market share will also shrink due to full deregulation of the market in 2008.

The German advertising market will continue to grow and the trend toward target group-oriented advertising will persist. Despite the continuing liberalization of the market for paper-based advertising, we intend to consolidate our position and even to develop it further in the advertising market as a whole. We therefore want to position ourselves as a provider of cross-media services in the area of direct marketing.

The press distribution market could see a slight downward trend. Here too, our intention is to maintain the level of revenue we have been generating. The growing subscriptions segment is very important in this regard.

We expect to gain additional market share in the international mail market, as further deregulation of foreign mail markets opens up new opportunities. We will continue to pursue our strategy of positioning ourselves in all important markets, while increasingly focusing on value-added services in the mail business.

In 2007, Williams Lea will enable us to strengthen our standing as one of the top international providers of outsourcing solutions for document and corporate information management in the USA, Europe and Asia. At the same time, we will increase our marketing activities and offer an extensive portfolio of value-added services in Germany.

As of January 1, 2007, the Parcel Germany unit was transferred to the MAIL Division, placed under the leadership of a divisional board and divided into Operations, Sales and Marketing. The production branches of EXPRESS Germany were dissolved and staff transferred to the MAIL branches. This step will enable us to improve internal workflows and service quality.

We will optimize our transportation network in 2007. In conurbations and adjoining densely populated areas which are characterized by a high proportion of business customers and considerable fluctuations in daily mail volumes, the operating concept for standard mail delivery will be refined in order to optimize costs and quality. To achieve this, a procedure has been developed which has been undergoing testing since 2006 in around 1,500 delivery districts and, if successful, will be extended.

We will continue to be a leader in mail sorting by continually updating our technologies. In 2007, we will test new machines for sorting flat mail that boast a throughput rate three times higher than the current machines, while also offering additional functionality.

The quality of our mail services was certified in 2006 and we plan to add sustainability to our TÜV (German Technical Inspection Association) audit in the coming year. We are preparing for this certification process by introducing an environmental management system.

Expanding international express business

Having now placed our global express activities under one unified management, we can focus more closely on growing international business. To this end, a key prerequisite was met in Europe when our German parcel business was transferred to the MAIL Division on January 1, 2007.

The international CEP market in Europe is expected to grow by an average of between 4% and 5% per year. At the same time, service standards continue to rise. As a result, we will continue to improve our offerings and consistently expand our guaranteed pre-12 deliveries in Europe supported by the new air hub at Leipzig/Halle airport. The first inner European flights are scheduled to commence during the course of 2007. By 2008, the hub will be fully integrated into our intercontinental express network.

We aim to afford our customers the easiest possible access to our services. This is why electronic customer interfaces such as the Internet will continue to be integrated and the number of contact points in Europe progressively expanded to around 20,000. In particular, the number of service points located at easily accessible sites such as supermarkets, train stations and retail chains is slated to increase still further. During the coming year, we plan to set up additional Packstations in more than 30 towns and cities in Germany, thus covering a total of 150.

In the USA, we aim to further improve our services and thereby hone our competitive edge. We want our customers to perceive us as the friendliest, most accessible and responsive express and logistics provider on the market. To achieve this, we will continue to respect our customers' wishes, provide user-friendly technology and boost our domestic product range.

In addition, we aim to increase our earnings by using our competitive service quality to strengthen loyalty among existing customers while at the same time devoting more intensive efforts to generating new customer business.

In the other countries of North, Central and Latin America, we plan to expand our leading market position and further improve our service. This includes expanding time-definite deliveries to other areas in the region.

In Asia, we will expand our geographical reach in the region, develop high-quality products and services and continue to invest in technology, infrastructure and human resources. As part of our investment program, we will, among other measures, expand our Central Asian Hub in Hong Kong, develop a North Asia Hub which will be in place by 2008 and set up a central gateway in Incheon, Korea. We want DHL to become the employer of choice in the region.

In the foreseeable future, the Emerging Markets are likely to remain strong import markets. In addition, tremendous oil and gas resources provide a solid basis for international trade. We intend to maintain our market leadership in the region by investing aggressively in infrastructure, people and product development.

Made-to-measure logistics services for our customers

It is anticipated that the market for intercontinental freight business and contract logistics will grow by between 5% and 6% per year until 2010. During the same period, we aim to boost our revenue by an average of between 7% and 9%, as well as continuing to improve margins.

In 2007, we will focus on our First Choice activities. This will give us an even deeper insight into what our customers expect from us and allow us to selectively cater to those needs. We will extend existing products into additional areas, develop innovative solutions and expand into new markets.

The integration of Exel should be substantially completed by the end of the first quarter of 2007. From today's perspective, we are on track to meet or even slightly exceed the pre-tax synergy target of around €220 million in 2008.

The trend towards outsourcing of logistics services continues. This opens up new growth areas for contract logistics, notably in America and Eastern Europe. It is expected that the same growth trend will continue in other emerging economies such as Russia, Brazil and China. In a number of sectors, including the automotive industry, outsourcing is already advanced along the supply chain. But in other areas – such as mechanical engineering and consumer goods industries which are dominated by medium-sized players – opportunities for outsourcing are still substantial.

Savings from combined services

Global Business Services will continue to bring together intra-Group services and secure economies of scale in the process. This allows other divisions to achieve further savings while improving service quality at the same time. In Global Customer Solutions, we plan to substantially increase business volume and exploit even greater scope for cross-selling within the Group.

We plan to further extend the partnership approach used by our retail outlets because of the success achieved to date. In 2007, we will test various stationary outlet and sales formats with the aim of achieving closer proximity to customers.

Postbank benefits from broader base for sales

Postbank aims to build on the excellent performance of the previous year in this fiscal year, in terms of both customer business and the earnings situation. In 2007, Postbank's goal is to attract more than one million new customers for the first time. The successful integration of BHW and the retail outlets acquired from Deutsche Post have provided Postbank with a stronger base for selling its services and created the conditions for further organic growth.

The considerably expanded sales platform is used to strengthen customer relationships, further improve customer satisfaction and, as a result, sell more products. Another goal is to maintain savings and checking deposits at a high level, while increasing the volume of securities brokerage accounts at Postbank by at least 10%. In the private lending business, the aim is to again generate more new business than the already high level of the previous year and to increase the portfolio of mortgage loans by 10%.

Expected business development

The Group

Based on the economic growth forecasts, we anticipate that overall business development in 2007 will be positive. We expect a slight increase in revenue and profit from operating activities (EBIT) excluding extraordinary factors to also increase slightly compared with the previous year.

MAIL

We expect revenue to decline in the national mail market. However, this drop can be more than offset by growth in the other business areas. All in all, we anticipate that revenue will remain stable or rise slightly in the current fiscal year. The division's EBIT is expected to be largely stable in 2007.

EXPRESS

In the EXPRESS Division, we expect at least single-digit percentage revenue growth in 2007 and a disproportionally large growth in earnings.

LOGISTICS
In the LOGISTICS Division, we anticipate high single-digit percentage revenue growth and disproportionally large growth in earnings. The Board of Management is very confident that the integration of Exel can be successfully concluded in 2007 and that we will continue to profit from the favorable trend in the logistics business.

FINANCIAL SERVICES
Revenue and income from banking transactions are also expected to rise thanks to continual growth in contributions by BHW. Postbank's goal for 2008 is to generate a return on equity before taxes of more than 20% and a cost-income ratio in the traditional banking business of less than 63%. A further aim is to improve Postbank's tier 1 capital ratio to 7.5% in 2009.

SERVICES
We aim to further increase our effective earnings contribution, excluding extraordinary factors.

Dividend
We plan to continue our current dividend policy and to share our excellent business performance with our shareholders. Our goal is to increase our payout ratio for fiscal 2007 to around 50% (dividend payment in 2008).

Further development of the Group

Future organization
In 2007, we will review our human resources management activities to determine whether human resources operations functions can be organized as shared services.

Future procurement activities
The procurement organization is one of the pilot projects in our First Choice program. In 2007, we will conduct a series of workshops in the country organizations and offer on-site training to our employees. Some of the improvement measures will focus on further standardizing workflows worldwide and introducing suitable IT support systems.

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

Future capital expenditure

Planned capital expenditure in 2007 is slightly above the prior-year level. The largest share is earmarked for property, plant, and equipment. Key divisional capital expenditure plans are outlined in the future business section. As to cross-divisional activities, we will continue to renew our German vehicle fleet and to improve IT infrastructure for our globally operating data centers.

Opportunities

Opportunities relating to trends in the economic environment

Globalization is on the rise, and the world's economy is becoming increasingly interconnected. Facing ever greater competition, companies are forced to concentrate on their core competencies while leveraging the advantages of global procurement markets. For this reason, they rely on logistics partners with extensive reach and expertise in complex, global supply chains. As an international logistics company, Deutsche Post World Net will benefit from this trend.

Although deregulation of the mail market is progressing at different speeds in various European countries, we have opportunities to progressively strengthen our competitive position in European markets that are currently still closed to us or are strictly regulated.

As a key communications platform of the future, the Internet poses new challenges for the logistics industry. Although companies and their customers are often geographically separated, consumers expect rapid deliveries. This calls for specialists with simple and transparent logistics solutions. As communications become increasingly digital, new markets emerge for our company in which we can sell new products and services.

Business strategy opportunities

Our goal is to become the world's preferred logistics service provider. Our First Choice quality program represents our effort to increase customer loyalty in the competitive logistics market and to also attract new customers.

The Deutsche Post, DHL and Postbank brands stand for integrated services and tailored solutions for the management and transportation of mail, goods and information. Our range of services and geographical reach are increasingly making us the preferred logistics partner to discerning global clients.

Performance and profitability opportunities

We are in the process of transferring the Parcel unit in Germany from the EXPRESS Division to the MAIL Division, thereby consolidating the German mail and parcel business. This step enables us to improve our internal workflows and service quality while also cutting costs. We continually strive to optimize our transportation and delivery network so that we can become even better at meeting our customers' needs.

We are internationalizing our mail business under the DHL Global Mail brand with the objective of expanding our profitable business in deregulated markets. Thanks to the acquisition of Williams Lea, we have become the leading full-service mail logistics provider on the international market, offering customers across the globe high-quality solutions at every link in the mail value chain.

The EXPRESS Division relies on strong regional units connected via a global network – the world's most extensive network for the fast-growing intercontinental transportation sector and for cross-border transportation within continents. We optimize this network continually to hone our competitive edge. Relocation of our European central air hub from Brussels to Leipzig/Halle is progressing according to plan and will be completed by 2008. In the USA, we can grow further thanks to the significant improvement in our service quality.

The acquisition of Exel and its integration into our LOGISTICS Division is substantially improving our position in relation to the competition, especially in intercontinental air and ocean freight and contract logistics. This integration effort is on schedule and will enable us to offer our customers more one-stop shopping for customized logistics solutions. Expansion in countries such as China and India will help us further strengthen our position in high-growth logistics markets. We are already well-positioned in Asia, the Middle East and South America.

In addition, the acquisition of BHW and 850 retail outlets is providing Postbank with increased access to its private customers. Sales channels such as phone banking and the Internet are being improved further. Postbank aims to increase its selling power and gain market share.

Other opportunities

The SERVICES Division, which consolidates internal services across the Group, also looks forward to the opportunities provided by optimization of our organizational structures for internal services – such as procurement, real estate management and IT – which is expected to bring positive results.

We rely on qualified employees to meet our customers' expectations. For this reason, we aim to develop promising talent worldwide and attract top candidates in our field as a desirable employer.

Local strengths in a global network

In Leipzig, our new European air freight hub covering some 200 hectares is currently taking shape. Scheduled to be fully operational by 2008, it will supplement our central air hubs in Hong Kong and Wilmington, USA. We are investing around €300 million in what is currently our biggest new construction project. The site of the hub is ideally linked to the road, air and rail network and permits 24-hour operations.

Strategic alliances

Deutsche Post World Net was the first international provider to succeed in entering the Japanese mail market. We have expanded our cooperation with Yamato, Japan's leading mail and parcel delivery service. The first company of its kind in Japan, Yamato Dialog & Media now offers a seamless spectrum of direct marketing services. This step serves to create an even more tightly meshed international network.

Dear Shareholders,

Dr. Jürgen Weber,
Chairman of the Supervisory Board

In 2006, Deutsche Post World Net consolidated its ranking as the world's leading logistics group and remained well positioned for the future. Exel plc and BHW Holding AG, acquired in the previous year, were successfully integrated into the Group. In the EXPRESS Division, DHL secured long-term access to air freight capacity on trans-Pacific routes through the acquisition of a minority stake in Polar Air Cargo Worldwide, Inc. In November, the Group's company Williams Lea acquired the British company The Stationery Office, thus further expanding its international platform for value-added services in the MAIL Division.

Once again, the Supervisory Board concentrated during the year on the Group's strategic focus. Every important company decision was discussed in detail with the Board of Management, which informed the Supervisory Board in a timely and comprehensive manner on all important issues concerning planning and business development. There were regular reports on risks and risk management, on important business transactions and projects in each of the divisions, and on strategic measures and the strategic focus of the company. Measures subject to approval by the Supervisory Board under its by-laws were discussed in considerable detail. The members of the Board of Management presented their reports on the basis of the related rules of procedure agreed with the Board of Management. Moreover, the Board of Management continuously informed the Chairman of the Supervisory Board about important business transactions and impending decisions, also between Supervisory Board meetings. We prepared our approval for business measures in the relevant committees. The chairs of the committees reported regularly on the committees' work at Supervisory Board meetings.

Supervisory Board continually advises and monitors the Board of Management

The Supervisory Board met twice in each half of the year. No member of the Supervisory Board was absent from more than half of the meetings. At all of its meetings, the Supervisory Board concerned itself with questions of corporate strategy, the business performance of the divisions, and risk management.

At the financial statements meeting on March 9, 2006, the Board approved the 2005 annual and consolidated financial statements after in-depth discussion. Prior to the meeting, the Finance and Audit Committee and the Chairman of the Supervisory Board each had detailed discussions with the auditors. In addition, the joint report by the Board of Management and the Supervisory Board on corporate governance and the agenda was approved, including the proposed resolutions for the 2006 Annual General Meeting (AGM). The meeting also addressed the efficiency review of the Supervisory Board's activities and the remuneration system for the Board of Management.

At the meeting on May 10, 2006, following the AGM, the Supervisory Board reconstituted itself. The long-standing Chairman Josef Hattig and other members left the Supervisory Board with effect from the end of the AGM, and the AGM elected new members in their place. The members of the Supervisory Board elected me as the new Chairman and re-elected Rolf Büttner as the Deputy Chairman of the Supervisory Board. In addition, new members were appointed to the committees and business developments in the first months of the year were discussed.

In July, the Supervisory Board, voting under the circular procedure, approved the sale of the Group company Modra Pyramida in the Czech Republic.

Following the resignation of Dr. Peter Kruse from his seat on the Board of Management, a new allocation of duties of the Board of Management members was discussed and approved at the Supervisory Board meeting of September 22, 2006. With effect from that date, John P. Mullen assumed overall responsibility for the EXPRESS Division. The European overland transport business was removed from the EXPRESS Division and transferred to the LOGISTICS Division as a separate business unit under the name DHL Freight. At the same meeting, the Supervisory Board approved the acquisition of a minority stake in Polar Air Cargo Worldwide, Inc. by DHL and the sale of BHW Rückversicherung SA.

Additional adjustments were made to the allocation of business activities at the meeting on December 14, 2006. The Parcel Germany business was reallocated from the EXPRESS Division to the MAIL Division. At the same meeting, the Group's business plan was approved for the years 2007–2009. In addition, the Board approved the sale of Vfw AG. The Declaration of Conformity with the 2006 German Corporate Governance Code was also approved.

Supervisory Board committees working efficiently

The Executive Committee met four times during the year under review. Agenda items included Board of Management issues and the further development of the company's corporate governance. As in recent years, the recommended efficiency review for the work of the Supervisory Board was carried out on the basis of the revised questionnaire, which was completed by every Supervisory Board member. The results showed that the Supervisory Board's efficiency has again improved.

The Personnel Committee met three times and focused primarily on the Group's Pandemic Preparedness Plan and on health management.

The Finance and Audit Committee met five times, with Dr. Manfred Lennings and Prof. Dr. Ralf Krüger chairing two and three meetings respectively. The committee discussed the acquisitions and disposals of companies, which were also discussed in the plenary meetings of the Supervisory Board, and the Group's business plan for 2007–2009. It also examined and approved the annual and consolidated financial statements and discussed the interim reports. In turn, the auditors took part in the committee's financial statements meeting. Intensive discussions were also carried out on accounting and risk monitoring as well as on cooperation with the auditors. In addition, the committee approved real estate transactions. It also heard presentations by the responsible members of the Board of Management on the performance of individual divisions.

Once again, the Mediation Committee, which must be formed pursuant to Section 27(3) of the *Mitbestimmungsgesetz* (German Co-determination Act), did not have to meet in the year under review.

Annual financial statements and dependent company report audited

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf (PwC), the auditing company appointed by the AGM to audit the financial statements, audited the annual and consolidated financial statements for fiscal 2006, including the respective management reports, and issued unqualified audit opinions.

After a detailed preliminary examination by the Finance and Audit Committee, the Supervisory Board reviewed the annual and consolidated financial statements and the management reports for fiscal 2006 at today's plenary meeting. The auditor's reports were made available to all Supervisory Board members and were intensively discussed at the meeting with the Board of Management and the auditors in attendance. The audit included the Board of Management's proposal for the appropriation of the unappropriated surplus. At today's meeting, after detailed discussion with the Board of Management and the auditors' representative, the Supervisory Board concurred with the results of the audit of the annual and consolidated financial statements and the management reports conducted by the auditors and approved the annual and consolidated financial statements for fiscal 2006. Based on the final result of the examination of the annual financial statements, the consolidated financial statements, the management reports and the proposal for the appropriation of the unappropriated surplus by the Supervisory Board and the Finance and Audit Committee, there are no objections to be raised. The Supervisory Board endorses the Board of Management's proposal for the appropriation of the unappropriated surplus and the payment of a dividend of €0.75 per share.

PwC also audited the Board of Management's report disclosing relations with affiliated companies (dependent company report) required by Section 312 of the *Aktiengesetz* (German Stock Corporation Act) and issued the following audit opinion:
"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the company's compensation with respect to the transactions listed in the report was not inappropriately high."

The dependent company report was audited in terms of completeness and accuracy. The Board of Management exercised due care in identifying the affiliated companies. It took the necessary precautions in recording the transactions and other measures which the company undertook or refrained from undertaking in the fiscal year under review either with, at the request of, or in the interest of the German federal government as the controlling entity or with companies affiliated with the federal government. According to the findings of the audit, there are no apparent grounds indicating that transactions or measures were not recorded in full. The Supervisory Board therefore endorses the results of the audit conducted by the auditors. There are no objections to be raised to the declaration of the Board of Management at the end of the report.

Information required pursuant to Section 289(4) and Section 315(4) of the *Handelsgesetzbuch* (German Commercial Code)

The Management Report of the company (pages 60 and 93) and the Group Management Report (pages 18 and 53) include the information required pursuant to Section 289(4) and Section 315(4) of the *Handelsgesetzbuch* (German Commercial Code). The Board of Management has explained the information in a report which will be available for inspection on the company's website and in its offices beginning when the Annual General Meeting is convened, and will also be available to shareholders at the Annual General Meeting. The Supervisory Board has reviewed the information and the report by the Board of Management. The results of the review showed that the information provided is accurate. Consequently, the Supervisory Board hereby concurs in the explanations provided by the Board of Management in its report on the information required pursuant to Section 289(4) and 315(4) of the German Commercial Code.

Changes in the Supervisory Board and Board of Management

The following changes took place in the Supervisory Board of Deutsche Post AG in 2006: Gerd Ehlers, Dr. Jürgen Großmann, Josef Hattig and Dr. Manfred Lennings left the Board with effect from the end of the AGM on May 10, 2006. The AGM elected Werner Gatzer, Dr. Hubertus von Grünberg, Harry Roels and Elmar Toime. Willem G. van Agtmael, Hero Brahms and Prof. Dr. Ralf Krüger were re-appointed by the AGM for varying terms of office. At its constituting meeting immediately after the AGM, the Supervisory Board elected me as Chairman and re-elected Rolf Büttner as Deputy Chairman. A new committee appointment resulted from the election of Prof. Dr. Ralf Krüger as Chairman of the Finance and Audit Committee. Following the departure of Mr. Hans W. Reich at the end of September, Ms. Ingrid Matthäus-Maier was appointed to the Supervisory Board as a shareholder representative pursuant to a court order of October 12, 2006. This appointment will be submitted for ratification to the shareholders at the AGM on May 8, 2007.

The following changes took place in the company's Board of Management: Since January 1, 2006 John Murray Allan has been in charge of the LOGISTICS Division. Following the resignation by Dr. Peter Kruse from his seat on the Board of Management on September 22, 2006, the Group's management structure was streamlined. All business activities in the areas of air and ocean logistics and European overland transport were combined in the LOGISTICS Division. At the same time, John P. Mullen took charge of the entire EXPRESS Division. In December 2006, the Parcel Germany business was transferred from the EXPRESS Division to the MAIL Division, and thus placed under the responsibility of Dr. Hans-Dieter Petram effective January 1, 2007.

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

The Board of Management and the Supervisory Board submitted an updated Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act in December 2006 and published it on the company's website. The previous declarations can also be viewed on the website. Deutsche Post AG is in compliance with all recommendations of the German Corporate Governance Code in the version of June 12, 2006. Additional information on corporate governance within the company, including the remuneration of the Board of Management and the Supervisory Board members is contained in the Corporate Governance Report on page 94.

We would like to thank the Board of Management and all employees of the Group for their commitment and successful efforts in fiscal year 2006.

Bonn, March 13, 2007
The Supervisory Board

Dr. Jürgen Weber
Chairman

Supervisory Board

Shareholder representatives

Dr. Jürgen Weber
Chairman (since May 10, 2006)
Chairman of the Supervisory Board, Deutsche Lufthansa AG

Josef Hattig (until May 10, 2006)
Chairman

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

Hero Brahms
Management Consultant

Gerd Ehlers (until May 10, 2006)
Managing Director, Bundesrepublik Deutschland Finanzagentur GmbH

Werner Gatzer (since May 10, 2006)
State Secretary, Federal Ministry of Finance

Dr. Jürgen Großmann (until May 10, 2006)
Managing Partner, Georgsmarienhütte Holding GmbH

Dr. Hubertus von Grünberg
(since May 10, 2006)
Chairman of the Supervisory Board, Continental AG

Prof. Dr. Ralf Krüger
Management Consultant

Dr. Manfred Lennings (until May 10, 2006)
Management Consultant

Ingrid Matthäus-Maier
(since October 12, 2006)
Chair of the Board of Managing Directors, KfW Bankengruppe

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

Hans W. Reich (until September 30, 2006)
Chairman of the Board of Managing Directors, KfW Bankengruppe
(until September 30, 2006)

Harry Roels (since May 10, 2006)
President and CEO, RWE AG

Elmar Toime (since May 10, 2006)
Managing Director, E Toime Consulting Ltd.

Employee representatives

Rolf Büttner
Deputy Chair
Member of the National Executive Board of ver.di

Frank von Alten-Bockum
Managing Director, Deutsche Post AG

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

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

Helmut Jurke
Section Head for Company and Business Policy/Co-determination/Youth of the ver.di National Executive Board

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

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

Franz Schierer
Deputy ver.di Regional District Head,
Regional District of Baden-Württemberg

Stefanie Weckesser
Deputy Chair of Works Council,
Deutsche Post AG, Express Branch, Munich,
Operations/HUB, Augsburg

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

Committees

Executive Committee
Dr. Jürgen Weber (Chair)
Rolf Büttner (Deputy Chair)
Hero Brahms
Werner Gatzer
Helmut Jurke
Margrit Wendt

Personnel Committee
Rolf Büttner (Chair)
Dr. Jürgen Weber (Deputy Chair)
Hero Brahms
Dirk Marx

Finance and Audit Committee
Prof. Dr. Ralf Krüger (Chair)
Helmut Jurke (Deputy Chair)
Werner Gatzer
Roland Oetker
Dirk Marx
Margrit Wendt

Mediation Committee
(in accordance with Section 27(3) *Mitbestimmungsgesetz*)
Dr. Jürgen Weber (Chair)
Rolf Büttner (Deputy Chair)
Hero Brahms
Margrit Wendt

Board of Management

Dr. Klaus Zumwinkel,
Chairman

Born in 1943, member of the Board of Management since 1990, appointed until November 2008, responsible for Corporate Executives, Corporate Communications, Corporate Development, the Corporate Office/Corporate Organization, Corporate Regulation Management, as well as Corporate Public Policy and Sustainability.

John Murray Allan,
LOGISTICS

Born in 1948, member of the Board of Management since 2006, appointed until December 2008, responsible for the LOGISTICS Division.

Dr. Frank Appel,
Global Business Services

Born in 1961, member of the Board of Management since 2002, appointed until October 2012, responsible for Global Business Services, the Global Customer Solutions global key account management as well as operational management of the Group-wide First Choice program.

Prof. Dr. Edgar Ernst,
Finance

Born in 1952, member of the Board of Management since 1992, appointed until November 2010, responsible for finance including Controlling, Corporate Accounting and Reporting, Investor Relations, Corporate Finance, Corporate Internal Audit/Security, as well as Taxes.

John P. Mullen,
EXPRESS

Born in 1955, member of the Board of Management since 2005, appointed until December 2010, responsible for the entire EXPRESS Division since September 22, 2006.

Dr. Hans-Dieter Petram,
MAIL

Born in 1943, member of the Board of Management since 1990, appointed until November 2007, responsible for the MAIL Division.

Walter Scheurle,
Personnel

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

Prof. Dr. Wulf von Schimmelmann,
FINANCIAL SERVICES

Also Chairman of the Management Board of Deutsche Postbank AG, born in 1947, member of the Board of Management since 1999, appointed until April 2008, responsible for the FINANCIAL SERVICES Division.

Fiscal year 2006

Dr. Klaus Zumwinkel, Chairman

John Murray Allan, LOGISTICS

Dr. Frank Appel, Global Business Services

Prof. Dr. Edgar Ernst, Finance

Dr. Peter E. Kruse (until September 22, 2006), EXPRESS Europe

John P. Mullen, EXPRESS Americas, Asia, Emerging Markets (until September 22, 2006), EXPRESS (since September 22, 2006)

Dr. Hans-Dieter Petram, MAIL

Walter Scheurle, Personnel

Prof. Dr. Wulf von Schimmelmann, FINANCIAL SERVICES

From left to right:
Dr. Hans-Dieter Petram, Prof. Dr. Wulf von Schimmelmann, John P. Mullen, Walter Scheurle, Dr. Klaus Zumwinkel, Prof. Dr. Edgar Ernst, Dr. Frank Appel, John Murray Allan.

Mandates held by the Board of Management

Dr. Klaus Zumwinkel (Chair)

- • Deutsche Postbank AG[1] (Chair)
- • Deutsche Lufthansa AG
- • Deutsche Telekom AG (Chair)
- • KarstadtQuelle AG
- ○ Morgan Stanley (Board of Directors)

John Murray Allan

- ○ National Grid plc (Non-Executive Director)
- ○ Samsonite Corporation (Non-Executive Director since Jan. 1, 2007)
- ○ Danzas Holding AG[1] (Switzerland, Board of Directors since June 29, 2006)

Dr. Frank Appel

- ○ Danzas Holding AG[1] (Switzerland, Board of Directors until June 29, 2006)

Prof. Dr. Edgar Ernst

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

Dr. Peter E. Kruse (until September 22, 2006)

- ○ Danzas Holding AG[1] (Switzerland, Board of Directors)
- ○ Deutsche Post Euro Express GmbH[1] (Advisory Board)
- ○ Securicor Omega Holdings Ltd.[1] (United Kingdom, Board of Directors)
- ○ Bremer Lagerhaus Gesellschaft Logistics Group (Advisory Board)
- ○ Fraport AG (Advisory Board)
- ○ Messe München (Scientific Advisory Board)
- ○ Aerologic GmbH (Board of Directors)

John P. Mullen

- ○ DHL Sinotrans International Air Couriers Ltd.[1] (China, Board of Directors)
- ○ Express Courier Ltd.[1] (New Zealand, Board of Directors until Dec. 31, 2006)
- ○ DHL Distribution Holdings Ltd.[1] (United Kingdom, Board of Directors)
- ○ Embarq Corp. (USA, Non-Executive Director since May 1, 2006)

Dr. Hans-Dieter Petram

- • Deutsche Postbank AG[1]
- • HDI Industrie Versicherung AG
- • HDI Privat Versicherung AG
- • HDI Service AG
- • Talanx AG (since May 1, 2006)
- ○ Deutsche Post Bauen GmbH[1] (Advisory Board, Chair until April 4, 2006)
- ○ Deutsche Post Immobilienentwicklung GmbH[1] (Advisory Board, Chair until April 4, 2006)
- ○ Global Mail Inc. USA[1] (Advisory Board, Chair until March 29, 2006)
- ○ Williams Lea Holdings plc[1] (Chairman of the Board of Directors since March 24, 2006)
- ○ Williams Lea Group Ltd.[1] (Board of Directors since Aug. 2, 2006)

Walter Scheurle

- ○ Bundesanstalt für Post und Telekommunikation (Administrative Board)
- ○ Deutsche BKK (Administrative Board)

Prof. Dr. Wulf von Schimmelmann

- • PB Lebensversicherung AG[1] (Chair)
- • PB Versicherung AG[1] (Chair)
- • TCHIBO Holding AG
- • BHW Holding AG[1] (Chair since Jan. 28, 2006)
- • BHW Bausparkasse AG[1] (Member since Jan. 16, 2006; Chair since Jan. 28, 2006)
- • Postbank Filialvertrieb AG[1] (was Deutsche Post Retail GmbH until July 25, 2006) (Chair since Feb. 10, 2006)
- • Deutsche Telekom AG (since May 3, 2006)
- • Postbank Finanzberatung AG[1] (Member since July 12, 2006; Chair since Aug. 22, 2006)
- ○ Deutsche Postbank Financial Services GmbH[1] (Supervisory Board, Deputy Chair)
- ○ PB Capital Corp.[1] (Board of Directors, Chair)
- ○ PB (USA) Holdings Inc.[1] (Board of Directors, Chair)
- ○ accenture Corp. (USA, Board of Directors)
- ○ ALTADIS S.A. (Spain, Board of Directors)
- ○ Bundesverband deutscher Banken e.V. (Berlin, Board of Directors)

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

Mandates held by the Supervisory Board

Shareholder representatives

Dr. Jürgen Weber
Chair (since May 10, 2006)

- Allianz Lebensversicherungs-AG
- Bayer AG
- Deutsche Bank AG
- Deutsche Lufthansa AG (Chair)
- Voith AG
- Willy Bogner GmbH & Co. KG (since May 31, 2006)
- ○ LP Holding GmbH (Supervisory Board, Chair)
- ○ Tetra Laval Group (Switzerland, Board)

Josef Hattig
Chair (until May 10, 2006)

- BauKing AG (Hanover, Deputy Chair)
- Bremer Lagerhaus Gesellschaft AG von 1877 (Chair)

Willem G. van Agtmael

- ○ Energie Baden-Württemberg AG (Advisory Board)
- ○ Landesbank Baden-Württemberg (Advisory Board)
- ○ L-Bank (Advisory Board)

Hero Brahms

- Georgsmarienhütte Holding GmbH (Deputy Chair)
- KarstadtQuelle AG (Chair)
- Wincor Nixdorf AG
- ○ M. M. Warburg & CO KGaA (Shareholders' Committee)

Gerd Ehlers (until May 10, 2006)

- ○ g.e.b.b. mbH (Supervisory Board)

Werner Gatzer (since May 10, 2006)

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

Dr. Jürgen Großmann (until May 10, 2006)

- BATIG Gesellschaft für Beteiligungen mbH
- British American Tobacco (Germany) Beteiligungen GmbH
- British American Tobacco (Industrie) GmbH
- SURTECO AG (Chair)
- Wilhelm Karmann GmbH
- Deutsche Bahn AG
- RAG Coal International AG
- MTU Friedrichshafen GmbH (since April 6, 2006)
- Volkswagen AG (since May 3, 2006)
- ○ Ardex GmbH (Advisory Board)
- ○ Dresdner Bank AG (Advisory Board)
- ○ Gesellschaft für Stromwirtschaft mbH (Advisory Board)
- ○ Hanover Acceptances Ltd. (London, Board)
- ○ RAG Trading International (Advisory Board)
- ○ RWE (Economic Advisory Board)
- ○ Messer Group GmbH (Supervisory Board, since Sept. 1, 2006)

Dr. Hubertus von Grünberg
(since May 10, 2006)

- Allianz-Versicherungs-AG
- Deutsche Telekom AG
- MAN Aktiengesellschaft
- ○ Schindler Holding AG, Switzerland (Board of Directors)

Prof. Dr. Ralf Krüger

- Deutsche Postbank AG
- DIAMOS AG (Chair, since Sept. 18, 2006)
- KMS AG (Chair)
- KMS Asset Management AG (Chair)
- ○ SIREO REAL ESTATE ASSET MANAGEMENT GmbH (Advisory Board)

Dr. Manfred Lennings
(until May 10, 2006)

- Bauunternehmung E. Heitkamp GmbH
- Deilmann-Haniel GmbH
- ENRO AG
- Heitkamp-Deilmann-Haniel GmbH (Deputy Chair)

Ingrid Matthäus-Maier
(since Oct. 12, 2006)

- Deutsche Telekom AG
- RAG Aktiengesellschaft
- RAG Beteiligungs-AG
- Salzgitter Mannesmann Handel GmbH

Roland Oetker

- Degussa AG (until December 31, 2006)
- IKB Deutsche Industriebank AG
- Mulligan BioCapital AG (Chair)
- Volkswagen AG
- ○ Dr. August Oetker-Gruppe (Advisory Board)

Hans W. Reich
(until Sept. 30, 2006)

- Aareal Bank AG (Chair)
- Deutsche Telekom AG (until May 31, 2006)
- HUK-COBURG Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a. G.
- HUK-COBURG-Holding AG
- IKB Deutsche Industriebank AG (Deputy Chair, until Aug. 31, 2006)
- ThyssenKrupp Steel AG
- ○ DEPFA BANK plc. (Ireland, Board of Directors, non-executive member)

Harry Roels
(since May 10, 2006)

- RWE Energy AG (Chair)
- RWE Power AG (Chair)
- ○ RWE Npower Holdings plc (Chairman, Board of Directors)
- ○ RWE Trading GmbH (Chair, Advisory Board)
- ○ Allianz AG (Advisory Board)
- ○ Investitions-Bank NRW (Advisory Board)

Elmar Toime
(since May 10, 2006)

- ○ Blackbay Ltd., United Kingdom (Non-Executive Director)
- ○ SKYCITY Entertainment Group Ltd., New Zealand (Non-Executive Director)
- ○ Maltapost plc, Malta (Non-Executive Director, until Aug. 11, 2006)

Employee representatives

Frank von Alten-Bockum

- Stadtwerke Bonn GmbH
- VPV Lebensversicherungs-AG (since June 8, 2006)
- ○ Energie- und Wasserversorgung Bonn/Rhein-Sieg (Supervisory Board)

Rolf Büttner

- ADLER Versicherungs-AG
- Vereinigte Postversicherung VVaG
- Vereinigte Postversicherung Lebensversicherungs-AG

Annette Harms

- Deutsche Postbank AG

Helmut Jurke

- Postbank Filialvertrieb AG

Dirk Marx

- ○ Bundesanstalt für Post und Telekommunikation (Administrative Board)

Franz Schierer

- PSD-Bank RheinNeckarSaar eG
- Input Consulting GmbH

Margrit Wendt

- ○ Bundesanstalt für Post und Telekommunikation (Administrative Board, until Feb. 1, 2006)

- Membership of supervisory boards required by law
- ○ Membership of comparable supervisory bodies of German and foreign companies

Corporate Governance Report

Deutsche Post AG has treated corporate governance as a high priority for years. We attach particular importance to achieving a sustained increase in enterprise value and to building the trust of investors, customers and employees in the company's management.

Unqualified Declaration of Conformity issued once again

http://investors.dpwn.com

On December 14, 2006, the Board of Management and the Supervisory Board issued an unqualified Declaration of Conformity for the fifth consecutive year. This signals that we are in compliance with all recommendations of the current German Corporate Governance Code, dated June 12, 2006. We are also implementing the suggestions of the code with one exception: The Annual General Meeting (AGM) can only be followed live on the Internet until the start of the general debate.

www.postbank.com

Our listed subsidiary, Deutsche Postbank AG, issued its own unqualified Declaration of Conformity on November 30, 2006. Postbank also follows the suggestions of the code to a large extent.

Management and supervisory structure

As a German stock corporation, Deutsche Post has a dual management and supervisory structure. The members of the Board of Management are appointed by the Supervisory Board and are responsible for the management of the company. Since the departure of Dr. Peter Kruse on September 22, 2006, the Board of Management has consisted of eight members. Its duties have been reallocated accordingly. European overland transport business has been reallocated from the EXPRESS Division to the LOGISTICS Division. Since then, John P. Mullen has headed the entire express business. With effect from January 1, 2007, the Parcel Germany business was transferred from the EXPRESS Division to the MAIL Division, and thus placed under the responsibility of Dr. Hans-Dieter Petram.

The Supervisory Board advises the Board of Management and oversees its management activities. It comprises 20 members, who are listed on page 89. The AGM elects 10 shareholder representatives, while a further 10 members are elected by the employees under the provisions of the *Mitbestimmungsgesetz* (German Co-determination Act). Information about additional mandates held by members of the Board of Management and the Supervisory Board in supervisory bodies of other companies can be found on pages 92 and 93. The Supervisory Board reports on its activities in fiscal year 2006 beginning on page 84.

At the AGM on May 10, 2006, Willem G. van Agtmael and Hero Brahms were re-elected for five years on an individual basis. Werner Gatzer, Dr. Hubertus von Grünberg, Harry Roels and Elmar Toime were also elected, for the first time, to five-year terms of office on the Supervisory Board. The term of office of Prof. Dr. Ralf Krüger was extended until the end of the 2009 AGM. Gerd Ehlers, Dr. Jürgen Großmann, Josef Hattig and Dr. Manfred Lennings left the Supervisory Board with effect from the end of the AGM on May 10, 2006, and Hans W. Reich resigned from his seat with effect from September 30, 2006. Ingrid Matthäus-Maier was appointed to the Supervisory Board as his successor by court order on October 12, 2006. Her appointment will be submitted for ratification to this year's AGM. The employee representatives are elected until the end of the 2009 AGM. The fact that the majority of Supervisory Board members are independent means that Deutsche Post AG complies with the recommendation to this effect in the German Corporate Governance Code, which is itself based on a recommendation of the European Commission.

Efficient committee work

In addition to the Mediation Committee required by the German Co-determination Act, the Supervisory Board has formed three further committees: the Executive Committee, the Finance and Audit Committee and the Personnel Committee. We report on the composition of the committees on page 89. The Supervisory Board provides information on page 84 about its work in the year under review.

Transparent communication

We communicate openly and transparently with our shareholders. All dates that might be of interest are displayed on our i website, including the dates on which the Annual Report and interim reports are published. Other information available relates to our stock, to the share price and to the purchase or sale of the company's shares or related financial instruments pursuant to Section 15a of the *Wertpapierhandelsgesetz* (German Securities Trading Act).

i http://investors.dpwn.com

Members of the Board of Management and Supervisory Board disclose any possible conflicts of interest to the Supervisory Board without delay. Outside activities pursued by members of the Board of Management are subject to the approval of the Supervisory Board.

Risk management, accounting and auditing

The opportunity and risk management system put in place by the company ensures that risks can be identified at an early stage. It is constantly being refined and adapted to changing circumstances. More details on this subject can be found in the risk report beginning on page 65.

The Group accounts are prepared in accordance with International Financial Reporting Standards (IFRSs). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Düsseldorf, was appointed by the AGM in 2006 as the auditor of the annual financial statements and in this capacity audited the 2006 annual and consolidated financial statements. Before engaging the auditors, the Supervisory Board took steps to ensure that the existing relationships between the auditors and the company or its executive and controlling bodies did not call into question the auditors' independence.

Code of Conduct

On the basis of our corporate values, we have developed a Code of Conduct that was launched in the summer of 2006 as a binding document for all employees. Embodying existing compliance regulations, it reflects our obligation to act with integrity and responsibility and in accordance with ethical standards and applicable laws. In the future, it will serve as the basis for all Group-wide guidelines and regulations. More details can be found in the chapters i Employees and Sustainability.

i Pages 62 and 63

Remuneration report

Remuneration of the Board of Management

The total remuneration of the Board of Management members is determined by the Executive Committee, which is headed by the Chairman of the Supervisory Board. The Supervisory Board discusses the structure of the remuneration system on the basis of a proposal submitted by the Executive Committee and reviews it on a regular basis. The compensation of the Board of Management is set in accordance with the company's size and global reach, its economic and financial situation and the responsibilities of the individual Board of Management members. The amount of remuneration is set to ensure competitiveness with comparable German and international companies, thus providing an incentive to the Board of Management members to deliver maximum performance and achieve results. The Supervisory Board conducts regular reviews to determine whether the compensation of the Board of Management is appropriate, taking into account the company's results, the industry in which it operates and its future prospects.

The remuneration of the Board of Management is made up of the following components, weighted towards incentives for performance.

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

The performance-linked (variable) remuneration component is the annual bonus. The Executive Committee of the Supervisory Board determines the amount of the bonus on the basis of the company's business performance, exercising due discretion. In addition, the committee can approve an appropriate special bonus to reward extraordinary performance. The amount of the annual bonus cannot exceed the fixed annual remuneration.

i Note 36

As a variable remuneration component with a long-term incentive effect, the members of the Board of Management are granted SARs (stock appreciation rights), which were issued for the first time in fiscal year 2006 on the basis of the new long-term incentive plan (LTIP 2006) i .

The remuneration paid to the active members of the Board of Management in fiscal year 2006 amounted to €18.50 million (previous year: €14.76 million). This amount was comprised of €9.65 million in non-performance-related components (previous year: €7.73 million) and €8.85 million in bonuses (previous year: €7.03 million). The members of the Board of Management were granted a total of 1,575,000 SARs in fiscal year 2006 with a total value of €6.38 million at the time of issue (July 1, 2006).

The remuneration was broken down as shown in the following table and covers all activities of the members of the Board of Management within the Group.

Remuneration of the Group's Board of Management in 2006						
	Components not linked to performance		Performance-linked components		Components with long-term incentive effect	
€	Basic salary	Fringe benefits	Bonus	Total	Number of SARs	Value of SARs on July 1, 2006
Dr. Klaus Zumwinkel, Chairman	1,428,151	105,607	1,428,151	2,961,909	315,000	1,275,750
John Murray Allan	860,000	457,671	860,000	2,177,671	0	0
Dr. Frank Appel	860,000	23,333	860,000	1,743,333	210,000	850,500
Prof. Dr. Edgar Ernst	906,763	30,092	906,763	1,843,618	210,000	850,500
Dr. Peter Kruse[2)]	654,675	11,273	654,675	1,320,623	210,000	850,500
John P. Mullen	860,000	519,133	1,283,685[1)]	2,662,818	210,000	850,500
Dr. Hans-Dieter Petram	952,101	26,542	952,101	1,930,744	210,000	850,500
Walter Scheurle	860,000	23,962	860,000	1,743,962	210,000	850,500
Prof. Dr. Wulf von Schimmelmann	1,047,500	26,613	1,047,500	2,121,613	0	0
Total	**8,429,190**	**1,224,226**	**8,852,875**	**18,506,291**	**1,575,000**	**6,378,750**

1) Of which €156,921 refer to a share of the 2005 bonus paid in 2006.
2) Member of the Board of Management until September 21, 2006.

Share-based remuneration

For the first time in fiscal year 2006, members of the Board of Management were granted SARs instead of the stock options granted in previous years. The underlying LTIP for 2006 was approved by the Executive Committee of the Supervisory Board and is closely based on the expired i stock option plan (SOP) of 2003.

i Note 36

On July 1, 2006, SARs were granted for the first time under the new plan (the 2006 tranche). Additional tranches can be issued on the first trading day in July in each of the coming four years. Each SAR entitles the holder to receive a cash settlement equal to the difference between its issue price and the closing price of the Deutsche Post stock on the last trading day before the SAR is exercised. As in the past, the members of the Board of Management must each personally invest 10% of their annual target salary in Deutsche Post stock. The number of SARs issued to the members of the Board of Management will be determined by the Executive Committee of the Supervisory Board as each tranche is issued. The other essential features of the previous stock option plans have been retained. For example, following a three-year lock-up period that begins on the issue date, the SARs can be fully or partly exercised within a period of two years only if an absolute or relative performance target is achieved. Any SARs not exercised during this two-year period will expire.

To determine how many – if any – of the granted SARs can be exercised, the average share price or the average index is compared for the reference period and the performance period. The reference period, as in the past, comprises the last 20 consecutive trading days before the issue date. The performance period is the last 60 trading days before the end of the lock-up period. The average share price (closing) is calculated as the average of the daily closing prices of Deutsche Post stock in Deutsche Börse AG's Xetra electronic trading system. As in the past, the absolute performance target is met if the closing price of Deutsche Post stock is at least 10, 15, 20 or 25% above the issue price. The relative performance target is tied to the performance of the stock in relation to the Dow Jones STOXX 600 Index (Bloomberg SXXP Index; ISIN EU0009658202). It is met if the share price is not outperformed by the index during the performance period, or if it outperforms the index by at least 10%.

A maximum of four out of every six SARs can be "earned" via the absolute performance target, and a maximum of two via the relative performance target. If neither an absolute nor a relative performance target is met by the end of the lock-up period, the SARs of the related tranche will expire, and no replacement or compensation of any form will be provided. More details on the first 2006 LTIP tranche are shown in the following table:

LTIP 2006

	2006 tranche
Issue date	July 1, 2006
Issue price	€20.70
Expiry of lock-up period	June 30, 2009

The value attributable to fiscal 2006 of stock options issued in previous years amounted to €507,987.06 for Dr. Klaus Zumwinkel, €306,899.70 for Dr. Frank Appel, €338,653.50 each for Prof. Dr. Edgar Ernst, Dr. Hans-Dieter Petram, Walter Scheurle and Prof. Dr. Wulf von Schimmelmann and €152,749.80 for John P. Mullen. The pro rata value up to September 21, 2006 of options granted to Dr. Peter Kruse is €273,813.64. The following table provides detailed information on the individual tranches of the expired stock option plans:

Note 36

Stock options

	SOP 2000		SOP 2003		
	Tranche 2001	Tranche 2002	Tranche 2003	Tranche 2004	Tranche 2005
Issue date	March 15, 2001	July 1, 2002	August 1, 2003	July 1, 2004	July 1, 2005
Strike price	€23.05	€14.10	€12.40	€17.00	€19.33
Expiry of lock-up period	March 14, 2004 Exercisable at 1/6	June 30, 2005 Exercisable at 6/6	July 31, 2006 Exercisable at 6/6	June 30, 2007	June 30, 2008
Expiry of exercise period	March 14, 2006	June 30, 2007	July 31, 2008	June 30, 2009	June 30, 2010

The non-exercised options from Tranche 2001 expired on March 15, 2006 at the end of the exercise period, with no replacement or compensation provided.

Pension commitments

The members of the Board of Management have direct pension commitments on the basis of their individual contracts, providing for benefits in case of permanent disability, death or departure from service on reaching retirement age. If the contract of a member ends after at least five years' service on the Board of Management (four years in the case of John P. Mullen), the acquired entitlements are retained in full. Members become eligible for benefits in case of permanent disability after at least five years' service (four years in the case of John P. Mullen). Eligibility for retirement benefits begins at the age of 55 at the earliest, or 60 years of age in the case of John P. Mullen. The Board of Management members can choose between ongoing old age benefits and a lump sum. The amount of the benefits is graduated according to the pensionable earnings and the number of years of service.

Pensionable income consists of the annual fixed salary based on the average remuneration over the past 12 calendar months of employment. Members newly appointed after 2001 attain a pension level of 25% after five years' service on the Board of Management. The maximum pension level (50%) is attained after 10 years' service. The exception is John P. Mullen with a maximum pension level of 40%. The maximum pension levels of Board of Management members appointed before 2002 are 60% and 75%, respectively.

In case of early termination, the Board of Management contracts of Dr. Klaus Zumwinkel, Dr. Hans-Dieter Petram and Prof. Dr. Wulf von Schimmelmann provide for the pension entitlements to be calculated as if the contract had been performed until the scheduled termination date. Subsequent pension benefits will be adjusted (increased or decreased) to reflect changes in the consumer price index in Germany.

Pension commitments: individual breakdown

Pension commitments for the Board of Management

	Pension commitments		
	Pension level on December 31, 2006 %	Maximum pension level %	Service cost for the pension obligation €
Dr. Klaus Zumwinkel, Chairman	75	75	0[1)]
Dr. Frank Appel	0[2)]	50	313,572
Prof. Dr. Edgar Ernst	75	75	561,222
Dr. Peter Kruse[3)]	30	60	867,210
John P. Mullen	16	40	544,399
Dr. Hans-Dieter Petram	75	75	0[1)]
Walter Scheurle	30	60	651,604
Prof. Dr. Wulf von Schimmelmann[4)]	66	75	1,288,973

1) Ongoing financing complete.
2) Minimum period not yet complete.
3) Member of the Board of Management until September 21, 2006.
4) Pension commitment is owed by Deutsche Postbank AG.

Due to his contractual relationship with Exel, John Murray Allan is entitled to a company pension from the Ocean Nestor Pension Scheme, a funded company pension scheme approved by the UK tax authorities. The scheme generally sets retirement age at 60 years, and also provides for a disability pension and death benefits. The claims of John Murray Allan apply to his period of service up to April 5, 2006. Due to a change in UK tax law, John Murray Allan utilized the option of withdrawing from the pension scheme for the period beginning on April 6, 2006. Consequently, no benefits will accrue for that period in addition to those already acquired. Instead, in addition to the fixed income component indicated above, John Murray Allan will receive a taxable annual lump-sum payment of £245,000 that he can use to secure his own pension coverage.

The remuneration for former members of the Board of Management or their surviving dependents amounted to €1.95 million in the year under review. The defined benefit obligations (DBO) for current pensions calculated under IFRSs amount to €16.8 million.

Miscellaneous

No loans or similar benefits were granted to members of the Board of Management. Similarly, they received no benefits from third parties, promised or granted in view of their position as members of the Board of Management, in the year under review. Dr. Frank Appel, John Murray Allan, Dr. Peter Kruse and John P. Mullen will receive their contractual remuneration until the end of the ordinary term of their contracts if the contract as a member of the Board of Management is prematurely terminated by Deutsche Post AG for good cause, provided this cause is not related to a serious breach of duty. Apart from the pension commitments listed above, no other payments or benefits have been promised to any Board of Management member in case of departure from the Board of Management.

Remuneration of the Supervisory Board

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

The fixed component amounts to €20,000, and the short-term performance-related remuneration to €300 for every €0.03 by which the consolidated net profit per share exceeds the amount of €0.50 in the fiscal year in question. In 2006, the consolidated net profit per share was €1.60 and therefore exceeded the amount of €0.50 by 36.67 x €0.03. The short-term performance-related remuneration came to 32.31% of the total remuneration of all the members of the Supervisory Board. For fiscal year 2006, the members of the Supervisory Board are entitled to an annual performance-related remuneration with a long-term incentive effect amounting to €300 for every 3% by which the consolidated net profit per share for fiscal year 2008 exceeds the consolidated net profit per share for fiscal year 2005. The remuneration falls due after the 2009 AGM. Taken individually, the two variable remuneration components may not exceed the amount of the fixed remuneration of €20,000.

The Chairman of the Supervisory Board receives double the remuneration, and his deputy one and a half times the remuneration. The Chairman of a Supervisory Board committee also receives double the remuneration, while a member of a Supervisory Board committee receives one and a half times the remuneration. Persons who are members of the Supervisory Board for only part of a fiscal year receive corresponding remuneration on a pro rata basis. The members of the Supervisory Board are entitled to claim out-of-pocket expenses incurred in the exercise of their office. Any value-added tax on the Supervisory Board remuneration and on any out-of-pocket expenses is reimbursed. In addition, each member of the Supervisory Board attending a meeting receives an attendance allowance of €500 for each plenary meeting of the Supervisory Board or committee meeting. In fiscal year 2006, the total remuneration of the Supervisory Board, excluding long-term performance-related remuneration, amounted to approximately €1 million. The following table provides a breakdown as follows:

Supervisory Board remuneration €	Fixed component	Short-term performance-related remuneration	Attendance allowance	Total	Value of long-term performance-related remuneration claim[1]
Current members					
Dr. Jürgen Weber (since May 10, 2006)	53,333	28,800	4,000	86,133	0
Rolf Büttner	60,000	32,400	5,000	97,400	0
Willem van Agtmael	20,000	10,800	2,500	33,300	0
Frank von Alten-Bockum	20,000	10,800	2,500	33,300	0
Hero Brahms	40,000	21,600	6,000	67,600	0
Marion Deutsch	20,000	10,800	2,500	33,300	0
Werner Gatzer (since May 10, 2006)	26,667	14,400	4,000	45,067	0
Dr. Hubertus von Grünberg (since May 10, 2006)	13,333	7,200	1,000	21,533	0
Annette Harms	20,000	10,800	2,500	33,300	0
Helmut Jurke	40,000	21,600	7,500	69,100	0
Prof. Dr. Ralf Krüger	36,667	19,800	5,000	61,467	0
Dirk Marx	36,667	19,800	5,500	61,967	0
Ingrid Matthäus-Maier (since October 12, 2006)	5,000	2,700	500	8,200	0
Roland Oetker	26,667	14,400	4,000	45,067	0
Silke Oualla-Weiß	20,000	10,800	2,500	33,300	0
Harry Roels (since May 10, 2006)	13,333	7,200	1,000	21,533	0
Franz Schierer	20,000	10,800	2,500	33,300	0
Elmar Toime (since May 10, 2006)	13,333	7,200	1,500	22,033	0
Stefanie Weckesser	20,000	10,800	2,500	33,300	0
Margrit Wendt	43,750	23,625	7,500	74,875	0
Former members					
Josef Hattig (until May 10, 2006)	26,250	14,175	4,000	44,425	0
Gerd Ehlers (until May 10, 2006)	15,000	8,100	4,000	27,100	0
Dr. Jürgen Großmann (until May 10, 2006)	7,500	4,050	500	12,050	0
Dr. Manfred Lennings (until May 10, 2006)	15,000	8,100	2,000	25,100	0
Hans W. Reich (until September 30, 2006)	15,000	8,100	2,000	25,100	0
Total	**627,500**	**338,850**	**82,500**	**1,048,850**	**0**

1) The basis for the measurement of the claim to long-term performance-related remuneration is the provision which must be recognized. Due to the lower profit per share in fiscal year 2006 as compared with the previous year, no provision was recognized. The long-term performance-related remuneration for the year 2004 will be disbursed for the first time after the 2007 AGM for the benchmark period 2003–2006 if the performance targets are achieved.

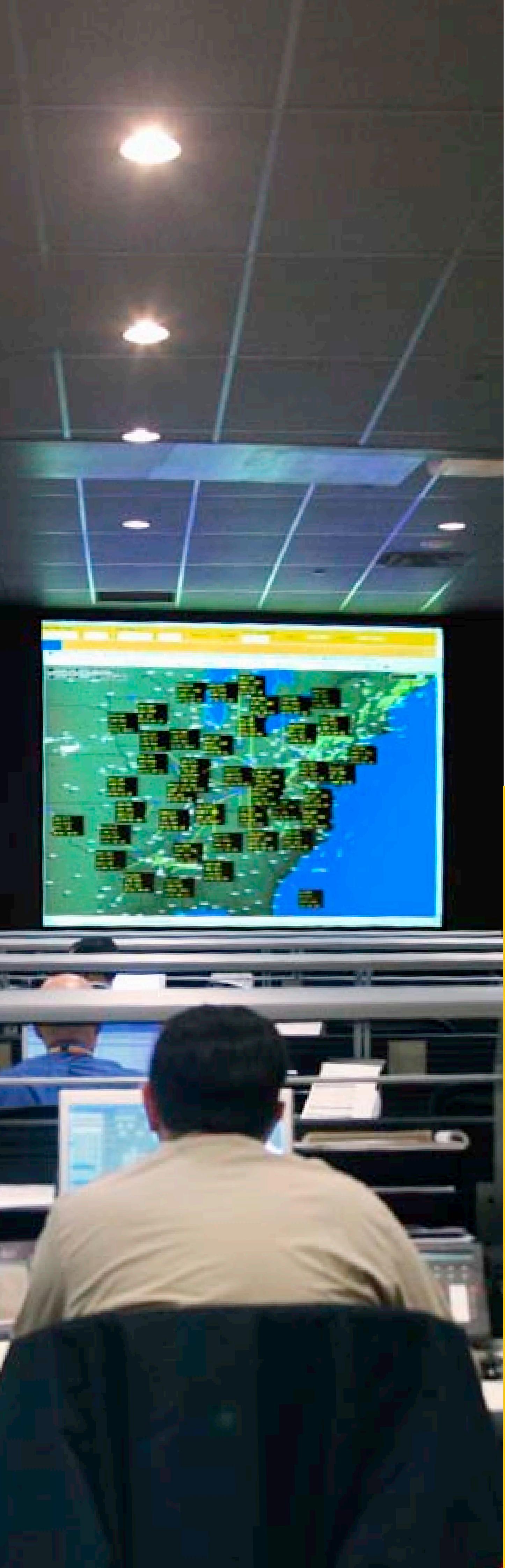
No payments or benefits were granted in return for services provided individually above and beyond activities for the Supervisory Board, especially consulting and agency services, with the exception of the remuneration of members elected by employees as set out in the members' respective employment contracts.

Stock holdings and reportable transactions of the Board of Management and Supervisory Board

Effective December 31, 2006 stock held by the Board of Management and the Supervisory Board of Deutsche Post AG amounted to less than 1% of the company's share capital. For the transactions notified, pursuant to Section 15a of the *Wertpapierhandelsgesetz* (German Securities Trading Act), to Deutsche Post AG please refer to the i website of the company.

i http://investors.dpwn.com

Stable basis for further growth



Quality and customer service are key stepping-stones to ensuring that our Group maintains a firm footing as we move forward and can continue to grow. For instance, our central air hub in Wilmington, Ohio, uses state-of-the-art technology to smoothly ship around a million consignments every night. In the USA, DHL has attained a competitive quality standard that meets our customers' performance requirements.

Sharing a piece of the pie

We're happy to share our success – especially with our share-holders. We regard the trust they place in us as a kind of advance. Since our stock market debut, we have paid a higher dividend with each new year. The amount available for distribution has tripled since 2000. And we will make every effort to go on boosting the value of the company down the line.

Income Statement

January 1 to December 31 €m	Note	2005 restated	2006
Revenue and income from banking transactions	10	44,594	60,545
Other operating income	11	3,685	2,821
Total operating income		**48,279**	**63,366**
Materials expense and expenses from banking transactions[1]	12	–23,768	–34,349
Staff costs	13	–14,337	–18,616
Depreciation, amortization, and impairment losses[1]	14	–1,961	–1,771
Other operating expenses[1]	15	–4,449	–4,758
Total operating expenses		**–44,515**	**–59,494**
Profit from operating activities (EBIT)		**3,764**	**3,872**
Net income from associates	16	71	4
Other financial income		219	198
Other finance costs[1]		–1,001	–1,232
Net other finance costs	17	–782	–1,034
Net finance costs		**–711**	**–1,030**
Profit before income taxes		**3,053**	**2,842**
Income tax expense	18	–605	–560
Consolidated net profit for the period	19	**2,448**	**2,282**
attributable to			
Deutsche Post AG shareholders		2,235	1,916
Minorities	20	213	366
		€	€
Basic earnings per share	21	**1.99**	**1.60**
Diluted earnings per share	21	**1.99**	**1.60**

1) Prior-period amounts restated, see Note 5.

Balance Sheet

as of December 31 €m	Note	2005 restated	2006
ASSETS			
Intangible assets[1]	23	13,026	14,652
Property, plant, and equipment[1]	24	9,908	9,388
Investment property	25	107	122
Investments in associates		78	63
Other noncurrent financial assets		776	931
Noncurrent financial assets	26	**854**	**994**
Other noncurrent assets	27	373	376
Deferred tax assets[1]	28	955	542
Noncurrent assets		**25,223**	**26,074**
Inventories	29	282	268
Noncurrent assets held for sale	30	28	56
Tax receivables	31	576	670
Receivables and other assets[1]	32	8,199	8,917
Receivables and other securities from financial services	33	136,213	179,280
Financial instruments	34	35	42
Cash and cash equivalents	35	2,084	2,391
Current assets		**147,417**	**191,624**
Total assets		**172,640**	**217,698**
EQUITY AND LIABILITIES			
Issued capital	36	1,193	1,202
Other reserves[1]	37	2,021	1,528
Retained earnings[1]	38	7,410	8,490
Equity attributable to Deutsche Post AG shareholders	39	**10,624**	**11,220**
Minority interest[1]	40	1,791	2,732
Equity		**12,415**	**13,952**
Provisions for pensions and other employee benefits[1]	41	5,756	6,134
Deferred tax liabilities[1]	42	1,438	1,426
Other noncurrent provisions[1]	43	2,517	4,780
Noncurrent provisions		**9,711**	**12,340**
Noncurrent financial liabilities[1]	44	5,045	3,495
Other noncurrent liabilities	45	3,989	5,285
Noncurrent liabilities		**9,034**	**8,780**
Noncurrent provisions and liabilities		**18,745**	**21,120**
Tax provisions	46	625	460
Other current provisions	43	1,825	1,433
Current provisions		**2,450**	**1,893**
Current financial liabilities	44	855	1,945
Trade payables	47	4,952	5,069
Liabilities from financial services[1]	48	128,693	168,663
Tax liabilities	49	655	875
Liabilities associated with noncurrent assets held for sale	50	20	17
Other current liabilities[1]	45	3,855	4,164
Current liabilities		**139,030**	**180,733**
Current provisions and liabilities		**141,480**	**182,626**
Total equity and liabilities		**172,640**	**217,698**

1) Prior-period amounts restated, see Note 5.

Cash Flow Statement

January 1 to December 31 €m	Note	2005 restated	2006
Net profit before taxes		**3,053**	**2,842**
Net finance costs[1]		711	1,030
Profit from operating activities (EBIT)		**3,764**	**3,872**
Depreciation/amortization of noncurrent assets[1]		1,961	1,771
Gains on disposal of noncurrent assets		–168	–160
Non-cash income and expense		280	104
Change in provisions		–2,531	–783
Taxes paid		–313	–343
Net cash from operating activities before changes in working capital		**2,993**	**4,461**
Changes in working capital			
Inventories		17	–51
Receivables and other assets		–503	–917
Receivables/liabilities from financial services		221	–368
Liabilities and other items		896	797
Net cash from operating activities	51.1	**3,624**	**3,922**
Proceeds from disposal of noncurrent assets			
Divestitures		156	331
Other noncurrent assets		605	943
		761	**1,274**
Cash paid to acquire noncurrent assets			
Investments in companies		–4,135	–2,094
Other noncurrent assets		–2,041	–1,972
		–6,176	**–4,066**
Interest received		210	100
Current financial instruments		153	–5
Net cash used in investing activities	51.2	**–5,052**	**–2,697**
Change in financial liabilities[1]		–352	345
Dividend paid to Deutsche Post AG shareholders		–556	–836
Dividend paid to other shareholders		–76	–105
Issuance of shares under stock option plan		65	124
Interest paid[1]		–369	–393
Net cash used in financing activities	51.3	**–1,288**	**–865**
Net change in cash and cash equivalents		–2,716	360
Effect of changes in exchange rates on cash and cash equivalents		–45	–38
Change in cash and cash equivalents associated with noncurrent assets held for sale		0	–15
Cash and cash equivalents at January 1		4,845	2,084
Cash and cash equivalents at December 31	51.4	**2,084**	**2,391**

1) Prior-period amounts restated, see Note 5.

Statement of Changes in Equity

January 1 to December 31

€m	Issued capital	Other reserves: Capital reserves	Other reserves: IAS 39 reserves	Other reserves: Currency translation reserves	Retained earnings	Equity attributable to Deutsche Post AG shareholders	Minority interest	Total equity
Note	(36)	(37)	(37)	(37)	(38)	(39)	(40)	
Balance at January 1, 2005 before adjustment	1,113	408	–343	–150	6,189	7,217	1,611	8,828
Adjustments	0	0	401	0	–459	–58	–30	–88
Balance at January 1, 2005 after adjustment[1]	**1,113**	**408**	**58**	**–150**	**5,730**	**7,159**	**1,581**	**8,740**
Capital transactions with owner								
Issuance of shares – Exel acquisition	75	1,389				1,464		1,464
Dividend					–556	–556	–76	–632
Stock option plans (exercise)	5	60				65		65
Stock option plans (issuance)		36				36		36
						1,009	**–76**	**933**
Other changes in equity not recognized in income								
Currency translation differences				109		109	24	133
Other changes			111		1	112	49	161
						221	73	294
Changes in equity recognized in income								
Consolidated net profit					2,235	2,235	213	2,448
Total changes in equity recognized in income and not recognized in income						**2,456**	**286**	**2,742**
Balance at December 31, 2005 after adjustment	**1,193**	**1,893**	**169**	**–41**	**7,410**	**10,624**	**1,791**	**12,415**
Balance at January 1, 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 recognized in income								
Currency translation differences				–410		–410	–40	–450
Other changes			–227			–227	720	493
						–637	680	43
Changes in equity recognized in income								
Consolidated net profit					1,916	1,916	366	2,282
Total changes in equity recognized in income and not recognized in income						**1,279**	**1,046**	**2,325**
Balance at December 31, 2006	**1,202**	**2,037**	**–58**	**–451**	**8,490**	**11,220**	**2,732**	**13,952**

1) The retrospective initial adjustment according to IAS 39 (rev. 2003) produces a cumulative impairment of shares in the amount of €430 million, which results in a reduction in retained earnings and an increase in IAS 39 reserves (revaluation reserve). The reclassification of financial assets also results in a reduction in the revaluation reserve of €29 million and in minority interest of €15 million. The change in accounting policy in accordance with IAS 8.22, whereby the expenses from the arrangement of mortgages are deferred according to the duration of the mortgage and not immediately recognized as an expense, leads to an increase in retained earnings of €54 million and in minority interest of €27 million. In addition, some of the fair values of securitized liabilities were miscalculated in the 2001 consolidated financial statements upon initial application of IAS 39. In accordance with IAS 8.42, these liabilities were adjusted in the amount of €125 million at the expense of retained earnings with retroactive effect from January 1, 2005. The minority interest in this amount is €42 million, which resulted in a decrease of €83 million in retained earnings at Group level and correspondingly of €42 million in the minority interest.

Notes

to the Consolidated Financial Statements of Deutsche Post AG for the Period Ended December 31, 2006

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) required to be applied in the EU and the commercial law provisions 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 accounting policies, as well as the explanations and disclosures in the Notes to the IFRS consolidated financial statements for fiscal year 2006, are generally based on the same accounting policies used in the 2005 consolidated financial statements. Exceptions to this are the revised and new accounting standards that have been required to be applied by the Group since January 1, 2006. These exceptions are explained in Note 5 (New developments in international accounting under IFRSs and the restatement of prior-period amounts). The accounting policies are explained in Note 7.

The fiscal 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 Significant differences between International Financial Reporting Standards and German accounting principles

The accompanying consolidated financial statements incorporate the following significant accounting policies that differ from German law:

- Internally generated intangible assets are recognized where these meet the criteria for recognition as assets.
- Under IFRSs, goodwill resulting from the acquisition of subsidiaries to be consolidated must be recognized. Goodwill from acquisitions is not amortized, but instead tested annually for impairment.
- Pension provisions are measured using the projected unit credit method reflecting future compensation and retirement benefit trends as well as the corridor rule in accordance with IAS 19. Both indirect and direct pension obligations (defined benefit plans) were included in the computation of pension obligations.
- Other provisions are only recognized to the extent that obligations to third parties are more likely than not to arise (50% plus rule). Accruals, which are characterized by a far higher level of certainty in terms of the timing and amount of settlement of the obligation, are carried under liabilities.
- Deferred tax assets and liabilities from temporary differences as well as deferred tax assets and liabilities from loss carryforwards are accounted for using the balance sheet approach on the basis of the enacted or expected tax rates applicable to future distributions.
- In accordance with IAS 39, all financial instruments, including derivatives, are recognized and measured at amortized cost or fair value, depending on the category to which they are assigned.
- In the case of finance leases, assets are capitalized and the residual liability is recognized as an expense using the allocation criteria set out in IAS 17.

3 Consolidated group

In addition to Deutsche Post AG, the consolidated financial statements for the period ended December 31, 2006, 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

	2005	2006
Number of fully consolidated companies (subsidiaries)		
German	101	133
Foreign	521	920[1]
Number of proportionately consolidated joint ventures		
German	2	2
Foreign	3	6
Number of companies accounted for at equity (associates)		
German	4	4
Foreign	29	32

1) The increase in fully consolidated companies is substantially due to the consolidation of the Exel Group as of the first quarter of 2006, including its individual companies.

The following table gives an overview of significant acquisitions required to be consolidated and increases in equity interests in fiscal year 2006:

Companies consolidated for the first time

	Equity interest %	Date of acquisition/first-time consolidation	Purchase price €m	Notes
MAIL				
Williams Lea Group Ltd., UK	66.15	March 24, 2006	326	Purchased
MailMerge Nederland B.V., Zaanstadt, Netherlands	100	September 30, 2006	2	Increase in equity interest
EXPRESS				
Multicontainer Metaforiki Naftiliaki & Emporiki A.E., Greece	100	January 1, 2006	5	Purchased
PPL CZ s.r.o., Czech Republic	100	January 2, 2006	45	Purchased
DHL GF S.A DE C.V., Mexico	100	June 30, 2006	7	Increase in equity interest
DHL Operations BV Jordan Services, Jordan	100	June 30, 2006	3	Increase in equity interest
DHL Danzas Air & Ocean, Philippines	100	August 31, 2006	6	Increase in equity interest
DHL Global Forwarding, Japan	100	November 30, 2006	15	Increase in equity interest
LOGISTICS				
Seapack Inc, USA		May 15, 2006	19	Asset deal
FINANCIAL SERVICES				
BHW Holding AG	98.43	January 2, 2006	1,753	Purchased

MAIL

Williams Lea

As of March 24, 2006, Deutsche Post World Net acquired 66.15% of the shares in Williams Lea Group Ltd., London, UK (Williams Lea). The purchase price increased by €4 million to €326 million due to subsequent acquisition costs. The minority shareholders (33.85% of the shares) were granted put options as part of the business combination that may be exercised at two different dates (in 2009 and 2011). Based on this tender right, the company was consolidated under the premise of a completed acquisition. The fair value of the outstanding minority interest was €185 million as of December 31, 2006 and was recognized under noncurrent financial liabilities.

A leading provider of value-added mail and document services, Williams Lea offers an extensive range of print, mailroom and document management products as well as direct marketing services. The allocation of the purchase price to the identifiable assets, liabilities, and contingent liabilities at their fair values used purchase price allocation in accordance with IFRS 3.

The purchase price allocation resulted in the following adjustments to assets and liabilities:

Adjustments to assets and liabilities

€m	March 31, 2006
Brand name	26
Customer list (excluding USA)	136
Customer list USA	89
Land	4
Pension obligations	–2
Current provisions	–7
Deferred taxes, net	–86
	160

An expected useful life of 18 years was used for the customer list. The following table shows the measurement of goodwill:

Measurement of goodwill

€m	March 31, 2006
Purchase price (66.15% interest)	316
Transaction costs	6
Subsequent acquisition costs	4
Total purchase price	**326**
Financial liability to minority interest (33.85% interest)	229
Less identifiable net assets at fair value	–56
Goodwill	**499**

Net assets acquired

as of March 31, 2006 €m	Carrying amounts	Adjustments	Fair value
Intangible assets	7	251	258
Property, plant, and equipment	16	4	20
Noncurrent financial assets	26	0	26
Current receivables, other current assets, and cash and cash equivalents	182	0	182
Noncurrent liabilities and provisions	–18	–2	–20
Current liabilities and provisions	–317	–7	–324
Deferred taxes, net	0	–86	–86
Net assets acquired	**–104**	**160**	**56**

Williams Lea generated revenue of €559 million and EBIT of €21 million from the date of acquisition until December 31, 2006. If the company had already been included in the consolidated financial statements as of January 1, 2006, it would have contributed €737 million to consolidated revenue and €14 million to consolidated EBIT.[1]

1) The unaudited pro forma information is for comparison purposes only and does not necessarily represent the results that would have arisen if the transaction had actually taken place as of January 1, 2006. Neither does the information provide any indication of future results.

LOGISTICS

Exel

On December 13, 2005, Deutsche Post World Net acquired a 100% interest in the logistics company Exel plc, Bracknell, UK (Exel). Exel was provisionally included in the consolidated financial statements as of December 31, 2005 at its IFRS carrying amounts. The amount of the provisional difference changed as follows on completion of the purchase price allocation in fiscal year 2006 in accordance with IFRS 3:

Goodwill	
€m	Dec. 31, 2005
Provisional goodwill	5,459
Customer list	–399
Brand name	–539
Land and buildings	–169
Current receivables and other current assets	5
Noncurrent liabilities and provisions	132
Current liabilities and provisions	23
Deferred taxes, net	286
Goodwill	**4,798**

The expected useful life of the customer list for the DHL Exel Supply Chain Business Unit is between eight and 14 years and between four and seven years for the DHL Global Forwarding Business Unit.

Net assets acquired as of December 31, 2005 €m	Carrying amounts	Adjustments	Fair value
Intangible assets	213	938	1,151
Property, plant, and equipment	981	169	1,150
Noncurrent financial assets	30	0	30
Other noncurrent assets	173	0	173
Current receivables, other current assets, and cash and cash equivalents	2,344	–5	2,339
Current liabilities and provisions	–3,028	–23	–3,051
Noncurrent liabilities and provisions	–577	–132	–709
Deferred taxes, net	40	–286	–246
Net assets	176		837
Minority interest	–25		–25
Net assets acquired	**151**		**812**

Goodwill	
€m	Dec. 31, 2005
Total purchase price	5,610
Less identifiable net assets at fair value	–812
Goodwill	**4,798**

Subsequent acquisition costs of €24 million were capitalized during the first half of 2006.

The Exel company, Marken Ltd., UK, was sold on March 20, 2006. No disposal gain was recognized in the consolidated financial statements because the proceeds on the sale were required to be used as guidance in determining the fair value of the company in the course of purchase price allocation.

EXPRESS

PPL

DHL acquired PPL CZ s.r.o., the Czech express service provider, at the beginning of 2006 to expand its activities in Central and Eastern Europe. The purchase price was €45 million. Goodwill of €39 million arose from first-time consolidation.

Multicontainer

In January 2006, Deutsche Post World Net acquired a 100% interest in Multicontainer Metaforiki Naftiliaki & Emporiki A.E. in Greece for a purchase price of €5 million.

FINANCIAL SERVICES

BHW

On January 2, 2006, Deutsche Postbank AG acquired 137,581,212 shares in BHW Holding AG (BHW) following completion of the share purchase agreement entered into on October 25, 2005 with the previous major shareholders of BHW, namely BGAG Beteiligungsgesellschaft der Gewerkschaften AG, BGAG Beteiligungsverwaltungsgesellschaft mbH, NH-Beteiligungsverwaltungsgesellschaft mbH, and Deutscher Beamtenwirtschaftsbund (BWB) GmbH. Taking into account the capital reduction through retirement of BHW Holding AG's own shares on December 31, 2005, this corresponds to 82.9% of the share capital and voting rights of BHW. The purchase increased Deutsche Postbank AG's equity holding in BHW to 91.04% of the share capital and voting rights, and Deutsche Postbank AG thus acquired a controlling interest in BHW in accordance with IAS 27.

On January 26, 2006, Deutsche Postbank AG made a mandatory offer pursuant to Section 35(2) of the *Wertpapiererwerbs- und Übernahmegesetz* (WpÜG – German Securities Acquisition and Takeover Act). The offer stood until February 23, 2006. The subject is the acquisition of all no-par value shares of BHW. Since the mandatory offer, Postbank has increased its stake in BHW to 98.43%. The purchase price for the interest amounts to €1,734 million plus transaction costs incurred of €19 million. The allocation of the purchase price to the identifiable assets, liabilities, and contingent liabilities at their fair values used purchase price allocation in accordance with IFRS 3.

The offer to the minority shareholders to acquire the remaining shares of BHW amounts to €39 million. This amount is recognized as a liability as of the balance sheet date in accordance with IAS 37.11 b. Accordingly, minority interests in BHW will no longer be recognized.

Measurement of goodwill	
€m	Dec. 31, 2005
Purchase price	1,734
Transaction costs	19
Total purchase price	**1,753**
Less identifiable net assets at fair value	–1,199
Goodwill	**554**

Net assets acquired €m	Carrying amounts	Adjustments	Fair value
Receivables and other securities from financial services	39,671	714	40,385
Property, plant, and equipment	245	–37	208
Deferred taxes	384	0	384
Cash and cash equivalents	99	0	99
Other assets	250	550	800
TOTAL ASSETS	40,649		41,876
Liabilities from financial services	36,543	320	36,863
Noncurrent provisions	2,009	287	2,296
Deferred taxes	383	211	594
Current liabilities	204	0	204
Noncurrent liabilities	640	59	699
EQUITY AND LIABILITIES less equity	39,779		40,656
Net assets	870		1,220
Less minority interest	n/a		–21
Net assets acquired			**1,199**

n/a = not applicable

Overall, around €2.2 billion were spent on acquisitions in fiscal year 2006 (previous year: €6.0 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 51.

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

Disposal and deconsolidation effects of fully consolidated companies	
€m	2006
Disposal effects	
Intangible assets	0
Property, plant, and equipment	15
Noncurrent financial assets	0
Inventories	9
Receivables and other assets	12
Receivables from financial services	1,024
Cash and cash equivalents	44
Provisions	–19
Trade payables and other liabilities	–32
Liabilities from financial services	–1,006
Financial liabilities	–2
Revenue	52
Effect of deconsolidation	72

The disposals relate to the companies McPaper, Deutsche Post Wohnen, Vfw Thermomed GmbH & Co. KG, Silo und Umschlags GmbH, and Modra Pyramida. The gains on deconsolidation are recognized in other operating income.

A list of significant subsidiaries, joint ventures, and associates is presented in Note 57. A complete list of Deutsche Post AG's shareholdings has been filed with the commercial register of the Bonn Local Court.

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

Joint ventures as of December 31 €m	2005[1]	2006[1]
Balance sheet		
Intangible assets	7	46
Property, plant, and equipment	3	10
Receivables and other assets	13	69
Cash and cash equivalents	8	24
Trade payables and other liabilities	–15	–77
Provisions	0	–1
Financial liabilities	–25	–14
Income statement		
Revenue	81	433
EBIT	5	17

1) Proportionate amounts.

The consolidated joint ventures relate primarily to Danzas DV LLC (Russia), Express Courier Ltd. (New Zealand), and Exel China Ltd. Sinotrans.

4 Significant transactions

In addition to the acquisitions cited in Note 3, the following significant transactions affected the Group's net assets, financial position, and results of operations in fiscal year 2006:

Exchangeable bond on Postbank stock
On July 3, 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 stock prior to maturity effective July 31, 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 for the bond is reported in other operating income. The amount determined contains €100 million in income from the reversal of a liability from measurement of the conversion right. The conversion right was measured based on Postbank's retained earnings. By citing IAS 1.17, 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). If Deutsche Post AG had measured the conversion right in accordance with IAS as a derivative liability, an additional liability totaling €239 million chargeable as an expense would have had to be recognized in the 2005 fiscal year. This liability would have had to be reversed to the income statement in fiscal year 2006. The net disposal gain would thus have increased by €239 million.

Sale of Modra Pyramida
BHW Holding AG disposed of its 50% share in the Czech home loan and savings association Modra Pyramida Stavebni Sporitelna, a.s. in October 2006. The sales proceeds of €64 million are recognized under other operating income.

Deutsche Telekom AG arbitration proceedings
The "Services provided by Deutsche Telekom AG" provision for cost sharing by Deutsche Telekom AG in the costs incurred for subsidized rental apartments, owner-occupied housing and boarding houses in connection with the housing-assistance program was reversed based on the arbitration ruling in March 2006. This resulted in net income of €89 million.

Goodwill impairment test for EXPRESS
As part of the organizational restructuring introduced in September and associated streamlining of the global management structure, the entire express business has now been placed under the management of John P. Mullen, member of the Board of Management. Consolidation of the areas of responsibility of European business with the remaining express business was effected in light of the fact that the EXPRESS Division will focus even more on growing international business and realize synergies from global networks. As a consequence of the reorganization and the related monitoring of goodwill, the goodwill impairment test in the EXPRESS segment will henceforth be made at the level of the segment as a whole, i.e. goodwill will be tested at the level of a group of cash-generating units (CGUs), among them CGU EXPRESS Americas, CGU EXPRESS Europe, CGU EXPRESS Asia Pacific and CGU EXPRESS EMA.

In addition, the Group has combined all air, ocean, and overland transport business. Against this backdrop, the European overland transport business was removed from the EXPRESS Division and transferred to the LOGISTICS Division as a separate business unit (DHL Freight). The goodwill associated with the transferred business unit was ascertained based on the ratio of the value in use of the DHL Freight Business Unit and the remaining part of the cash-generating unit, and transferred to the new DHL Freight Business Unit.

Bundes-Pensions-Service für Post und Telekommunikation e.V. (BPS-PT)
Based on the changes in the method for calculating the contributions for prior years to be paid by Deutsche Post AG pursuant to Section 16 *Postpersonalrechtsgesetz* (PostPersRG – Deutsche Bundespost Former Employees Act) to BPS-PT, the provision for the retroactive application of the implementing provisions of Section 16 *Postpersonalrechtsgesetz* totaling €80 million was reversed.

Bundesanstalt für Post und Telekommunikation e.V.
Other operating income of €33 million arose due to a settlement agreement dated September 27, 2006 between Deutsche Post AG and the Bundesanstalt für Post und Telekommunikation e.V. (BAnstPT – Federal Posts and Telecommunications Agency) with regard to a correction of the passing on of administrative costs for the amounts to be paid by Deutsche Post AG pursuant to Section 19(2) *Bundesanstalt Post-Gesetz* (BaPostG – German Federal Posts and Telecommunications Agency Act), as did an additional €22 million based on an agreed participation in hidden reserves.

5 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 January 1, 2006:

Changes to IAS 19: Employee Benefits

These changes introduced the option for an alternative method for recognizing actuarial gains and losses. Deutsche Post World Net has not used this option. At the same time, the changes made additional demands on the accounting for joint plans of multiple employers who do not have sufficient information available to apply accounting for defined benefit plans. Deutsche Post World Net already applied this changed standard in the 2005 fiscal year; hence there are no additional effects on the presentation and scope of the notes disclosures for the 2006 fiscal year. Deutsche Post World Net had already expanded the notes disclosures in the 2005 fiscal year.

Changes to IAS 39: Accounting for Cash Flow Hedges of Forecast Intragroup Transactions

The currency risks of a highly probable intragroup forecast transaction may qualify as the hedged item in the cash flow hedge in consolidated financial statements, provided that (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and (b) the foreign currency risk will affect the consolidated income statement. There were no effects from these changes for Deutsche Post World Net.

Changes to IAS 39: Fair Value Measurement Option

Deutsche Post World Net applied the fair value option for the first time for the 2006 fiscal year. Under this option, financial assets or financial liabilities may be (voluntarily) measured at fair value through profit and loss if, among other things, this eliminates or significantly reduces an accounting mismatch. The Deutsche Postbank Group applies the fair value option solely on specific loan portfolios that are hedged by interest rate derivatives.

Changes to IAS 39 and IFRS 4: Financial Guarantee Contracts

Financial guarantee contracts issued, which were not previously classified by the entity as insurance contracts, must be initially recognized at fair value and subsequently measured at the greater of (a) the unrecognized balance of the guarantee premiums received and accrued and (b) the amount calculated under IAS 37.

IFRIC 4: Determining whether an Arrangement contains a Lease

IFRIC 4 requires determining whether an arrangement is, or contains, a lease based on the respective economic substance of the arrangement. In so doing, an assessment must be made whether (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and (b) the arrangement conveys a right to use the asset. The following agreements have been examined for a lease in connection with IFRIC 4:

- Service agreements with American air freight companies that handle express business in the USA for Deutsche Post World Net.
- IT agreement with a service provider; additional information can also be found under Note 56.

These determinations resulted in the following effects on the balance sheet and income statement:

Effects of IFRIC 4

€m	2005	2006
Aircraft (finance lease)	164	123
IT hardware (finance lease)	69	47
Liabilities from finance leases	234	173
Depreciation or impairment losses	50	49
Interest expense	9	13
Materials expense	–59	–57

Retrospective application of IFRIC 4 changed income statement and balance sheet items for fiscal year 2005 (see also the tables "Restated consolidated balance sheet" and "Restated income statement" below).

IFRS 7 (Financial Instruments: Disclosures) will be applied for the first time as of fiscal year 2007. IFRS 7 introduces expanded disclosure requirements for improving the provision of information on financial instruments. Both qualitative and quantitative information regarding the extent of risks from financial instruments, including specified minimum disclosures on credit, liquidity and market risks, as well as sensitivity analyses with respect to market risks will be required. The new standard replaces IAS 30 (Disclosures in the Financial Statements of Banks and Similar Financial Institutions), as well as disclosure requirements of IAS 32 (Financial Instruments: Disclosure and Presentation). The amendment to IAS 1 introduces additional disclosure requirements on the amount of capital and its management. Both amendments result in additional disclosure requirements for the Group.

Restatement of the consolidated balance sheet

The purchase price allocation of Exel, a revised presentation of currency translation differences posted directly to equity, as well as the retrospective application of IFRIC 4, caused changes to the balance sheet amounts as of December 31, 2005. In addition, some of the fair values of securitized liabilities were miscalculated in the 2001 consolidated financial statements upon first-time application of IAS 39 for the Deutsche Postbank Group. These were adjusted retroactively in accordance with IAS 8.42 with a €83 million charge to retained earnings and a €42 million charge to the minority interest in retained earnings.

Restated consolidated balance sheet

as of December 31 €m	2005	Adjustments	2005 restated	Notes
ASSETS				
Intangible assets	12,749	277	13,026	of which Exel 277
Property, plant, and equipment	9,505	403	9,908	of which Exel 169
Deferred tax assets	883	72	955	of which Exel 72
Receivables and other assets	8,204	–5	8,199	of which Exel –5
EQUITY AND LIABILITIES				
Other reserves	2,062	–41	2,021	of which reclassification CTDs[1] –41
Retained earnings	7,452	–42	7,410	of which reclassification CTDs[1] 41 of which Deutsche Postbank Group –83
Minority interest	1,833	–42	1,791	of which Deutsche Postbank Group –42
Provisions for pensions	5,780	–24	5,756	of which Exel –24
Deferred tax liabilities	1,080	358	1,438	of which Exel 358
Other provisions (noncurrent)	2,361	156	2,517	of which Exel 156
Liabilities from financial services	128,568	125	128,693	of which Deutsche Postbank Group 125
Financial liabilities (noncurrent)	4,811	234	5,045	IFRIC 4
Other liabilities (current)	3,832	23	3,855	of which Exel 23

1) Currency translation differences, further details can be found in Note 37.

Restatement of the income statement

The income statement items for the 2005 fiscal year have changed due to the application of IFRIC 4 as well as by reclassifications between materials expense and other operating expenses.

Restated income statement

January 1 to December 31 €m	2005	Adjustments	2005 restated	Notes
Materials expense	–23,869	101	–23,768	of which IFRIC 4: 59
Depreciation or impairment losses	–1,911	–50	–1,961	of which IFRIC 4: –50
Other operating expenses	–4,407	–42	–4,449	Reclassification
Net other finance costs	–773	–9	–782	of which IFRIC 4: –9

6 Currency translation

The financial statements of consolidated companies prepared in foreign currencies are translated into euros (€) in accordance with IAS 21 using the functional currency method. The functional currency of foreign companies is determined by the primary economic environment in which they mainly generate and use cash. Within 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, while income and expenses are generally translated at the monthly closing rates. The resulting currency translation differences are taken directly to equity. In fiscal year 2006, €410 million (previous year: €109 million) were recognized directly in equity (see also the statement of changes in equity).

Goodwill arising from business combinations after January 1, 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:

Foreign currency translation

		Closing rates		Average rates	
Currency	Country	2005 €1 =	2006 €1 =	2005 €1 =	2006 €1 =
USD	USA	1.1807	1.3175	1.24462	1.25586
CHF	Switzerland	1.55563	1.60735	1.54842	1.57308
GBP	UK	0.68607	0.67101	0.68392	0.68182
SEK	Sweden	9.39247	9.0391	9.28157	9.25353

The carrying amounts of non-monetary assets recognized 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 of the balance sheet date. Currency translation differences are recognized in other operating income and expenses in the income statement. In fiscal year 2006, income of €207 million (previous year: €284 million) and expenses of €272 million (previous year: €220 million) resulted from currency translation differences. In contrast, currency translation differences relating to net investments in a foreign operation are recognized in equity.

7 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 conversion right relating to the exchangeable bond was measured on the basis of Postbank's retained earnings, citing IAS 1.17 (see Note 4).

Revenue and expense recognition

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

Intangible assets

Purchased intangible assets are recognized at cost. Internally generated intangible assets are recognized at cost if the criteria for recognition as an asset are met. This is the case in particular if future economic benefits are expected to flow from the assets. At Deutsche Post World Net, this concerns internally developed software. 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.

Intangible assets are amortized using the straight-line method over their useful lives. Capitalized software is amortized over two to five years, licenses over the term of the license agreement. Intangible assets are written down if there are indications of impairment and if the recoverable amount is lower than amortized cost. The write-downs are reversed if the reasons for the impairment losses no longer apply.

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. In impairment testing, the recoverable amount is compared with the carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. If either of these figures exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate its value.

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 amortized 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.

For the purpose of the impairment test, goodwill is allocated to cash-generating units (CGUs) or groups of CGUs. The CGUs identified for goodwill represent the level at which management monitors goodwill for internal control purposes. EXPRESS, DHL Exel Supply Chain, and DHL Global Forwarding are among the CGUs or groups of CGUs for which goodwill is significant (see also Note 23).

The recoverable amount for a CGU is based on its value in use. The calculation of value in use is based in turn 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. To determine value added beyond the detailed budgeting horizon, the projected cash flows are extrapolated using a long-term growth rate of up to 3%. The growth rate reflects expectations regarding industry growth for EXPRESS and LOGISTICS, but does not exceed the estimated long-term growth rate for 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 trends for transport volumes, prices, and quality of service. In addition, the forecasts take into account growth in the respective national business operations and in international trade, and the ongoing trend toward outsourcing logistics activities. Cost estimates for the transportation network and services also have an impact on value in use.

The cost of capital after taxes is determined using the weighted-average cost of capital. Borrowing costs have been adjusted such that they are in accordance with the definition of free cash flows and the carrying amounts of the CGUs. The assumed discount rate for EXPRESS and LOGISTICS is between 7.3% and 7.6%.

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 following estimated useful lives for depreciation:

Useful lives

years	2005	2006
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

Items of property, plant, and equipment are written down if there are indications of an impairment and the recoverable amount is less than amortized cost. The write-downs are reversed if the reasons for the impairment losses no longer apply.

Operating leases

For operating leases, Deutsche Post World Net as the lessor reports the leased asset at amortized cost as an asset under property, plant, and equipment. The lease payments recognized in the period are shown under other operating income. As a lessee, the lease payments made are recognized 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 capitalized 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 recognized under noncurrent liabilities. The depreciation methods and estimated useful lives correspond to those of comparable purchased assets.

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 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.

Available-for-sale financial assets
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 recognized 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. They are assigned to noncurrent assets unless the intention is to dispose of them within 12 months of the balance sheet date. In particular, investments in unconsolidated subsidiaries, financial instruments, and other equity investments are reported in this category.

Held-to-maturity assets
Held-to-maturity financial instruments are non-derivative financial assets and are carried at amortized cost at the balance sheet date. Impairment losses are charged to income if the recoverable amount falls below the carrying amount.

Derecognition of financial assets and liabilities
A financial asset is derecognized 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 derecognized. A disposal gain/loss arises upon disposal. The remeasurement gains/losses recognized directly in equity in prior periods must be reversed as of the disposal date. Financial liabilities are derecognized if the payment obligations arising from them have expired.

Loans and receivables
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 recognized at nominal amount or amortized 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 12 months after the balance sheet date; otherwise, they are recognized as noncurrent assets.

If the recoverability of receivables is in doubt, they are recognized at amortized cost, less appropriate specific allowances. A write-down on trade receivables is recognized if there are objective indications that the amount of the outstanding receivable cannot be collected in full. The amount of the write-down is recognized in income.

Assets recognized at fair value through profit and loss
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 recognized in income. All financial instruments in this category are accounted for at the trade date. Assets in this category are recognized as current assets if they are either held for trading or will likely be realized within 12 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. When hedge accounting is applied, gains and losses from the derivative and the related hedged item are simultaneously recognized 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.

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

A **cash flow hedge** hedges the fluctuations in future cash flows from recognized assets and liabilities and planned transactions as well as contracted transactions entailing a currency risk. The effective portion of a cash flow hedge is recognized in the hedging reserve in equity. Ineffective portions are recognized in income where required by IAS 39. The hedging reserve is reclassified when the hedged item is recognized in income or is no longer expected to occur.

Hedges of net investments (**net investment hedges**) in foreign companies are treated in the same way as cash flow hedges. The gain or loss from the effective portion of the hedge is recognized in equity, while the gain or loss attributable to the ineffective portion of the hedge is recognized directly in income. Cumulative gains or losses recognized in equity are reclassified to the income statement if the foreign company is disposed of. Detailed information on hedging transactions can be found in Note 52.2.

Investment properties
In accordance with IAS 40, investment properties are properties 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. They are measured in accordance with the purchasing method.

Inventories
Finished goods and goods purchased and held for sale are carried at the lower of cost or net realizable value. Valuation allowances are charged for obsolete inventories and slow-moving goods.

Noncurrent assets held for sale and discontinued operations
Noncurrent assets held for sale and discontinued operations relate primarily to companies available for sale that are recognized at the lower of the carrying amount or fair value less costs to sell.

Financial instruments
Financial instruments are available-for-sale financial assets, and are carried at their fair values at the balance sheet date. Unrealized gains or losses from remeasurement are generally credited or charged directly to the revaluation reserve in equity. The reserve is reversed to income either when the assets are sold or otherwise disposed of, or if the fair value falls more than temporarily below their cost. The financial instruments are accounted for at the settlement date.

Receivables and other securities as well as liabilities from financial services (Deutsche Postbank Group)
Originated loans and receivables are carried at amortized cost. Purchased loans and receivables categorized as "held-to-maturity" or "loans and receivables" are measured at amortized cost. Purchased loans and receivables classified as held for trading are measured at fair value. Held-to-maturity and originated securities are measured at amortized cost, while securities of the "at fair value through profit or loss" and "available for sale" categories are measured at their fair values. Liabilities from financial services are carried at amortized cost. Differences between the amount received and the amount repayable (premiums, discounts) are recognized or amortized over the remaining maturities of the liabilities. Proportionate accrued interest is reported together with the associated liability.

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 recognized in the balance sheet as amounts due to banks.

Stock option plan
In accordance with IFRS 2, the stock option plan for executives is measured using investment techniques based on option pricing models. Under these models, the options are measured at fair value on the grant date. The option price thus calculated is recognized in income under staff costs and spread over the term of the options.

Provisions
Provisions for pensions are measured using the projected unit credit method prescribed by IAS 19 for defined benefit plans. Actuarial gains and losses are recognized, in accordance with IAS 19.92, to the extent that they exceed 10% of the defined benefit obligation or plan assets, whichever is the greater. The excess is allocated over the remaining working lives of active employees and recognized in income. The interest component of pension expenses is reported under net finance costs. Contributions to defined contribution pension plans are recognized as staff costs when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other provisions are recognized for liabilities to third parties arising from past events, whose settlement is expected to result in an outflow of economic benefits and which 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.

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 amortized cost. Any differences between the amount received and the amount repayable are recognized 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 from finance leases are recognized at the lower of the present value of the lease payments or the market value of the capitalized leased asset.

Liabilities
Trade payables and other liabilities are carried at amortized 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 recognized 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 utilization of existing tax loss carryforwards and which are likely to be realized. In compliance with IAS 12.24 (b) and IAS 12.15 (b), deferred tax assets or liabilities were only recognized 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 January 1, 1995. No deferred tax assets or liabilities can be recognized for temporary differences resulting from initial differences in the opening tax accounts of Deutsche Post AG and Deutsche Postbank AG as of January 1, 1995. Additional disclosures on deferred taxes from tax loss carryforwards can be found in Note 18.

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 realized. The tax rate of 39.9% 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 nonoccurrence 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 recognized as liabilities (see also Note 52).

Estimates used in accounting and measurement
The preparation of IFRS-compliant consolidated financial statements requires the use of estimates. 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. Estimates and assumptions possibly requiring adjustment of the carrying amounts of assets and liabilities might relate to goodwill as well as deferred taxes within the Group.

8 Consolidation methods

The consolidated financial statements are based on the IFRS financial statements of Deutsche Post AG and its consolidated subsidiaries, joint ventures and associates, prepared in accordance with uniform accounting policies as of December 31, 2006 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 carried at equity using the purchase method of accounting. Any goodwill is recognized under investments in associates.

Intragroup revenue, other operating income and expenses as well as receivables, liabilities and provisions between consolidated companies are eliminated. Intercompany profits or losses from intragroup deliveries and services not realized by sale to third parties are eliminated.

9 Segment reporting

Segments by division

January 1 to December 31	MAIL		EXPRESS[1,2]		LOGISTICS[1,2]		FINANCIAL SERVICES[1,2]		SERVICES[1,2]		CONSOLIDATION[2]		GROUP[1]	
€m	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
External revenue	12,165	12,549	16,283	16,587	9,391	22,245	6,615	9,019	140	145	0	0	44,594	60,545
Internal revenue	713	737	548	608	542	494	474	574	3,734	3,903	–6,011	–6,316	0	0
Total revenue	12,878	13,286	16,831	17,195	9,933	22,739	7,089	9,593	3,874	4,048	–6,011	–6,316	44,594	60,545
Profit or loss from operating activities (EBIT)	2,030	2,054	–23	325	346	762	863	1,004	679	–237	–131	–36	3,764	3,872
Net income from associates	0	0	60	5	11	–1	0	0	0	0	0	0	71	4
Segment assets[3]	3,664	4,224	11,418	11,204	14,564	14,535	138,787	182,325	2,424	2,419	–2,966	–1,884	167,891	212,823
Investments in associates[3]	22	22	36	35	23	5	0	0	–3	1	0	0	78	63
Segment liabilities including non-interest-bearing provisions[3]	1,926	2,194	3,370	3,462	4,713	5,282	129,261	169,502	2,819	1,268	–2,744	–1,746	139,345	179,962
Segment investments	230	948	1,112	794	7,505	736	188	1,708	606	461	–94	–233	9,547	4,414
Depreciation, amortization, and write-downs	315	314	853	440	106	378	173	172	514	467	0	0	1,961	1,771
Other non-cash expenses	189	140	149	201	19	202	317	499	526	133	0	0	1,200	1,175
Employees[4]	129,200	131,719	120,862	123,728	46,880	157,949	22,169	23,285	28,496	24,541	0	0	347,607	461,222

Segments by region

January 1 to December 31	Germany		Europe excluding Germany		Americas		Asia Pacific		Other regions		Group	
€m	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
External revenue	22,444	24,829	11,089	18,072	6,787	11,130	3,562	5,580	712	934	44,594	60,545
Segment assets[1,3]	133,002	167,589	19,767	29,923	10,659	11,053	3,978	3,865	485	393	167,891	212,823
Segment investments[1]	1,229	2,265	6,337	1,233	1,223	655	651	219	107	42	9,547	4,414

1) Prior-period amounts restated, see Note 5.
2) Prior-period amounts restated, see Note 9.
3) As of December 31.
4) Average (FTEs).

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 organizational 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.

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

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 is divided into the following business units: Mail Communication, Direct Marketing, Press Distribution, Value-added Services and Mail International.

EXPRESS

The EXPRESS Division offers national and international courier, express and parcel services (DHL EXPRESS) under the DHL brand. Effective July 1, 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 reorganization of the global express network, hubs and global network aviation were removed from the SERVICES segment and transferred to the EXPRESS Division. The prior-period amounts were restated accordingly. In addition, the DHL Contract Logistics unit of DHL Freight & Contract Logistics Ltd. was sold by the EXPRESS segment to the LOGISTICS segment at a profit of €36 million.

LOGISTICS

The LOGISTICS Division comprises the national and international logistics services of the DHL Global Forwarding (formerly DHL Danzas Air & Ocean) and DHL Exel Supply Chain (formerly DHL Solutions) Business Units and, since July 1, 2006, the European overland transport business DHL Freight under the DHL brand. As a result of the reallocation of the DHL Freight Business Unit, the prior-period amounts had to be restated, increasing EBIT for fiscal 2005 by €29 million.

FINANCIAL SERVICES

The FINANCIAL SERVICES Division consists of the Deutsche Postbank Group's activities. Deutsche Postbank Group offers a wide range of standardized banking services, including payments, deposits, retail and corporate banking, fund products, and investment securities services. Effective January 1, 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 purchase price amounted to €986 million. 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 EBIT by segment component:

EBIT of FINANCIAL SERVICES

€m	2005 Deutsche Postbank Group	2005 Retail outlets of DP Retail GmbH	2005 Pension Service	2005 Total	2006 Deutsche Postbank Group	2006 Pension Service	2006 Other	2006 Total
EBIT	756	97	10	863	1,000	7	–3	1,004

The change in other segment components is due to the sale of the 850 retail outlets now reported by the Deutsche Postbank Group.

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, Global Customer Solutions and Business Consulting. It also includes the Corporate Center 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 reorganization of the global express network, hubs and global network aviation were removed from the SERVICES segment with effect from July 1, 2006 and transferred to the EXPRESS segment. The prior-period amounts were restated accordingly.

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:

Reconciliation

	Segments total		Reconciliation		Consolidated amount	
€m	2005	2006	2005	2006	2005	2006
External revenue	44,594	60,545	0	0	44,594	60,545
Internal revenue	6,011	6,316	–6,011	–6,316	0	0
Revenue	50,605	66,861	–6,011	–6,316	44,594	60,545
Other operating income	4,664	4,730	–979	–1,909	3,685	2,821
Materials expense	–28,685	–39,432	4,917	5,083	–23,768	–34,349
Staff costs	–14,359	–18,631	22	15	–14,337	–18,616
Other operating expenses	–6,369	–7,849	1,920	3,091	–4,449	–4,758
Depreciation, amortization, and impairment losses	–1,961	–1,771	0	0	–1,961	–1,771
EBIT	3,895	3,908	–131	–36	3,764	3,872
Net income from associates	71	4	0	0	71	4
Net other finance costs					–782	–1,034
Income taxes					–605	–560
Consolidated net profit for the period					2,448	2,282
Assets	170,935	214,770	1,705	2,928	172,640	217,698
of which investments in associates	78	63	0	0	78	63
Liabilities	142,089	181,708	18,136	22,038	160,225	203,746
of which investments in associates	0	0	0	0	0	0

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.

- 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 centers 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 noncurrent assets (excluding noncurrent 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.

Reconciliation to segment assets

€m	2005	2006
Intangible assets	13,026	14,652
Property, plant, and equipment	9,908	9,388
Other noncurrent assets	35	73
Inventories	282	268
Noncurrent assets held for sale	28	56
Tax receivables (excluding income taxes)	298	389
Receivables and other assets	8,101	8,717
Receivables and other securities from financial services	136,213	179,280
	167,891	**212,823**

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

Reconciliation to segment liabilities

€m	2005	2006
Other provisions (current)	1,211	1,054
Other liabilities (current)	3,604	4,142
Tax provisions	231	223
Trade payables	4,971	5,089
Liabilities from financial services	128,693	168,663
Tax liabilities (excluding income taxes)	615	774
Liabilities associated with noncurrent assets held for sale	20	17
	139,345	**179,962**

- The segment investments relate to intangible assets (including purchased goodwill) and property, plant, and equipment.
- Depreciation, amortization, 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.

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 to the location of the assets. They are composed of the noncurrent assets (excluding noncurrent financial assets) and current assets (excluding income tax receivables, 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

10 Revenue and income from banking transactions

Revenue and income from banking transactions		
€m	2005	2006
Revenue	38,267	51,592
Income from banking transactions	6,327	8,953
	44,594	**60,545**

As in the prior-year period, there was no revenue or income from banking transactions in fiscal year 2006 that was generated on the basis of barter transactions.

The LOGISTICS segment generated revenue of €22,245 million, in particular due to acquisition of the Exel Group in fiscal year 2005. The EXPRESS segment contributed €16,587 million to revenue. The revenue contribution from Williams Lea, which was consolidated for the first time in the year under review, was €559 million (see Note 3).

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

Income from banking transactions		
€m	2005	2006
Interest income		
Interest income from credit and money market transactions	3,336	5,058
Interest income from fixed-income securities and book-entry securities	1,605	2,068
Income from equities and other non-fixed-income securities	189	231
Interest income from trading operations	206	249
Net gains/losses from remeasurement of hedges and fair value option	–5	27
	5,331	**7,633**
Commission income	791	1,075
Net trading income	205	245
	6,327	**8,953**

The increase in income from banking transactions is attributable to the acquisition of BHW.

11 Other operating income

Other operating income		
€m	2005	2006
Income from the reversal of provisions	1,813	294
Gains on disposal of Postbank shares due to conversion right from exchangeable bond	0	276
Gains on disposal of noncurrent assets	247	274
Income from investment securities and insurance business (Deutsche Postbank Group)	262	234
Income from currency translation differences	284	207
Income from work performed and capitalized	205	197
Insurance income	112	164
Income from arbitration proceedings against Deutsche Telekom AG	0	99
Rental and lease income	94	91
Income from the derecognition of liabilities	88	91
Income from prior-period billings	132	86
Income from the reversal of the provision for Bundes-Pensions-Service für Post und Telekommunikation e.V.	0	80
Commission income	21	75
Income from the sale of Modra Pyramida	0	64
Income from fees and reimbursements	88	59
Reversal of impairment losses on receivables and other assets	49	58
Income from cost transfers in connection with BAnstPT (Federal Posts and Telecommunications Agency)	0	55
Income from non-hedging derivatives	101	46
Income from loss compensation	21	34
Subsidies	8	11
Income from the sale of McPaper AG	0	10
Income from payments received on bad debt	3	10
Income from housing management cost equalization	5	0
Miscellaneous	152	306
	3,685	**2,821**

The decline in other operating income is due to the 2005 reversal of provisions for the Postal Civil Service Health Insurance Fund totaling €1,208 million and of VAT provisions of €369 million.

Miscellaneous other operating income contains a number of individual items.

12 Materials expense and expenses from banking transactions

Materials expense and expenses from banking transactions		
€m	2005	2006
Materials expense	20,010	28,641
Expenses from banking transactions	3,758	5,708
	23,768[1)]	34,349

1) Prior-period amount restated, see Note 5.

Materials expense		
€m	2005	2006
Cost of raw materials, consumables and supplies, and of goods purchased and held for resale		
Fuel	413	669
Aircraft fuel	532	571
Packaging material	106	223
Goods purchased and held for resale	332	128
Office supplies	108	102
Spare parts and repair materials	45	69
Other expenses	51	100
	1,587	1,862
Cost of purchased services		
Transportation costs	13,242	19,757
Cost of temporary staff	868	1,690
Expenses from non-cancelable leases	931	1,297
Expenses from cancelable leases	302	497
Other lease expenses (incidental expenses)	225	346
Maintenance costs	749	953
IT services	894	916
Commissions paid	283	294
Other purchased services	929	1,029
	18,423[1)]	26,779
	20,010[1)]	28,641

1) Prior-period amount restated, see Note 5.

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. Higher transportation costs as a result of increased oil prices also had a substantial impact on materials expense.

€277 million of the cost of purchased services is attributable to Williams Lea, of which €172 million related to the cost of temporary staff.

Other purchased services include a number of individual items.

Expenses from banking transactions		
€m	2005	2006
Interest expense on liabilities	2,182	3,566
Interest expense on securitized liabilities	727	833
Interest expense on subordinated debt	171	253
Commission expense	103	214
Other interest expenses	575	842
	3,758	5,708

The increase in expenses from banking transactions is largely due to the acquisition of BHW.

13 Staff costs/employees

Staff costs		
€m	2005	2006
Wages, salaries, and compensation	11,249	15,281
of which expenses for options under the stock option plans	36	29
of which expenses for SARs under the stock option plans	4	2
of which expenses from SAR Plan 2006	0	14
Social security contributions	2,248	2,198
Retirement benefit expenses, welfare and assistance benefits	840	1,137
	14,337	18,616

The increase in staff costs is primarily attributable to the Exel Group acquired in 2005. The acquisition of Williams Lea contributed €224 million and the acquisition of the BHW Group €247 million to staff costs.

Retirement benefit expenses include €559 million (previous year: €650 million) relating to contributions by Deutsche Post AG and €111 million (previous year: €64 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 41.

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 groups, was as follows:

Employees		
	2005	2006
Hourly workers and salaried employees	324,368	440,203
Civil servants	64,491	62,560
Trainees	4,604	4,878
	393,463	507,641

The number of full-time equivalents as of December 31, 2006 was 463,350 employees (December 31, 2005: 455,115 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.

14 Depreciation, amortization, and impairment losses

Depreciation, amortization, and impairment losses		
€m	2005	2006
Amortization of intangible assets, excluding the impairment of goodwill	369	479
Depreciation of property, plant, and equipment		
Buildings	271	285
Technical equipment and machinery	268	343
Other equipment, operating, and office equipment, vehicle fleet	510	558
Aircraft	103	106
	1,152	**1,292**
	1,521[1]	**1,771**
Impairment of goodwill	440	0
	1,961[1]	**1,771**

1) Prior-period amount restated, see Note 5.

Of the €44 million in write-downs in fiscal year 2006, €27 million relates to intangible assets (previous year: €110 million) and €17 million to land and buildings (previous year: €43 million).

15 Other operating expenses

Other operating expenses		
€m	2005	2006
Public relations expenses	521	594
Legal, consulting, and audit costs	494	498
Travel and training costs	399	479
Allowance for losses on loans and advances from financial services (Deutsche Postbank Group)	205	337
Telecommunication costs	302	312
Warranty expenses, refunds, and compensation payments	280	306
Other business taxes	427	300
Expenses from currency translation differences	220	272
Cost of purchased cleaning, transportation, and security services	162	254
Write-downs of current assets	169	253
Office supplies	216	239
Entertainment and corporate hospitality expenses	131	159
Cost of asset disposal	53	142
Insurance costs	123	128
Addition to provisions	214	135
Services provided by BAnstPT (Federal Posts and Telecommunications Agency)	73	79
Commissions paid	64	64
Other property-related expenses	48	56
Contributions and fees	49	41
Expenses from non-hedging derivatives	82	30
Monetary transaction costs	23	29
Prior-period other operating expenses	19	18
Donations	13	13
Expenses from arbitration proceedings against Deutsche Telekom AG	0	10
Miscellaneous	162	10
	4,449[1]	**4,758**

1) Prior-period amount restated, see Note 5.

The increase in other operating expenses is primarily attributable to the first-time consolidation of the Exel Group. Miscellaneous other operating expenses include a number of individual items.

Taxes other than income taxes are either recognized under the related expense item or, if no specific allocation is possible, under other operating expenses.

16 Net income from associates

Investments in companies on which a significant influence can be exercised and which are included at equity primarily contributed as follows to net financial income:

Net income from associates		
€m	2005	2006
trans-o-flex Schnell-Lieferdienst GmbH (trans-o-flex), Germany	52	0
France Handling S.A., France	11	0
Other Group companies	8	4
	71	**4**

The change from the previous year is substantially due to the disposal of France Handling S.A. and trans-o-flex in 2005 and the associated disposal gains.

17 Net other finance costs

Financial income and finance costs		
€m	2005	2006
Financial income		
Interest income	198	63
Income from other equity investments and financial instruments	4	13
Other financial income	17	122
	219	**198**
Finance costs		
Interest expenses	–843	–1,040
of which interest cost on discounted provisions for pensions and other provisions	–545	–704
Cost of loss absorption	–7	0
Write-downs on financial instruments	–10	–11
Other finance costs	–141	–181
	–1,001[1]	**–1,232**
	–782[1]	**–1,034**

1) Prior-period amount restated, see Note 5.

Income and expenses from the Deutsche Postbank Group's banking transactions are not recognized under net other finance costs. While income – in particular in the form of interest, fee and commission income as well as income from equities and securities – is recognized under revenue and income from banking transactions (see Note 10), expenses – in particular interest, fee and commission expenses – are carried under materials expense and expenses from banking transactions (see Note 12).

The increase in interest expense relates primarily to the increase in expenses for discounted provisions.

18 Income tax expense

Income tax expense		
€m	2005	2006
Current income tax expense	–500	–338
Current recoverable income tax	7	62
	–493	**–276**
Deferred tax expense (previous year: tax income) from temporary differences	54	–221
Deferred tax expense from the reduction in deferred tax assets from tax loss carryforwards	–166	–63
	–112	**–284**
	–605	**–560**

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	2005	2006
Consolidated net profit before income taxes	3,053	2,842
Expected income tax expense	1,218	1,134
Deferred tax assets from temporary differences not recognized for		
Initial differences	–915	–483
Goodwill amortization	175	0
Restructuring provisions	–79	–70
Deferred tax assets of German Group companies not recognized for tax loss carryforwards	–175	139
Deferred tax assets of foreign Group companies not recognized for tax loss carryforwards	201	440
Effect of taxes from previous years	265	–31
Tax-exempt income and non-deductible expenses, effects from Section 8b KStG (German Corporate Income Tax Act)	–72	–503
Differences in tax rates at foreign companies	–33	–50
Other	20	–16
Effective income tax expense	**605**	**560**

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 of January 1, 1995. In accordance with IAS 12.15 (b) and IAS 12.24 (b), the Group did not recognize 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 €5.2 billion as of December 31, 2006 (previous year: €6.4 billion).

The effects from deferred tax assets not recognized on tax loss carryforwards also include €44 million (previous year: €310 million) from the reduction of income tax expense resulting from the use of tax loss carryforwards for which no deferred tax assets were recognized.

The effects from Section 8b *Körperschaftssteuergesetz* (KStG – German Corporate Income Tax Act) relate primarily to the effect from the exchangeable bond at Deutsche Post AG, as well as to special funds, shares, and equity investments of the Deutsche Postbank Group.

19 Consolidated net profit for the period

In fiscal year 2006, Deutsche Post World Net generated a consolidated net profit for the period of €2,282 million (previous year: €2,448 million). Of this amount, €1,916 million (previous year: €2,235 million) is attributable to Deutsche Post AG shareholders.

20 Minorities

The net profit of €366 million attributable to minorities increased by €153 million year on year, primarily due to the disposal of Postbank shares.

21 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 the 2006 fiscal year were €1.60 (previous year: €1.99).

Basic earnings per share	2005	2006
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	2,235	1,916
Average number of shares outstanding	1,121,001,272	1,196,244,814
Basic earnings per share (€)	1.99	1.60

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of all potentially dilutive shares. There were 21,854,658 stock options for executives as of the reporting date (previous year: 33,785,854), of which 3,395,362 were dilutive (previous year: 4,289,416).

Diluted earnings per share	2005	2006
Consolidated net profit attributable to Deutsche Post AG shareholders (€m)	2,235	1,916
Weighted-average number of shares outstanding	1,121,001,272	1,196,244,814
Potentially dilutive shares	4,289,416	3,395,362
Weighted-average number of shares for diluted net income	1,125,290,688	1,199,640,176
Diluted earnings per share (€)	1.99	1.60

22 Dividend per share

A dividend per share of €0.75 is being proposed for fiscal year 2006. Based on the 1,202,319,860 shares recorded in the commercial register (previous year: 1,192,633,739), this corresponds to a dividend distribution of €902 million (previous year: €836 million). Further details on the dividend distribution can be found in Note 39.

Balance sheet disclosures

23 Intangible assets

Intangible assets

€m	Internally generated intangible assets	Purchased intangible assets	Goodwill	Advance payments, intangible assets under development	Total
Historical cost					
Opening balance at January 1, 2005	980	1,018	5,856	84	7,938
Changes in consolidated group	–24	1,332	4,829	0	6,137
Additions	175	200	259	191	825
Reclassifications	–72	67	8	9	12
Disposals	–52	–48	–6	–12	–118
Currency translation differences	13	37	114	1	165
Closing balance at December 31, 2005/ opening balance at January 1, 2006	1,020	2,606	11,060	273	14,959
Changes in consolidated group	21	888	880	52	1,841
Additions	137	387	98	150	772
Reclassifications	130	267	0	–259	138
Disposals	–112	–340	–8	–84	–544
Reclassifications to current assets (held for sale)	0	–1	0	0	–1
Currency translation differences	–11	–41	–287	–2	–341
Closing balance at December 31, 2006	1,185	3,766	11,743	130	16,824
Amortization and impairment losses/reversals					
Opening balance at January 1, 2005	485	607	0	0	1,092
Changes in consolidated group	–15	89	0	0	74
Amortization and impairment losses	93	175	440	101	809
Reclassifications	10	–10	0	0	0
Disposals	–47	–8	0	–7	–62
Currency translation differences	7	13	0	0	20
Closing balance at December 31, 2005/ opening balance at January 1, 2006	533	866	440	94	1,933
Changes in consolidated group	–6	6	0	0	0
Amortization and impairment losses	133	346	0	0	479
Reclassifications	18	–16	0	0	2
Disposals	–90	–55	0	–75	–220
Currency translation differences	–6	–15	0	–1	–22
Closing balance at December 31, 2006	582	1,132	440	18	2,172
Carrying amount at December 31, 2006	**603**	**2,634**	**11,303**	**112**	**14,652**
Carrying amount at December 31, 2005	487	1,740	10,620	179	13,026[1]

1) Prior-period amount restated, see Note 5.

Purchased software, concessions, industrial rights, licenses and similar rights and assets, as well as customer lists and brand names identified during purchase price allocations are reported under purchased intangible assets. Internally generated intangible assets relate to development costs for internally developed software.

The increase in purchased intangible assets is related to the customer lists and brand names identified during the purchase price allocation with Exel, BHW, and Williams Lea. They developed as follows during the fiscal year:

Customer lists and brand names

€m	Customer lists Exel	Customer lists WL[1]	Customer lists BHW[2]	Brand names Exel	Brand names WL[1]	Brand names BHW	Total
Historical cost							
Opening balance at January 1, 2006	576	0	0	540	0	0	1,116
Changes in consolidated group	0	232	253	0	26	319	830
Additions	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Currency translation differences	–19	–2	0	12	1	0	–8
Closing balance at December 31, 2006	557	230	253	552	27	319	1,938
Amortization and impairment losses/reversals							
Opening balance at January 1, 2006	0	0	0	0	0	0	0
Changes in consolidated group	0	0	0	0	0	0	0
Amortization and impairment losses	–64	–10	–15	0	0	0	–89
Reclassifications	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Currency translation differences	1	0	0	0	0	0	1
Closing balance at December 31, 2006	–63	–10	–15	0	0	0	–88
Carrying amount at December 31, 2006	**494**	**220**	**238**	**552**	**27**	**319**	**1,850**

1) WL = Williams Lea.
2) Including beneficial contracts.

€499 million of the increase in goodwill at the time of acquisition relates to Williams Lea, €554 million to BHW and €39 million to PPL.

The following diagram presents the goodwill allocation to cash-generating units (CGUs) (see also Note 7):

Cash-generating units (CGUs)

Total goodwill: €11,303m[1]

Segment level/group of CGUs			
MAIL	EXPRESS €3,823m	LOGISTICS €461m	FINANCIAL SERVICES
CGU level			
MAIL National €30m		DHL Global Forwarding €3,134m	FINANCIAL SERVICES €634m
MAIL International €1,011m		DHL Exel Supply Chain €2,071m	
		DHL Freight Europe €253m	

1) Goodwill from reconciliation amounts to €–114 million.

24 Property, plant, and equipment

Property, plant, and equipment

€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
Historical cost							
Opening balance at January 1, 2005	7,021	2,889	2,878	1,205	1,571	63	15,627
Changes in consolidated group	628	1,019	101	15	266	16	2,045
Additions	250	393	343	43	240	97	1,366
Reclassifications	144	–31	30	0	3	–32	114
Disposals	–223	–71	–211	–76	–176	–34	–791
Reclassifications to current assets (held for sale)	–3	0	–29	0	0	0	–32
Currency translation differences	72	50	70	24	12	2	230
Closing balance at December 31, 2005/ opening balance at January 1, 2006	7,889	4,249	3,182	1,211	1,916	112	18,559
Changes in consolidated group	149	–5	7	–5	1	2	149
Additions	319	119	285	41	306	187	1,257
Reclassifications	–109	–195	174	67	50	–60	–73
Disposals	–594	–174	–287	–8	–260	–57	–1,380
Reclassifications to current assets (held for sale)	–8	0	0	0	0	0	–8
Currency translation differences	–67	–93	–55	–24	–7	–2	–248
Closing balance at December 31, 2006	7,579	3,901	3,306	1,282	2,006	182	18,256
Depreciation and impairment losses							
Opening balance at January 1, 2005	2,023	1,961	2,036	254	901	0	7,175
Changes in consolidated group	0	584	110	5	135	0	834
Depreciation and impairment losses	271	268	362	103	148	0	1,152
Reversal of impairment losses	0	0	0	–1	0	0	–1
Reclassifications	10	–7	5	0	1	0	9
Disposals	–105	–71	–198	–76	–143	0	–593
Reclassifications to current assets (held for sale)	–1	0	–20	0	0	0	–21
Currency translation differences	17	21	46	7	5	0	96
Closing balance at December 31, 2005/ opening balance at January 1, 2006	2,215	2,756	2,341	292	1,047	0	8,651
Changes in consolidated group	–29	–3	–28	–5	1	1	–63
Depreciation and impairment losses	285	343	365	106	193	0	1,292
Reversal of impairment losses	0	0	0	0	0	0	0
Reclassifications	175	–297	93	0	36	–9	–2
Disposals	–270	–166	–253	–6	–206	0	–901
Reclassifications to current assets (held for sale)	–1	0	0	0	0	0	–1
Currency translation differences	–19	–41	–40	–3	–5	0	–108
Closing balance at December 31, 2006	2,356	2,592	2,478	384	1,066	–8	8,868
Carrying amount at December 31, 2006	**5,223**	**1,309**	**828**	**898**	**940**	**190**	**9,388**
Carrying amount at December 31, 2005	5,674	1,493	841[1)]	919[1)]	869	112	9,908[1)]

1) Prior-period amount restated, see Note 5.

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 have a total carrying amount of €5 million.

The following assets are carried as noncurrent assets resulting from finance leases:

Finance leases

€m	2006
Intangible assets	4
Land and buildings	52
Technical equipment and machinery	45
Other equipment, operating and office equipment	61
Aircraft	633
Vehicle fleet and transport equipment	13
	808

Following the application of IFRIC 4 (see also Note 5), further aircraft and hardware were identified as leased assets.

25 Investment property

Investment property

€m	2005	2006
Historical cost		
Opening balance at January 1	364	143
Changes in consolidated group	0	18
Additions	0	0
Reclassifications	–116	1
Disposals	–105	–5
Reclassifications to current assets (held for sale)	0	0
Currency translation differences	0	0
Closing balance at December 31	143	157
Impairment losses		
Opening balance at January 1	94	36
Changes in consolidated group	0	0
Impairment losses	1	1
Changes in fair value	0	0
Reclassifications	–10	0
Disposals	–49	–2
Reclassifications to current assets (held for sale)	0	0
Currency translation differences	0	0
Closing balance at December 31	36	35
Carrying amount at December 31	**107**	**122**

€31 million (previous year: €35 million) of investment property relates to Deutsche Post AG and €72 million (previous year: €72 million) to the Deutsche Postbank Group. Rental income for these properties amounted to €2 million, expenses for them to €3 million.

26 Noncurrent financial assets

Noncurrent financial assets

€m	Other noncurrent financial assets: Investments in associates	Available for sale	Loans	Total
Historical cost				
Opening balance at January 1, 2005	94	554	189	837
Changes in consolidated group	–5	29	–39	–15
Additions	33	184	41	258
Reclassifications	–4	117	–1	112
Disposals	–36	–212	–37	–285
Reclassifications to current assets (held for sale)	0	0	0	0
Currency translation differences	0	14	9	23
Closing balance at December 31, 2005/ opening balance at January 1, 2006	82	686	162	930
Changes in consolidated group	3	23	0	26
Additions	55	194	39	288
Reclassifications	–13	–15	11	–17
Disposals	–59	–104	–4	–167
Reclassifications to current assets (held for sale)	0	0	0	0
Currency translation differences	–1	–2	–6	–9
Closing balance at December 31, 2006	67	782	202	1,051
Impairment losses				
Opening balance at January 1, 2005	12	15	67	94
Changes in consolidated group	–8	–7	10	–5
Impairment losses	–2	1	0	–1
Changes in fair value	2	0	0	2
Reclassifications	0	0	0	0
Disposals	0	–13	0	–13
Reclassifications to current assets (held for sale)	0	0	0	0
Currency translation differences	0	0	–1	–1
Closing balance at December 31, 2005/ opening balance at January 1, 2006	4	–4	76	76
Changes in consolidated group	0	0	0	0
Impairment losses	0	8	0	8
Changes in fair value	0	0	0	0
Reclassifications	0	0	0	0
Disposals	0	–27	0	–27
Reclassifications to current assets (held for sale)	0	0	0	0
Currency translation differences	0	0	0	0
Closing balance at December 31, 2006	4	–23	76	57
Carrying amount at December 31, 2006	**63**	**805**	**126**	**994**
Carrying amount at December 31, 2005	78	690	86	854

Other noncurrent financial assets increased due to the acquisition of Williams Lea and BHW.

Compared with the market rates of interest prevailing at December 31, 2006 for comparable financial assets, most of the housing promotion loans are low-interest or interest-free loans. They are recognized in the balance sheet at a present value of €17 million (previous year: €16 million). The principal amount of these loans totals €25 million (previous year: €26 million). For all other originated financial instruments, there were no significant differences between the carrying amounts and the fair values. There is no significant interest rate risk, because most of the instruments bear floating rates of interest at market rates. As in the previous year, investments in associates and other investees were not subject to restraints on disposal.

27 Other noncurrent assets

Other noncurrent assets €m	Pension assets	Derivatives	Sureties provided	Miscellaneous	Total
Historical cost					
Opening balance at January 1, 2005	51	161	0	23	235
Changes in consolidated group	121	0	0	37	158
Additions	13	37	23	29	102
Reclassifications	0	0	0	–2	–2
Disposals	0	–114	0	–12	–126
Currency translation differences	0	1	0	2	3
Closing balance at December 31, 2005/ opening balance at January 1, 2006	185	85	23	77	370
Changes in consolidated group	1	0	0	–2	–1
Additions	9	1	0	103	113
Reclassifications	–2	0	0	2	0
Disposals	–6	–52	–10	–41	–109
Currency translation differences	0	1	0	–6	–5
Closing balance at December 31, 2006	187	35	13	133	368
Impairment losses					
Opening balance at January 1, 2005	0	0	0	0	0
Changes in consolidated group	0	0	0	0	0
Impairment losses	–4	0	0	1	–3
Reclassifications	0	0	0	0	0
Disposals	0	0	0	0	0
Currency translation differences	0	0	0	0	0
Closing balance at December 31, 2005/ opening balance at January 1, 2006	–4	0	0	1	–3
Changes in consolidated group	0	0	0	0	0
Impairment losses	–4	0	0	0	–4
Reclassifications	0	0	0	0	0
Disposals	0	0	0	0	0
Currency translation differences	–1	0	0	0	–1
Closing balance at December 31, 2006	–9	0	0	1	–8
Carrying amounts at December 31, 2006	**196**	**35**	**13**	**132**	**376**
Carrying amounts at December 31, 2005	189	85	23	76	373

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 41.

28 Deferred tax assets

Deferred tax assets €m	2005	2006
Deferred tax assets from tax loss carryforwards	225	270
Deferred tax assets from temporary differences	730[1]	272
	955[1]	**542**

1) Prior-period amount restated, see Note 5.

No deferred tax assets were recognized on tax loss carryforwards of around €10.3 billion (previous year: €8.4 billion), as it can be assumed that the Group will not be able to use these tax loss carryforwards within the framework of tax planning. It will be possible to utilize these tax loss carryforwards for an indefinite period of time. Most of the loss carryforwards are attributable to Deutsche Post AG.

Deferred tax assets from tax loss carryforwards €m	2005	2006
Deferred taxes from German tax loss carryforwards		
Corporation tax and solidarity surcharge	72	111
Trade tax	61	95
Deferred taxes from foreign tax loss carryforwards	92	64
	225	**270**

The maturity structure of deferred tax assets from tax loss carryforwards is as follows:

Maturity structure €m	2005	2006
Less than 1 year	16	48
1 to 2 years	14	42
2 to 3 years	145	111
3 to 4 years	19	15
4 to 5 years	23	18
More than 5 years	8	36
	225	**270**

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

Deferred tax assets & liabilities from temp. differences				
€m	2005		2006	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	28	464	58	727
Property, plant, and equipment	18	170	24	71
Noncurrent financial assets	0	14	0	1
Other noncurrent assets	12	4	3	117
Current assets				
Receivables and other securities from financial services	52	1,846	139	1,965
Other current assets	158	61	203	49
Provisions	431	63	367	27
Financial liabilities	0	0	25	0
Liabilities from financial services	1,356	71	1,154	83
Other liabilities	13	83	20	107
	2,068	**2,776**	**1,993**	**3,147**
Balance of deferred tax assets and liabilities of which from temporary differences	–1,338	–1,338	–1,721	–1,721
Carrying amount	730[1)]	1,438[1)]	272	1,426

1) Prior-period amount restated, see Note 5.

Maturities of deferred tax assets from temporary differences		
€m	2005	2006
Less than 1 year	142	61
1 to 2 years	38	35
2 to 3 years	67	26
3 to 4 years	26	12
4 to 5 years	276	19
More than 5 years	181	119
	730[1)]	**272**

1) Prior-period amount restated, see Note 5.

29 Inventories

Inventories		
€m	2005	2006
Finished goods and goods purchased and held for resale	51	120
Spare parts for aircraft	66	2
Raw materials and supplies	117	117
Work in progress	46	28
Advance payments	2	1
	282	**268**

Spare parts for aircraft were reclassified to noncurrent assets (property, plant, and equipment). Standard costs for inventories of postage stamps and spare parts in freight centers amounted to €14 million, as in the previous year. There was no requirement to charge significant valuation allowances on these inventories.

30 Noncurrent assets held for sale

The amounts reported as current assets in accordance with IFRS 5 (Noncurrent assets held for sale) relate to the following companies and assets that are held for sale:

Noncurrent assets held for sale		
€m	2005	2006
Vfw AG, Cologne, Germany	0	39
SCM Supply Chain Management Inc., Canada – land	0	16
DHL Express Denmark A/S, Denmark – buildings	2	1
McPaper AG (McPaper), Berlin, Germany	24	0
Deutsche Post Wohnen GmbH (DP Wohnen), Bonn, Germany	2	0
	28	**56**

Deutsche Post World Net intends to sell its 100% interest in the Cologne-based collection systems provider Vfw AG to the private equity investor Monitor Clipper Partners. The completion of the transaction is subject to approval by the German antitrust authorities and is expected to take place at the beginning of 2007. The Cologne-based waste management service provider was acquired by Deutsche Post as part of its 2005 acquisition of Exel and was not considered to be part of the Group's German core business.

The companies McPaper and DP Wohnen were sold in January 2006.

31 Tax receivables

Current tax receivables amounting to €670 million (previous year: €576 million) are composed of the following items:

Tax receivables €m	2005	2006
Income tax receivables	278	281
Value-added tax receivables	203	262
Customs and duties receivables	30	36
Other tax receivables	65	91
	576	**670**

32 Receivables and other assets

Receivables and other assets €m	2005	2006
Trade receivables	6,150	6,395
Prepaid expenses	788	990
Deferred revenue	220	403
Receivables from Group companies	41	80
Current derivatives	64	57
Receivables from employees	26	52
Creditors with debit balances	74	51
Income from cost absorption	48	47
Receivables from cash-on-delivery	57	28
Rent receivable	51	16
Land rights	0	15
Receivables from residential housing construction pools	14	14
Receivables from insurance business	9	13
Receivables from loss compensation (recourse claims)	11	10
Receivables from sales of assets	5	5
Receivables from BAnstPT (Federal Posts and Telecommunications Agency)	6	4
Receivables from private postal agencies	0	2
Receivables from Bundes-Pensions-Service e.V.	6	0
Miscellaneous other assets	629	735
	8,199[1]	**8,917**

1) Prior-period amount restated, see Note 5.

Miscellaneous other assets include a number of individual items.

Further information on derivatives can be found in Note 52.2.

33 Receivables and other securities from financial services

Receivables and other securities from financial services €m	2005	2006
Loans and advances to other banks		
Loans and advances to other banks (loans and receivables) of which fair value hedges: 2,136 (previous year: 2,720)	16,378	14,233
Money market assets	1,423	2,117
	17,801	**16,350**
Loans and advances to customers of which secured by mortgage charges: 45,565 (previous year: 19,088)		
Loans and advances to customers (loans and receivables) of which fair value hedges: 1,502 (previous year: 4,115)	52,209	80,425
Loans and advances to customers (held to maturity)	573	518
Loans and advances to customers (fair value option)	0	6,181
	52,782	**87,124**
Allowance for losses on loans and advances		
Loans and advances to other banks	0	0
Loans and advances to customers	–776	–1,155
	–776	**–1,155**
Trading assets		
Bonds and other fixed-income securities	7,284	9,755
Held-for-trading building loans held for sale	–	208
Equities and other non-fixed-income securities	10	28
Positive fair value of trading derivatives	2,617	2,942
Positive fair value of banking book derivatives	475	276
Positive fair value of derivatives in connection with underlyings relating to the fair value option	0	71
	10,386	**13,280**
Hedging derivatives (positive fair values)		
Assets	72	300
Liabilities	567	185
	639	**485**
Investment securities		
Bonds and other fixed-income securities		
Loans and receivables of which fair value hedges: 5,369 (previous year: 2,143)	12,599	19,031
Held to maturity	3,375	4,956
Available for sale of which fair value hedges: 15,770 (previous year: 16,681)	33,687	33,379
	49,661	**57,366**
Equities and other non-fixed-income securities		
Available for sale	5,720	5,830
	55,381	**63,196**
	136,213	**179,280**

Receivables and other securities from financial services relate exclusively to the Deutsche Postbank Group.

Maturity structure 2006[1]

€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
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/hedging derivatives	0	706	842	6,828	1,387	599	729	2,674	13,765
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**

Maturity structure 2005[1]

€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
Loans and advances to other banks	1,153	2,966	2,566	622	1,067	1,566	1,316	6,545	17,801
Loans and advances to customers	1,962	5,689	5,696	5,707	5,468	4,849	3,233	20,178	52,782
Trading assets/hedging derivatives	10	1,684	603	5,365	980	267	235	1,881	11,025
Investment securities	0	1,794	2,818	7,155	4,019	4,177	4,484	30,934	55,381
	3,125	**12,133**	**11,683**	**18,849**	**11,534**	**10,859**	**9,268**	**59,538**	**136,989**

1) Gross of the allowance for losses on loans and advances.

€1,906 million of loans and advances to other banks is payable on demand (previous year: €1,153 million).

Of the loans and advances to customers, €5,444 million is attributable to public-sector loans (previous year: €8,682 million), and €59,148 million to building finance (previous year: €28,953 million).

The allowance for losses on loans and advances covers all identifiable credit risks. Portfolio-based valuation allowances were recognized for the potential credit risk.

Allowance for losses on loans and advances

€m	Specific valuation allowances 2005	Specific valuation allowances 2006	Portfolio-based valuation allowances 2005	Portfolio-based valuation allowances 2006	Total 2005	Total 2006
Opening balance at January 1	627	732	40	44	667	776
Changes in consolidated group	0	267	0	2	0	269
Additions	235	384	4	19	239	403
Utilization	–88	–161	0	0	–88	–161
Reversal	–46	–100	0	0	–46	–100
Unwinding	0	–29	0	0	0	–29
Currency translation differences	4	–3	0	0	4	–3
Closing balance at December 31	**732**	**1,090**	**44**	**65**	**776**	**1,155**

€27 million (previous year: €19 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 €14 million (previous year: €5 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. €9,720 million (previous year: €7,277 million) of the bonds and other fixed-income securities and €28 million (previous year: €10 million) of the equities and other non-fixed-income securities relate to securities listed on a stock exchange.

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

Hedging derivatives

€m	Fair value hedges 2005	Fair value hedges 2006
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	4	8
Hedging derivatives on loans to customers		
Loans and receivables	5	11
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	63	281
	72	**300**
Liabilities		
Deposits from other banks	106	35
Amounts due to customers	110	41
Securitized liabilities	290	101
Subordinated debt	61	8
	567	**185**
	639	**485**

€59,951 million (previous year: €52,788 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 €–120 million (previous year: addition of €309 million). €302 million (previous year: €236 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 €15 billion (previous year: €10 billion) for open market operations. Open market operations at the balance sheet date amounted to €10 billion (previous year: €7 billion). The securities deposited as collateral continue to be reported as noncurrent financial assets.

Impairment losses of €3 million (previous year: €7 million) were recognized in fiscal year 2006 to reflect developments in the values of financial instruments.

34 Financial instruments

Current financial instruments rose by €7 million year on year to €42 million. These relate primarily to short-term deposits with other banks.

35 Cash and cash equivalents

Cash totaling €2,391 million (previous year: €2,084 million) is composed of the following: €453 million of cash (previous year: €472 million), €475 million of money in transit (previous year: €416 million) and €1,123 million of bank balances (previous year: 988 million). In addition, cash equivalents amount to €122 million (previous year: €69 million).

36 Issued capital

On July 12, 2006 KfW Bankengruppe (KfW) sold Deutsche Post AG shares worth up to €1.5 billion, including the exercise of an overallotment option (greenshoe) of up to 15% (around 64 million shares). Excluding the greenshoe, the transaction increased Deutsche Post's free float from 58% to 65.9%.

Share capital

as of December 31 Number of shares	2005	2006
KfW Bankengruppe (formerly Kreditanstalt für Wiederaufbau, KfW)	497,179,799	410,522,634
Free float	695,453,940	791,797,226
	1,192,633,739	**1,202,319,860**

The issued capital increased by €9.7 million in fiscal year 2006 from €1,192.6 million to €1,202.3 million. It is now composed of 1,202,319,860 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.

Issued capital

€	2005	2006
Opening balance at January 1	1,112,800,000	1,192,633,739
Exercise of options from 2001, 2002 and 2003 SOP tranches – contingent capital	4,629,967	9,686,121
Issue of new shares (acquisition of Exel) – 2005 authorized capital	75,203,772	0
Closing balance at December 31	**1,192,633,739**	**1,202,319,860**

Authorized capital

The 2005 authorized capital replaces the authorization of the Board of Management to increase the share capital by up to €80 million, which was resolved by the Extraordinary General Meeting on October 13, 2000 and which expired on September 30, 2005.

2005 authorized capital

By way of a resolution adopted by the Annual General Meeting on May 18, 2005, the Board of Management was authorized, with the approval of the Supervisory Board, to increase the share capital by up to €250 million by issuing up to 250 million no-par value registered shares against non-cash contributions by May 17, 2010. The authorization can be exercised in full or in part. Shareholders' pre-emptive subscription rights have been disapplied. With the approval of the Supervisory Board, the Board of Management made use of €75,203,772.00 of this authorization by resolving a capital increase on December 13, 2005. The share capital was increased accordingly when the capital increase was entered in the commercial register on December 13, 2005.

Contingent capital

In accordance with the resolution by the Extraordinary General Meeting on September 27, 2000, the share capital has been contingently increased by up to €50 million, composed of up to 50,000,000 no-par value registered shares. Its purpose is exclusively to service rights granted in accordance with the authorization of the Board of Management and the Supervisory Board to issue stock options that was resolved by the Annual General Meeting on September 27, 2000 (Stock Option Plan 2000). The authorization to issue stock options under the Stock Option Plan 2000 was annulled in connection with the creation of a new stock option plan (Stock Option Plan 2003) by resolution of the Annual General Meeting on June 5, 2003.

By way of a resolution adopted by the Annual General Meeting on June 5, 2003, the share capital was contingently increased by up to €60 million (**Contingent Capital II**). Its purpose is exclusively to service rights granted in accordance with the authorization of the Board of Management and the Supervisory Board to issue stock options that was resolved by the Annual General Meeting on June 5, 2003 (Stock Option Plan 2003).

In accordance with the resolution by the Annual General Meeting on May 6, 2004, 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**). Contingent Capital III was entered in the commercial register on June 2, 2004. Its purpose is to service warrant or conversion rights and obligations from bonds with warrants or convertible bonds, which may be issued or guaranteed by the company up to May 5, 2007.

Capital

as of December 31, 2006	€	Purpose
2005 authorized capital	174,796,228	To increase share capital against non-cash contributions (until May 17, 2010)
Contingent Capital I	537,474	Executive Stock Option Plan (until July 31, 2005)
Contingent Capital II	21,285,920	Executive Stock Option Plan (until July 31, 2005)
Contingent Capital III	56,000,000	Exercise of option/ conversion rights (until May 5, 2007)

Authorization to acquire own shares

By way of a resolution adopted by the Annual General Meeting on May 10, 2006, the company is authorized to acquire, until October 31, 2007, own shares amounting to up to a total of 10% of the share capital existing at the date the resolution is adopted. The authorization permits the Board of Management to exercise it for every purpose authorized 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 as of December 31, 2006.

Share-based remuneration system for executives

2000 and 2003 Stock Option Plans

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 March 15, 2001 (Tranche 2001). The second tranche was issued on July 1, 2002 (Tranche 2002).

On the basis of the SOP 2003 resolved by the Annual General Meeting on June 5, 2003, no further options are to be granted under the previous plan. Options were granted under the new SOP for the first time on August 1, 2003 (Tranche 2003). The second tranche (Tranche 2004) was granted to executives on July 1, 2004. The third – and final – tranche from this plan (Tranche 2005) was issued on July 1, 2005.

In comparison with the 2000 SOP, the 2003 SOP allows for a larger number of eligible participants and a change in the percentage distributions of the stock options among 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)
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**

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 issue date; the performance period is the last 60 trading days prior to expiration of the lock-up period. The average price is calculated as the average closing price of Deutsche Post stock in Deutsche Börse AG's Xetra trading system.

The absolute performance target depends on the performance of Deutsche Post stock during the performance period, and is deemed to have been satisfied if the increase in the price of Deutsche Post stock 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 stock during the above-mentioned 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 the stock 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	March 15, 2001	July 1, 2002	August 1, 2003	July 1, 2004	July 1, 2005
Stock options granted	5,537,484	10,306,038	13,049,592	9,328,296	10,062,672
Stock appreciation rights (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	March 14, 2004	June 30, 2005	July 31, 2006	June 30, 2007	June 30, 2008
Number					
Outstanding stock options at beginning of year	662,789	2,946,797	11,571,618	8,605,470	9,999,180
Outstanding SARs at beginning of year	27,040	148,558	577,770	680,318	1,191,264
Options exercised	35,574	2,409,323	7,241,224	Not yet exercisable	Not yet exercisable
SARs exercised	1,116	28,498	287,990	Not yet exercisable	Not yet exercisable
Options lapsed	627,215	0	370,968	683,694	594,462
of which lapsed before end of the lock-up period	0	0	370,968	683,694	594,462
of which lapsed because performance targets not met	0	0	0	Still in lock-up period	Still in lock-up period
of which lapsed after end of lock-up period	627,215	0	0	Still in lock-up period	Still in lock-up period
SARs lapsed	25,924	0	71,982	85,128	431,238
of which lapsed before end of the lock-up period	0	0	71,982	85,128	431,238
of which lapsed because performance targets not met	0	0	0	Still in lock-up period	Still in lock-up period
of which lapsed after end of lock-up period	25,924	0	0	Still in lock-up period	Still in lock-up period
Outstanding options at end of year	–	–	–	7,921,776	9,404,718
Outstanding SARs at end of year	–	–	–	595,190	760,026
Options exercisable at end of year	0	537,474	3,959,426	Not yet exercisable	Not yet exercisable
SARs exercisable at end of year	0	120,060	217,798	Not yet exercisable	Not yet exercisable

Unexercised options from tranche 2001 lapsed without compensation following the expiration of the exercise period on March 15, 2006.

Starting in fiscal year 2002, the SOP has been measured using investment techniques by applying option pricing models (fair value measurement). The expense of €31 million attributable to fiscal year 2006 (previous year: €40 million), comprising €29 million for the stock options (previous year: €36 million) and €2 million for the SARs (previous year: €4 million), was reported under staff costs.

2006 SAR Plan

This plan supersedes the Stock Option Plan 2003 described above, under which options could last be issued in 2006. As of July 3, 2006, selected executives received stock appreciation rights (SARs) under the new 2006 SAR 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 stock on the previous day and the fixed issue price, if demanding performance targets are met.

Board of Management LTIP 2006

A successor plan was also launched for members of the Board of Management: Under the 2006 Long Term Incentive Plan (LTIP), members were granted SARs for the first time as of July 1, 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 latter forms part of the Notes in this area.

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 €14 million in fiscal year 2006, which was recorded in provisions.

€1 million of this is attributable to the SARs granted to the Board of Management. They are distributed among the individual Board members as follows: Dr. Klaus Zumwinkel €212,625.00, Dr. Frank Appel, Prof. Dr. Edgar Ernst, John P. Mullen, Dr. Hans-Dieter Petram and Walter Scheurle €141,750.00. The ratable value of Dr. Peter Kruse's SARs in the period up to September 21, 2006 amounts to €102,526.03.

37 Other reserves

Other reserves €m	2005	2006
Capital reserves	1,893	2,037
Revaluation reserve in accordance with IAS 39	220	36
Hedging reserve in accordance with IAS 39	–51	–94
Currency translation reserve	–41	–451
	2,021[1]	**1,528**

1) Prior-period amount restated, see Note 5.

Capital reserves

Capital reserves €m	2005	2006
Capital reserves at January 1	408	1,893
Issue of shares – acquisition of Exel	1,389	0
Additions		
of which exercise of stock options plans	60	115
of which issue of stock option plans	36	29
Capital reserves as of December 31	1,893	2,037

The measurement of the 2000 and 2003 Stock Option Plans resulted in staff costs for the stock options in the amount of €29 million in fiscal year 2006 (previous year: €36 million); this amount was charged to capital reserves. Further details of the stock option plans can be found in Note 36.

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 below their cost.

Revaluation reserve €m	2005	2006
Balance at January 1	191	220
Additions (+)/disposals (–)	165	–114
Transfer to "Minority interest"	0	–52[1]
Deferred taxes recognized directly in equity	13	65
Reversed to income	–149	–83
Balance at December 31	**220**	**36**

1) Due to the exercise of the exchangeable bond and the related sale of the 16.67% interest, 16.67% of gains or losses on the fair value remeasurement of the financial instruments of the Deutsche Postbank Group have been attributable to minority interests since July 2, 2006.

In fiscal year 2006, on the one hand available-for-sale financial instruments in the amount of €–83 million (previous year: €–149 million) were reversed to income; on the other the reserve was reduced by €114 million (previous year: €165 million increase) as a result of the remeasurement of available-for-sale financial instruments. Further details can be found in Note 33. The revaluation reserve relates almost entirely to gains or losses on the fair value remeasurement of financial instruments of the Deutsche Postbank Group.

Hedging reserve in accordance with IAS 39

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.

Hedging reserve €m	2005	2006
Balance at January 1	–133	–51
Additions	160	–40
Disposals	–78	–3
Balance at December 31	**–51**	**–94**

The change in the hedging reserve is due to the increase in unrealized losses from kerosene price hedges, from a newly designated net investment hedge as well as lease payment hedges.

Currency translation reserve

Currency translation differences recognized directly in equity are now reported individually, rather than under retained earnings. The prior-period amounts were restated accordingly.

Currency translation reserve €m	2005	2006
Balance at January 1	–150	–41
Changes not recognized in income	109	–410
Balance at December 31	**–41**	**–451**

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

38 Retained earnings

Retained earnings contain the undistributed consolidated profits generated in prior periods. Changes in retained earnings were as follows:

Retained earnings		
€m	2005	2006
Balance at January 1	5,730[1)]	7,410
Dividend payment	–556	–836
Consolidated net profit	2,235	1,916
Other	1	0
Balance at December 31	**7,410[1)]**	**8,490**

1) Prior-period amount restated, see Note 5.

Changes in the reserves during the year under review are also presented in the statement of changes in equity.

39 Equity attributable to Deutsche Post AG shareholders

The equity attributable to Deutsche Post AG shareholders in fiscal year 2006 amounted to €11,220 million (previous year: €10,624 million).

Dividends

Dividends paid to the shareholders of Deutsche Post AG are based on the unappropriated surplus of €1,262 million (previous year: €1,814 million) reported in the annual financial statements of Deutsche Post AG prepared in accordance with the German Commercial Code. The amount of €360 million (previous year: €978 million) remaining after deduction of the planned total dividend of €902 million (previous year: €836 million) will be transferred to the retained earnings of Deutsche Post AG.

The dividend is tax-exempt for shareholders resident in Germany. No capital gains tax (investment income tax) will be withheld on the distribution.

40 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:

Minority interest		
€m	2005	2006
Deutsche Postbank Group	1,682[1)]	2,604
DHL Sinotrans	47	63
Exel Group	25	34
Other companies	37	31
	1,791[1)]	**2,732**

1) Prior-period amount restated, see Note 5.

The increase in minorities relates to the exercise of the exchangeable bond on Postbank stock. A further 16.67% of the shares in Deutsche Postbank AG were sold as a result of the exercise.

41 Provisions for pensions and other employee benefits

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. Many of these benefit plans are funded through external pension funds. The Group also contributes to a number of defined contribution 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 Reorganization 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 Bundepost 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 €559 million (previous year: €650 million) and Deutsche Postbank AG paid contributions of €111 million (previous year: €64 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 depend on length of service, and usually final salary as well. 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 spread 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.

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.

Pension provisions and pension assets by area

Pension provisions and pension assets by area[1)]

€m	2005 Germany	2005 UK	2005 Other	2005 Deutsche Postbank Group	2005 Total	2006 Germany	2006 UK	2006 Other	2006 Deutsche Postbank Group	2006 Total
Pension provisions and other employee benefits	4,654	299	218	585	5,756	4,524	296	199	1,115	6,134
Pension assets	0	–116	–73	0	–189	0	–122	–74	0	–196
Net pension provisions	4,654	183	145	585	5,567	4,524	174	125	1,115	5,938

1) Restatement due to Exel purchase price allocation, see Note 3.

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:

Actuarial assumptions

%	2005 Germany	2005 UK	2005 Other euro zone	2005 Switzerland	2005 US	2006 Germany	2006 UK	2006 Other euro zone	2006 Switzerland	2006 US
Discount rate	4.25	4.70	4.25	2.75	5.75	4.50	5.00	4.50	3.00	5.75
Future salary increase	2.50 to 3.00	4.00 to 4.10	2.00 to 3.50	3.00	3.25 to 4.00	2.50 to 3.00	3.75 to 4.50	2.00 to 4.00	3.00	4.00
Future inflation rate	2.00	2.60	2.00	1.50	2.75	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. Country-specific mortality tables were used for the other countries.

The following average expected return on plan assets was used to compute the expenses for 2005 and 2006.

Computation of expenses for the period

%	2005 Germany	2005 UK	2005 Other euro zone	2005 Switzerland	2005 US	2006 Germany	2006 UK	2006 Other euro zone	2006 Switzerland	2006 US
Average expected return on plan assets	3.10 to 4.25	6.75 to 7.50	4.25 to 7.00	4.50	8.00	3.00 to 4.25	6.50 to 7.00	4.25 to 6.5	4.25	8.00 to 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.

Reconciliation of defined benefit obligations, plan assets, and net pension provisions

Reconciliation of defined benefit obligations, plan assets, and net pension provisions

€m	2005 Germany	2005 UK	2005 Other	2005 Deutsche Postbank Group	2005 Total	2006 Germany	2006 UK	2006 Other	2006 Deutsche Postbank Group	2006 Total
Present value of defined benefit obligations at December 31 for wholly or partly funded benefits[1]	4,139	4,096	1,320	73	9,628	4,150	4,198	1,340	773	10,461
Present value of defined benefit obligations at December 31 for unfunded benefits	3,912	0	200	761	4,873	3,749	0	171	824	4,744
Present value of total defined benefit obligations at December 31	8,051	4,096	1,520	834	14,501	7,899	4,198	1,511	1,597	15,205
Fair value of plan assets at December 31	–1,791	–3,869	–1,330	–59	–7,049	–1,852	–4,177	–1,374	–381	–7,784
Unrecognized net gains (+)/losses (–)	–1,600	–44	–73	–190	–1,907	–1,518	152	–48	–101	–1,515
Unrecognized past service cost	–6	0	0	0	–6	–5	0	0	0	–5
Asset adjustment for asset limit	0	0	28	0	28	0	1	36	0	37
Net pension provisions at December 31[1]	4,654	183	145	585	5,567	4,524	174	125	1,115	5,938

1) Restatement due to Exel purchase price allocation, see Note 3.

The most significant changes to pension obligations during 2006 relate to the acquisition of BHW during 2006 (net pension provisions of €410 million, defined benefit obligations of €726 million, fair value of plan assets of €316 million) as part of the Deutsche Postbank Group.

Changes in the present value of the defined benefit obligations

Changes in the present value of the defined benefit obligations[1]

€m	2005 Germany	2005 UK	2005 Other	2005 Deutsche Postbank Group	2005 Total	2006 Germany	2006 UK	2006 Other	2006 Deutsche Postbank Group	2006 Total
Present value of defined benefit obligations at January 1	7,736	130	1,251	714	9,831	8,051	4,096	1,520	834	14,501
Service cost, excluding employee contributions	113	16	67	17	213	110	110	84	38	342
Employee contributions	0	4	13	0	17	0	24	15	0	39
Interest cost	370	8	56	37	471	326	197	58	68	649
Benefit payments	–498	–1	–53	–43	–595	–499	–189	–63	–69	–820
Past service cost	6	1	–26	0	–19	22	–31	–5	1	–13
Curtailments	–591	0	–6	–17	–614	–20	–10	–16	0	–46
Settlements	0	0	–3	0	–3	0	0	–6	0	–6
Transfers	18	0	–1	53	70	–52	0	–5	79	22
Acquisitions	0	3,911	127	0	4,038	0	19	0	726	745
Actuarial gains (–)/losses (+)	897	23	75	73	1,068	–39	–112	–31	–80	–262
Currency translation effects	0	4	20	0	24	0	94	–40	0	54
Present value of defined benefit obligations at December 31	8,051	4,096	1,520	834	14,501	7,899	4,198	1,511	1,597	15,205

1) Restatement due to Exel purchase price allocation, see Note 3.

Changes in the fair value of plan assets

Changes in the fair value of plan assets[1)]

	2005					2006				
€m	Germany	UK	Other	Deutsche Postbank Group	Total	Germany	UK	Other	Deutsche Postbank Group	Total
Fair value of plan assets at January 1	1,742	78	1,103	0	2,923	1,791	3,869	1,330	59	7,049
Employer contributions	207	13	51	1	272	217	40	60	16	333
Employee contributions	0	4	13	0	17	0	24	15	0	39
Expected return on plan assets	52	6	68	3	129	53	245	77	16	391
Gains (+)/losses (–) on plan assets	–8	12	51	3	58	–1	80	–21	–1	57
Pension payments	–202	–1	–40	0	–243	–208	–189	–47	–25	–469
Transfers	0	0	2	52	54	0	0	0	–2	–2
Acquisitions	0	3,755	67	0	3,822	0	17	0	316	333
Settlements	0	0	–1	0	–1	0	0	–5	0	–5
Currency translation effects	0	2	16	0	18	0	91	–35	2	58
Fair value of plan assets at December 31	1,791	3,869	1,330	59	7,049	1,852	4,177	1,374	381	7,784

1) Restatement due to Exel purchase price allocation, see Note 3.

The plan assets are primarily composed of fixed-income securities, fixed-term deposits, other cash and cash equivalents, etc. (41%; previous year: 44%), equities and investment funds (42%; previous year: 42%), real estate (16%; previous year: 12%) and other assets (1%; previous year: 2%). 83% (previous year: 79%) of the real estate, which has a fair value of €1,029 million (previous year: €649 million), is owner-occupied by Deutsche Post AG.

Gains and losses

Experience gains and losses on plan assets

		2005 Total	2006 Total
Actual return on plan assets	€m	187	448
Expected return on plan assets	€m	129	391
Experience gains (+)/losses (–) on plan assets	€m	58	57
As a proportion of the plan assets at January 1	%	2	1

Experience gains and losses on defined benefit obligations

		2005 Total	2006 Total
Experience gains (+)/losses (–) on defined benefit obligations	€m	12	–226
As a proportion of the present value of defined benefit obligations at January 1	%	0	–1
Gains (+)/losses (–) in defined benefit obligation arising from changes in assumptions	€m	–1,080	488
As a proportion of the present value of defined benefit obligations at January 1	%	–11	3
Total actuarial gains (+)/losses (–) on defined benefit obligations	€m	–1,068	262
As a proportion of the present value of defined benefit obligations at January 1	%	–11	2

Changes in net pension provisions

Changes in net pension provisions[1]

€m	2005 Germany	2005 UK	2005 Other	2005 Deutsche Postbank Group	2005 Total	2006 Germany	2006 UK	2006 Other	2006 Deutsche Postbank Group	2006 Total
Net pension provisions at January 1	5,118	19	110	584	5,831	4,654	183	145	585	5,567
Pension expense	19	20	54	42	135	430	24	59	101	614
Pension payments	–296	0	–13	–43	–352	–291	0	–16	–44	–351
Contributions to funds	–207	–13	–51	–1	–272	–217	–40	–60	–16	–333
Acquisitions	0	156	60	0	216	0	2	0	410	412
Transfers	20	0	–14	3	9	–52	0	–5	81	24
Currency translation effects	0	1	–1	0	0	0	5	2	–2	5
Net pension provisions at December 31	4,654	183	145	585	5,567	4,524	174	125	1,115	5,938

1) Restatement due to Exel purchase price allocation, see Note 3.

Payments amounting to €706 million are expected with regard to net pension provisions in 2007 (€365 million of this relates to the Group's expected direct pension payments and €341 million to expected payments to pension funds).

Pension expense

Pension expense[1]

€m	2005 Germany	2005 UK	2005 Other	2005 Deutsche Postbank Group	2005 Total	2006 Germany	2006 UK	2006 Other	2006 Deutsche Postbank Group	2006 Total
Current service cost, excluding employee contributions	113	16	67	17	213	110	110	84	38	342
Interest cost	370	8	56	37	471	326	197	58	68	649
Expected return on plan assets	–52	–6	–68	–3	–129	–53	–245	–77	–16	–391
Recognized past service cost	0	1	–26	0	–25	23	–31	–5	1	–12
Recognized actuarial gains (–)/losses (+)	31	1	4	4	40	44	2	6	10	62
Effects of curtailments	–443	0	–6	–13	–462	–20	–10	–16	0	–46
Effects of settlements	0	0	–1	0	–1	0	0	0	0	0
Effects of asset limit	0	0	28	0	28	0	1	9	0	10
Other	0	0	0	0	0	0	0	0	0	0
Pension expense	19	20	54	42	135	430	24	59	101	614

1) Restatement due to Exel purchase price allocation, see Note 3.

In accordance with IAS 19.92 actuarial gains and losses are recognized 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 remaining working lives of the active employees and recognized in the income statement.

42 Deferred tax liabilities

Deferred tax liabilities

€m	2005	2006
Deferred tax liabilities at December 31	2,776	3,147
Balance of deferred tax liabilities and deferred tax assets on temporary differences	–1,338	–1,721
Carrying amount at December 31	**1,438[1]**	**1,426**

1) Prior-period amount restated, see Note 5.

The distribution of deferred tax liabilities on temporary differences is shown in Note 28.

Maturity structure		
€m	2005	2006
Less than 1 year	17	141
1 to 2 years	18	18
2 to 3 years	14	4
3 to 4 years	16	90
4 to 5 years	866	903
More than 5 years	507	270
	1,438	**1,426**

43 Other provisions

Other provisions		
€m	2005	2006
Other noncurrent provisions	2,517	4,780
Other current provisions	1,825	1,433
	4,342[1)]	**6,213**

1) Prior-period amount restated, see Note 5.

Changes in other provisions						
€m	Postal Civil Service Health Insurance Fund	Other employee benefits	STAR restructuring provision	Postage stamps	Miscellaneous provisions	Total
Opening balance at January 1, 2006	**96**	**1,770**	**453**	**500**	**1,523**	**4,342**
Changes in consolidated group	0	–7	0	0	1,906	1,899
Utilization	–3	–508	–186	–500	–839	–2,036
Currency translation differences	0	–8	0	0	–9	–17
Reversal	0	–90	0	0	–259	–349
Interest cost added back	4	44	10	0	2	60
Reclassification	0	198	0	0	–188	10
Additions	0	295	0	500	1,509	2,304
Closing balance at December 31, 2006	**97**	**1,694**	**277**	**500**	**3,645**	**6,213**

The provision for the funding of future shortfalls in the Postal Civil Service Health Insurance Fund closed to new members since January 1, 1995 comprises the statutory obligation of Deutsche Post AG and of Deutsche Postbank AG together with another successor company of Deutsche Bundespost. As a result of the changes in the law that became effective as of December 1, 2005, the basis for contributions to and the funding of the Postal Civil Service Health Insurance Fund was strengthened. On the one hand, the Deutsche Bundespost successor companies have set up a compensation fund to finance the costs of winding down the fund. On the other hand, the linking of increases in contributions to the average development of costs in the general healthcare system was abolished. Accordingly it was possible to reverse most of the provision recognized for liability risks arising from the winding down of the Postal Civil Service Health Insurance Fund.

Of the additions to provisions for other employee benefits amounting to €295 million, €105 million is attributable to Deutsche Post AG and €52 million to the Deutsche Postbank Group. This provision primarily covers workforce reduction expenses (severance payments, transitional benefits, partial retirement, etc.).

In fiscal year 2002, provisions for restructuring measures were recognized as part of the Group-wide STAR value creation and integration program; these relate primarily to termination benefit obligations to employees (partial retirement programs, transitional benefits) and expenses from the closure of terminals.

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.

Miscellaneous provisions		
€m	2005	2006
Technical reserves (insurance)	517	2,059
Provisions for the Deutsche Postbank Group's home savings business	0	727
Risks from business activities	53	162
Litigation costs	43	68
Welfare benefits for civil servants	33	33
Staff-related provisions	119	27
Services provided by Deutsche Telekom AG	63	0
Miscellaneous other provisions	695[1)]	569
	1,523[1)]	**3,645**

1) Prior-period amount restated, see Note 5.

Technical reserves (insurance) include unearned premiums and aggregate policy reserves for the insurance business of BHW Lebensversicherung AG, PB Lebensversicherung AG, and PB Versicherung AG.

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

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

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

Further details on the "Services provided by Deutsche Telekom" provision can be found in Note 4.

Maturity structure 2006							
€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
Postal Civil Service Health Insurance Fund	0	19	17	2	1	58	97
Other employee benefits	303	394	201	187	181	428	1,694
STAR restructuring	131	77	31	18	20	0	277
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	499	586	255	200	191	1,914	3,645
	1,433	**1,076**	**504**	**407**	**393**	**2,400**	**6,213**

Maturity structure 2005							
€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
Postal Civil Service Health Insurance Fund	0	0	0	11	18	67	96
Other employee benefits	524	468	257	202	51	268	1,770
STAR restructuring	199	197	29	20	8	0	453
Postage stamps	500	0	0	0	0	0	500
Miscellaneous provisions	602	149	198	65	63	446	1,523
	1,825	**814**	**484**	**298**	**140**	**781**	**4,342**

44 Financial liabilities

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

Financial liabilities		
€m	**2005**	**2006**
Noncurrent financial liabilities		
Bonds	3,501	1,794
Due to banks	475	455
Finance lease liabilities	762[1)]	711
Liabilities to Group companies	0	30
Other financial liabilities	307	505
	5,045[1)]	**3,495**
Current financial liabilities		
Bonds	3	634
Due to banks	510	351
Finance lease liabilities	48	24
Liabilities to Group companies	9	28
Other financial liabilities	285	908
	855	**1,945**
	5,900[1)]	**5,440**

1) Prior-period amount restated, see Note 5.

The decrease in noncurrent financial liabilities is due on the one hand to the redemption of the exchangeable bond (see Note 4) and, on the other hand, to the reclassification of a bond issued by Deutsche Post Finance B.V. and due in 2007 from noncurrent to current financial liabilities.

Maturity structure		
€m	**2005**	**2006**
Less than 1 year	855	1,945
1 to 2 years	1,856	178
2 to 3 years	118	110
3 to 4 years	73	73
4 to 5 years	62	184
More than 5 years	2,936	2,950
	5,900	**5,440**

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

Bonds

	Nominal coupon	Issue volume	Issuer	2005 Carrying amount/€m	2005 Fair value/€m	2006 Carrying amount/€m	2006 Fair value/€m
Bond 2002/2007	4.25%	€636 million	Deutsche Post Finance B.V.	645	649	634	637
Bond 2002/2012	5.125%	€679 million	Deutsche Post Finance B.V.	729	746	692	706
Bond 2003/2014	4.875%	€926 million	Deutsche Post Finance B.V.	978	1,002	960	948
Bond 2003	1.15%	US$230 million	DHL Holdings Inc. (USA) via Kenton County Airport Board	158	158	142	142
Exchangeable bond 2004/2007	2.65%	€1,018 million	Deutsche Post Finance B.V., assumed by Deutsche Post AG	994	994	0	0
				3,504	**3,549**	**2,428**	**2,433**

In connection with the acquisition of Exel, the latter's shareholders were also offered loan notes instead of Deutsche Post AG shares or cash. The loan notes (originally in the amount of €167 million) are reported under other noncurrent financial liabilities. As of December 31, 2006 Exel's existing shareholders took the first termination opportunity to call loan notes in the amount of 12 million pounds sterling.

The following table contains the terms and conditions of significant individual contracts reported under amounts due to banks:

Terms and conditions

	Coupon	Term	2005 Carrying amount/€m	2005 Fair value/€m	2006 Carrying amount/€m	2006 Fair value/€m
Deutsche Post International B.V., Netherlands	4.923	Dec. 2011	0	0	125	124
Deutsche Post International B.V., Netherlands	3-month floater	June 2011	89	89	72	72
Deutsche Post International B.V., Netherlands	5.81	Feb. 2011	61	59	51	49
Deutsche Post International B.V., Netherlands	3.85	Apr. 2006	102	105	0	0
Deutsche Post International B.V., Netherlands	5.19	Mar. 2006	104	106	0	0
			356	**359**	**248**	**245**

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

€419 million of the finance lease liabilities (previous year: €410 million) relates to aircraft leases entered into by DHL Operations B.V., the Netherlands, with Barclays Mercantile Business Financing Limited, London. The interest rate is 3.745%; the leases run until 2027 and 2028.

The increase in other current financial liabilities relates to the loan raised by Deutsche Post AG from the Bundes-Pensions-Service für Post und Telekommunikation. In addition, €116 million is attributable to Deutsche Post International B.V., the Netherlands, (previous year: €139 million) and relates to QTE leases, as in the previous year.

Breakdown of financial liabilities

€m	2005	2006
Deutsche Post Finance B.V., Netherlands	2,350	2,286
Deutsche Post AG	1,240	1,040
Deutsche Post International B.V., Netherlands	478	335
Exel Group	451	233
DHL Operations B.V., Netherlands	410	419
Other Group companies	971	1,127
	5,900	**5,440**

The following table compares the fair values and carrying amounts of the financial liabilities of Deutsche Post World Net:

Financial liabilities

€m	2005 Carrying amount	2005 Fair value	2006 Carrying amount	2006 Fair value
Bonds	3,504	3,549	2,428	2,433
Due to banks	985	988	806	803
Liabilities to Group companies	9	9	58	58
Finance lease liabilities	810	810	735	735
Other financial liabilities	592	578	1,413	1,389
	5,900	**5,934**	**5,440**	**5,418**

Differences between fair values and carrying amounts result from changes in market interest rates for financial liabilities of equivalent maturities and risk structures.

Short maturities or marking-to-market means that there are no significant differences between the carrying amounts and fair value of all other primary financial instruments. There is no significant interest rate risk because most of these instruments bear floating rates of interest at market rates. The differences between the fair values and carrying amounts of the financial liabilities are therefore relatively minor. Details of existing credit lines can be found in the Group Management Report in the financial analysis section.

45 Other liabilities

Other liabilities		
€m	2005	2006
Other noncurrent liabilities	3,989	5,285
Other current liabilities	3,855[1]	4,164
	7,844[1]	**9,449**

1) Prior-period amount restated, see Note 5.

Breakdown of other liabilities		
€m	2005	2006
Subordinated debt of Deutsche Postbank Group of which noncurrent: €5,048 million (previous year: €3,784 million)	3,784	5,048
Deferred income	686	603
Payable to employees and members of executive bodies	503	530
Compensated absences	411	406
Incentive bonuses	290	350
Wages, salaries, severance	335	288
Liabilities from the sale of residential building loans of which noncurrent: €104 million (previous year: €105 million)	264	251
Derivatives of which noncurrent: €67 million (previous year: €70 million)	155	165
Social security liabilities	123	171
Overtime claims	154	89
Liabilities to Group companies	69	69
COD liabilities	85	67
Debtors with credit balances	46	65
Other compensated absences	52	61
Insurance liabilities	23	34
Other liabilities to customers	7	23
Liabilities from checks issued	11	19
Early termination fees	13	15
Liabilities for damages	14	14
Liabilities to Bundes-Pensions-Service für Post und Telekommunikation e.V.	0	9
Liabilities from defined contribution pension plans	8	6
Conversion right for exchangeable bond	65	0
Miscellaneous other liabilities	746	1,166
	7,844	**9,449**

The increase in other liabilities is primarily due to the subordinated debt of the Deutsche Postbank Group. The subordinated debt 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 €3,354 million of these items represents liable capital as defined by the Basel Capital Accord. A total of €1,668 million (previous year: €2,290 million) of the subordinated debt is hedged against changes in fair value. €4.2 billion (previous year: €3.2 billion) of the subordinated debt bears fixed interest rates, while €0.8 billion (previous year: €0.5 billion) bears floating rates of interest.

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

Miscellaneous other liabilities include a number of individual items that do not exceed €10 million. Further details on the derivatives can be found in Note 52.2.

The maturity structure of other liabilities is as follows:

Maturity structure		
€m	2005	2006
Less than 1 year	3,855	4,164
1 year to 2 years	53	116
2 years to 3 years	285	147
3 years to 4 years	142	112
4 years to 5 years	40	162
More than 5 years	3,469	4,748
	7,844	**9,449**

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

46 Tax provisions

Tax provisions contain provisions for current income tax obligations and for other taxes. Provided that they are due in the same tax jurisdiction and relate to the same type of tax and maturity, current income tax obligations are eliminated against corresponding recoverable taxes.

Changes in tax provisions		
€m	2005	2006
Opening balance at January 1	665	625
Changes in consolidated group	162	39
Utilization	–172	–341
Reclassification	–28	–25
Reversal	–392	–44
Currency translation differences	5	–11
Additions	385	217
Carrying amount at December 31	**625**	**460**

Breakdown of tax provisions		
€m	2005	2006
Income tax provisions	394	237
VAT provisions	41	61
Customs and duties	37	52
Other tax provisions	153	110
	625	**460**

Tax provisions relate mainly to Deutsche Post AG in the amount of €151 million (previous year: €171 million), while €84 million (previous year: €75 million) relates to the Deutsche Postbank Group.

47 Trade payables

Trade payables in the amount of €5,069 million (previous year: €4,952 million) relate to Deutsche Post AG (€937 million; previous year: €973 million) and Exel (€1,278 million; previous year €1,454 million). Trade payables primarily have a maturity of less than one year. The reported carrying amount of trade payables corresponds to their fair value.

48 Liabilities from financial services

Liabilities from financial services €m	2005	2006
Deposits from other banks		
of which payable on demand: 2,719 (previous year: 585)		
of which fair value hedges: 2,802 (previous year: 2,306)	30,778	47,319
Due to customers		
of which fair value hedges: 4,761 (previous year: 2,849)		
Savings deposits	37,988	36,034
Other liabilities		
of which payable on demand: 23,525 (previous year: 21,364)	40,176	64,848
	78,164	**100,882**
Securitized liabilities		
of which fair value hedges: 8,012 (previous year: 13,376)		
Mortgage bonds	67	53
Public-sector mortgage bonds (Pfandbriefe)	319	81
Other debt instruments	14,352	15,752
	14,738	**15,886**
Trading liabilities		
Negative fair values of trading derivatives	2,770	2,864
Negative fair values of banking book hedging derivatives	571	351
Negative fair values of derivatives in connection with underlyings relating to the fair value option	0	401
Delivery obligations for short sales of securities	4	2
	3,345	**3,618**
Hedging derivatives (negative fair values)	**1,668**	**958**
	128,693[1)]	**168,663**

1) Prior-period amounts restated, see Note 5.

The following table shows the maturity structure for liabilities from financial services:

Maturity structure 2006 €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
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
Securitized liabilities	0	5,227	2,600	1,818	3,552	1,210	116	1,363	15,886
Trading liabilities/hedging derivatives	0	872	143	216	420	322	220	2,383	4,576
	24,155	**84,763**	**9,927**	**4,441**	**7,178**	**2,493**	**3,230**	**32,476**	**168,663**

Maturity structure 2005 €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
Deposits from other banks	583	21,792	1,674	918	1,233	1,913	352	2,313	30,778
Due to customers	21,364	44,798	2,684	799	615	803	2,246	4,855	78,164
Securitized liabilities	0	4,517	1,849	2,370	1,126	2,594	1,187	1,095	14,738
Trading liabilities/hedging derivatives	35	1,617	157	147	136	247	198	2,476	5,013
	21,982	**72,724**	**6,364**	**4,234**	**3,110**	**5,557**	**3,983**	**10,739**	**128,693**

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

Hedging derivatives		
€m	2005	2006
Assets		
Hedging derivatives on loans to other banks		
Loans and receivables	137	66
Purchased loans (available for sale)	7	0
	144	**66**
Hedging derivatives on loans to customers		
Loans and receivables	217	50
Purchased loans (available for sale)	4	0
	221	**50**
Hedging derivatives on investment securities		
Bonds and other fixed-income securities	1,149	344
Equities and other non-fixed-income securities	0	0
	1,149	**344**
	1,514	**460**
Liabilities		
Deposits from other banks	6	63
Due to customers	0	78
Securitized liabilities	106	237
Subordinated liabilities	42	120
	154	**498**
	1,668	**958**

49 Tax liabilities

Tax liabilities amounting to €875 million (previous year: €655 million) are composed of the following items:

Tax liabilities		
€m	2005	2006
Income tax liabilities	40	101
Value-added tax liabilities	286	316
Customs and duties liabilities	129	209
Other tax liabilities	200	249
	655	**875**

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

50 Liabilities associated with noncurrent assets held for sale

This item relates to liabilities of Vfw AG, Cologne, which is held for sale.

Liabilities associated with noncurrent assets		
€m	2005	2006
Vfw AG, Cologne, Germany	0	17
McPaper AG, Berlin, Germany	18	0
Deutsche Post Wohnen GmbH, Bonn, Germany	2	0
	20	**17**

Further details can be found in Note 30. The companies McPaper and DP Wohnen reported in the previous year were sold in January 2006.

51 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, checks, 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.

51.1 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 and changes in provisions (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 outflows from changes in working capital.

Net cash from operating activities before changes in working capital increased by €1,468 million year on year to €4,461 million. This relates in particular to the €1,748 million lower decrease in provisions in the year under review. In the previous year, provisions primarily reflected the non-cash reversal of the provision for the Postal Civil Service Health Insurance Fund (€1,208 million) and the reversal of the VAT provision (€369 million).

The net outflow from working capital of €539 million (previous year: net inflow of €631 million) is largely due to the increase in outflows from net receivables from financial services by €589 million to €–368 million. This is attributable in particular to the rise in Postbank's trading assets.

Net cash from operating activities therefore increased by €298 million year on year to €3,922 million.

At €343 million, tax payments are roughly on a level with the previous year (€313 million). €85 million of this amount relates to the Deutsche Postbank Group and €258 million to the other Group companies. This includes a tax refund in the amount of €56 million paid to Deutsche Post AG.

The change in provisions of €–783 million (previous year: €–2,531 million) does not include non-cash interest cost added back on provisions (€704 million). In addition, the changes in provisions in the balance sheet were adjusted for the provisions acquired as a result of acquisitions or the provisions relinquished as a result of the disposal of shares in companies (€2,316 million), and for provisions for income taxes (€200 million). The changes in receivables and other assets in the amount of €–917 million (previous year: €–503 million) relate among other things to the €358 million increase in trade receivables and the €407 million rise in other current assets. Liabilities and other items rose by €797 million in the period under review (previous year: €896 million), mainly due to the cash increase in the subordinated debt of Deutsche Postbank AG in the amount of €575 million (previous year: €976 million, see Note 45).

Other non-cash income and expense		
€m	2005	2006
Expense from remeasurement of assets	116	96
Income from remeasurement of liabilities	–5	–10
Income/expense from deconsolidation	–34	–349
Staff costs relating to stock option plan	36	30
Non-cash income and expense of Deutsche Postbank Group	205	337
Other	–38	0
	280	**104**

51.2 Net cash used in investing activities

Cash flows from investing activities mainly result from cash received from disposals of noncurrent assets and cash paid for investments in noncurrent assets. Net cash used in investing activities totaled €2,697 million in the year under review (previous year: €5,052 million).

Disposals of items of noncurrent assets generated income for the Group of €1,274 million (previous year: €761 million). €331 million of this relates to the sale of shares (Marken Ltd. (€211 million), the 50% interest in MPSS Modra Pyramida Vseobecna stavebni sporitelna Komercni banky, a.s., Prague, held by BHW Holding (€92 million), McPaper (€25 million), and Vfw Thermomed (€3 million)).

€4,066 million (previous year: €6,176 million) was spent on investments in noncurrent assets. €2,094 million of this amount (previous year: €4,135 million) was attributable to the acquisition of companies, in particular the acquisition of BHW Holding and its subsidiaries in the amount of €1,654 million, the Williams Lea Group Ltd. (€296 million), PPL CZ s.r.o. (€45 million), the Seapack asset deal (€19 million), and DHL Global Forwarding Japan K.K. (€15 million). The total cash and cash equivalents acquired with these acquisitions amounted to €127 million (previous year: €233 million).

The following assets and liabilities were acquired on the acquisition of companies:

Acquired assets and liabilities

€m	2005[1]	2006
Noncurrent assets	4,039	905
Receivables and other securities from financial services	0	40,385
Current assets (excluding cash and cash equivalents)	2,238	958
Provisions	–906	–3,018
Liabilities from financial services	0	–36,863
Other liabilities	–3,431	–1,220

1) Prior-period amounts restated, see Note 5.

Further details on the acquisitions can be found in Note 3.

Investments in other noncurrent assets fell by €69 million year on year to €–1,972 million (previous year: €–2,041 million). €–1,931 million of this relates to capital expenditure and €–41 million to the acquisition of other noncurrent financial assets.

In addition to the cash inflows and outflows due to divestitures or investments in noncurrent assets, cash flow from investing activities also includes interest received in the amount of €100 million (previous year: €210 million) and a cash outflow of €5 million (previous year: inflow of €153 million) from current financial instruments. In the previous year, the cash inflow from current financial instruments was largely attributable to the sale by Deutsche Post AG of available-for-sale fixed-income securities in the amount of €159 million.

51.3 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 €393 million (previous year: €369 million) is included in cash flows from financing activities.

Overall, net cash used in financing activities fell by €423 million from €1,288 million in the previous year to €865 million in the period under review. In the previous year, the change in financial liabilities (outflow of €352 million) mainly reflected the repayment of bank loans. The year under review saw a cash inflow from financial liabilities of €345 million. This was largely due to the loan raised by Deutsche Post AG from the Bundes-Pensions-Service für Post und Telekommunikation in the amount of €800 million as well as a new loan raised from the European Investment Bank (EIB) in the amount of €125 million. By contrast, an EIB loan in the amount of €223 million and a loan from Exel in the amount of €448 million were repaid. The dividend paid to shareholders of Deutsche Post AG resulted in an outflow of €836 million (previous year: €556 million). €105 million was paid to minority shareholders in the period under review, including €68 million to the minority shareholders of Deutsche Postbank AG. In addition, the issue of Deutsche Post AG shares under the stock option plan led to a cash inflow of €124 million (previous year: €65 million).

51.4 Cash and cash equivalents

The cash inflows and outflows described above produced cash and cash equivalents of €2,391 million at year-end (see Note 35), up €307 million on the prior-year amount (€2,084 million). Currency translation differences impacted cash and cash equivalents in the amount of €–38 million in the year under review (previous year: €–45 million).

Other disclosures

52 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.

52.1 Risks and financial instruments of the Deutsche Postbank Group

52.1.1 Risk management system

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 following precise classification and measurement, while at the same time maximizing the potential return arising from them. To this end, the Deutsche Postbank Group has established a risk management organization as the basis for risk- and earnings-based overall bank management.

In accordance with the requirements of Minimum Requirements for Risk Management (MaRisk), the risk strategy is consistent with the business strategy and takes into account all significant business areas and types of risk. In addition to an overarching, group-wide risk strategy, the Management Board of Deutsche Postbank AG 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 divisions, 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 decentralized 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 comprising the Credit Risk, Market Risk, and Operational Risk departments. Risk Controlling is authorized to make decisions regarding the methods and models applied in risk identification, measurement, and management. In cooperation with the risk control units at 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 organizational structure, it is assigned to the Chairman of the Management Board and reports independently to the whole Management Board. The Postbank Group Management Board is responsible for risk strategy, the appropriate organization 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
- Credit risk
- Liquidity risk
- Operational risk
- Real estate and investment risk
- Collective risk from the home savings business
- Business risk

Market risk denotes the potential risk that may lead to losses in financial transactions from changes in interest rates, spreads, volatility, foreign exchange rates, and equity prices. Changes in value are derived from daily marking to market, independently of their measurement for financial accounting purposes.

The Deutsche Postbank Group defines credit risk as the potential losses that may be caused by changes in the creditworthiness of, or default by, a counterparty (for example, as a result of insolvency). Counterparty risk consists of the following risk types:

- default risk, that is, the possible losses arising from the inability of a counterparty to discharge its payment obligations, or from a deterioration in its credit rating,
- country risk, that is, the risk of possible losses arising from political or social upheaval, nationalization and expropriation, a government's non-recognition of foreign debts, currency controls, and devaluation or depreciation of a national currency (transfer risk),
- settlement risk, that is, the risk of possible losses during the settlement or netting of transactions,
- counterparty risk, that is, the risk of possible losses arising from potential default by a counterparty, and hence the risk to unrealized profits on executory contracts (replacement risk).

Liquidity risk is the risk that the Deutsche Postbank Group will be unable to meet its current and future payment obligations either in the full amount, or as they fall due (default risk). 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.

The Basel Committee on Banking Supervision defines operational risk as "the risk of losses resulting from inadequate or failed internal processes, people, and systems or external events." The Deutsche Postbank Group has used this definition as the basis for introducing a corresponding group-wide control process.

Real estate risk refers to Deutsche Postbank AG's real estate holdings and describes the risk of loss of rental income, and from write-downs to the going concern value, losses on sale, and the reduction of hidden reserves relating to real estate.

BHW Sparkasse AG's home savings business is subject to a specific business risk, called "collective risk." This is defined by the home loan and savings association as the negative impact of (non interest-related) deviations in the actual behavior of home savings customers from their forecast behavior.

Business risk refers to unexpected declines in earnings that arise when expenses cannot be reduced in line with a decline in income (excess fixed costs) or when expenses increase unexpectedly. Such declines in earnings can be caused by both internal and external factors, such as unfavorable economic changes or political decisions leading to a change in customer behavior.

Presentation of risk position

The importance of efficient risk control has further increased against the background of volatile capital markets, significantly 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 fiscal year 2006, the Deutsche Postbank Group enhanced the structures, instruments, and processes for risk management and controlling for the relevant risk categories and has state-of-the-art tools for overall bank management. The new BHW AG group units acquired in the course of the fiscal year and the retail outlets acquired from Deutsche Post AG were rapidly integrated into the bank's overall group management. 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 categories of risk across all business divisions in a way that minimizes risk while maximizing earnings. The methods and procedures employed meet all current statutory and regulatory requirements.

With respect to credit risk, the Deutsche Postbank Group maintained the low risk profile of its credit business during 2006, as well as the advantage of having relatively low risk costs. Among 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 absolute increase in risk costs is mainly the result of the planned expansion of private customer business over recent years. The Deutsche Postbank Group reported discounting effects when measuring future cash flows for impaired receivables separately in the allowance for losses on loans and advances and the reversal of the discounting effects over time (unwinding) in interest income for the first time in fiscal year 2006. The recognition of discounting effects and unwinding in separate income statement items resulted in a somewhat sharper increase in additions to the allowance for losses on loans and advances in relation to the business volume as against the previous year; however, this is offset by the unwinding in interest income. 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 Deutsche Postbank Group has been, and continues to be able to allow the business divisions sufficient scope to achieve business growth in line with its strategy. No risks that could impair the Deutsche Postbank Group's development or even jeopardize its continued existence have been identified among the above-mentioned risk types.

Risk-weighted assets and capital ratio

The Deutsche Postbank Group has undertaken to fulfill the capital adequacy requirements set out in the respective framework issued by the Basel Committee on Banking Supervision. This requires credit institutions to maintain capital of at least 8% of their risk-weighted assets (capital ratio). At least 4% of risk assets must consist of tier 1 capital (tier 1 ratio). The bank's regulatory own funds consist of tier 1, tier 2, and tier 3 capital. Tier 1 capital primarily consists of issued capital, reserves, and hybrid capital components. Tier 2 capital is primarily composed of profit participation certificates and subordinated long-term liabilities.

Deutsche Postbank Group own funds

€m	2005	2006
Risk-weighted assets	62,354	80,565
Market risk positions	7,538	13,200
Positions for which capital charges are required	69,892	93,765
Core (tier 1) capital	5,164	4,443
of which hybrid capital instruments	1,151	1,151
Supplementary (tier 2) capital	2,342	3,161
of which profit participation certificates	558	1,079
of which subordinated liabilities	1,780	2,221
Tier 3 capital	–	3
Eligible own funds	7,506	7,607
Tier 1 ratio (%)	8.3	5.5
Capital ratio (%)	10.7	8.1

52.1.2 Derivatives

The Deutsche Postbank Group uses derivatives for hedging purposes as part of its asset/liability management policy. Derivatives are also used for trading.

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 recognizable receivables or liabilities.

The fair values of the individual contracts were calculated using recognized valuation models and do not reflect any netting agreements.

The derivatives portfolio is classified by economic purpose as follows:

Derivatives

	Notional amounts		Positive fair values		Negative fair values	
€m	2005	2006	2005	2006	2005	2006
Trading derivatives	361,833	438,244	3,092	3,289	3,341	3,616
Hedging derivatives	41,909	43,568	639	485	1,668	958
Total	**403,742**	**481,812**	**3,731**	**3,774**	**5,009**	**4,574**

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.

Open interest rate, foreign currency forward transactions, and option contracts of Deutsche Postbank Group

	2005			2006		
		Fair value			Fair value	
€m	Notional amount	Positive fair values	Negative fair values	Notional amount	Positive fair values	Negative fair values
Trading derivatives						
Currency derivatives						
OTC products						
Currency forwards	2,238	19	25	4,115	36	22
Currency swaps	13,840	157	140	17,767	152	129
Total portfolio of currency derivatives	**16,078**	**176**	**165**	**21,882**	**188**	**151**
Interest rate derivatives						
OTC products						
Interest rate swaps	301,793	2,892	3,147	398,821	3,068	3,436
Cross-currency swaps	15	1	1	55	2	0
FRAs	10,433	1	0	2,632	9	1
OTC interest rate options	408	0	0	645	0	1
Other interest-related contracts	457	2	2	479	1	1
Exchange-traded products						
Interest rate futures	16,606	0	0	4,131	0	0
Interest rate options	14,665	1	1	7,996	1	0
Total portfolio of interest rate derivatives	**344,377**	**2,897**	**3,151**	**414,759**	**3,081**	**3,439**
Equity/index derivatives						
OTC products						
Equity options (long/short)	198	14	16	165	13	19
Exchange-traded products						
Equity/index futures	147	0	0	8	0	2
Equity/index options	112	2	0	83	1	1
Total portfolio of equity/index derivatives	**457**	**16**	**16**	**256**	**14**	**22**
Credit derivatives						
Credit default swaps	921	3	9	1,347	6	4
Total portfolio of credit derivatives	**921**	**3**	**9**	**1,347**	**6**	**4**
Total portfolio of derivatives held for trading	361,833	3,092	3,341	438,244	3,289	3,616
of which banking book derivatives	36,757	475	571	22,214	276	351
of which derivatives in connection with underlyings relating to the fair value option	0	0	0	8,097	71	401
Hedging derivatives						
Fair value hedges						
Interest rate swaps	39,776	602	1,539	41,423	482	733
Cross-currency swaps	2,132	37	129	1,796	3	222
Credit default swaps	0	0	0	349	0	3
Other interest-related contracts	0	0	0	0	0	0
Total portfolio of hedging derivatives (fair value hedges)	41,908	639	1,668	43,568	485	958
Cash flow hedges						
Credit default swaps	1	0	0	0	0	0
Total portfolio of hedging derivatives (cash flow hedges)	1	0	0	0	0	0
Total portfolio of hedging derivatives	**41,909**	**639**	**1,668**	**43,568**	**485**	**958**
Total portfolio of derivatives	**403,742**	**3,731**	**5,009**	**481,812**	**3,774**	**4,574**

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

Remaining maturities

	Hedging derivatives (fair values)				Trading and banking book derivatives (fair values)			
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
€m	2005	2005	2006	2006	2005	2005	2006	2006
Less than 3 months	304	316	63	123	1,203	1,348	471	749
3 months to 1 year	32	54	15	27	110	103	105	116
1 to 2 years	16	82	11	65	32	65	120	151
2 to 3 years	14	118	22	148	33	18	182	272
3 to 4 years	44	144	31	129	74	103	226	193
4 to 5 years	28	141	21	50	111	57	144	170
More than 5 years	201	813	322	416	1,529	1,647	2,041	1,965
	639	**1,668**	**485**	**958**	**3,092**	**3,341**	**3,289**	**3,616**

Derivatives – classification by counterparties
The following table presents the positive and negative fair values of derivatives by counterparties.

Classification by counterparties

	Positive fair values	Negative fair values	Positive fair values	Negative fair values
€m	2005	2005	2006	2006
Banks in OECD countries	3,653	4,914	3,699	4,457
Public institutions in OECD countries	0	0	17	26
Other counterparties in OECD countries	78	95	58	91
	3,731	**5,009**	**3,774**	**4,574**

52.1.3 Fair values of financial instruments carried at amortized cost or at the hedged fair value
In accordance with IAS 39.166 in conjunction with IAS 32, both the carrying amounts and the full fair values must be disclosed for financial instruments carried at amortized cost or at the hedged fair value. If there is an active market for a financial instrument, the full fair value is expressed by the market or quoted exchange price; otherwise, the full fair value is calculated using investment techniques.

Carrying amounts/fair values

	2005		2006	
€m	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash reserve	968	968	1,015	1,015
Loans and advances to other banks	17,801	17,862	16,350	16,357
Loans and advances to customers	52,873	54,975	87,182	89,195
Allowance for losses on loans and advances	–776	–776	–1,155	–1,155
Investment securities	15,974	16,037	63,299	63,175
Liabilities				
Deposits from other banks	30,778	30,986	47,319	47,366
Due to customers	78,481	78,871	101,316	101,439
Securitized liabilities and subordinated debt	18,522	18,931	20,934	21,019

52.2 Risks and fair values of financial instruments in other Deutsche Post World Net companies

Derivative financial instruments
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 hedging existing risks, i.e. 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. However, these fluctuations in fair value may not be assessed separately from the hedged underlying transactions, but only in connection with offsetting value developments relating to the underlyings.

The universe of actions, responsibilities, and controls necessary for using derivative financial instruments have been clearly established in Deutsche Post World Net's internal guidelines. Suitable risk management software is used to record, assess, and process hedging transactions. The effectiveness of such transactions is monitored on an ongoing basis. The Group only enters into derivatives transactions with prime-rated banks. It constantly monitors counterparty limits and the extent to which these have been utilized.

The Group's Board of Management receives regular information on the existing 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 an effective liquidity management system. Although the Group's acquisition activities in the previous year substantially reduced its liquidity for 2006, the Group continues to have sufficient funds to finance growth-oriented investments in the form of bank credit lines in the amount of €4.2 billion (previous year: €4.2 billion) that it has not drawn down.

Currency risk and currency management
The Group's global activities expose it to currency risks from planned and completed transactions in foreign currencies. For the purpose of monitoring and managing these risks, all Group companies report their foreign-currency risks to Corporate Treasury, which calculates a consolidated position per currency on the basis of these figures. Currency forwards and currency options are used to centrally manage currency risks. The notional amount of outstanding currency forwards and swaps was around €5,499 million (previous year: €3,654 million) as of December 31, 2006. The corresponding fair value was €–37 million (previous year: €–48 million). These transactions are used to hedge planned and recorded operational risks, to hedge investments in foreign subsidiaries, 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 swaps.

The Group also held cross-currency swaps with a nominal value of €328 million (previous year: €2,448 million) and a fair value of €–19 million (previous year €–24 million) to hedge long-term foreign currency financing. In addition, it held currency options with a nominal value of €162 million (previous year: €443 million) and a fair value of €3 million (previous year: €3 million) to hedge planned future currency cash flows.

The fair value of currency forwards was measured on the basis of current market prices, taking forward premiums and discounts into account. Currency options were measured using the Black & Scholes option pricing model. Of the gains and losses from currency derivatives that were recognized in equity as of December 31, 2006 in accordance with IAS 39, a loss of €14 million is expected to be recognized in income in the course of 2007.

Commodity risk
A proportion of the risks arising from the purchase of aircraft fuel and fuel oil are passed on to customers via surcharges and contract clauses. In addition, the remaining risks are managed centrally using derivatives on kerosene. Values measured by banks were used for hedges of commodity price risks which cannot be measured using the treasury risk management system. These values were calculated on the basis of current market prices at month-end, taking forward curves based on the fair value principle into account. Fuel worth €374 million was hedged at the balance sheet date (previous year: €373 million) and had a fair value of €–31 million (previous year: €30 million).

Interest rate risk and interest rate management
Interest rate risk generally arises from changes in market interest rates for financial assets and financial liabilities. To manage this risk, the Group's interest-bearing receivables and liabilities are quantified and analyzed in clusters. This is then used as a basis for estimating the potential effects of such fluctuations on the Group's net interest income. The interest rate risk positions identified are separated from the liquidity tied up in individual financial contracts using interest rate derivatives, such as interest rate swaps and options, and are managed as an overall portfolio so as to achieve a balanced mix of risks. 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 December 31, 2006, Deutsche Post World Net had entered into interest rate swaps with a notional volume of €1,764 million (previous year: €1,765 million). The fair value of this interest rate swap position was €11 million (previous year: €73 million). The fair value of interest rate options entered into was €0 million (previous year: €–2 million) for a traded notional volume of €150 million (previous year: €150 million).

The Group countered the rise in interest rates on the financial markets in 2006 from an extremely low base by moderately increasing the proportion with long-term interest rate lock-ins using primary instruments. In the euro zone, Deutsche Post expects interest rates to rise slightly, but to remain below the long-term average. The negative impact which a rise in interest rates would have on the Group's financial position remains insubstantial.

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 minimize 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 total amount of financial assets represents the maximum default risk.

The following table provides an overview of the derivative financial instruments used by Deutsche Post World Net (excluding the Deutsche Postbank Group), and their fair values.

Derivative financial instruments

€m	2005 Notional amount	2005 Fair value	2006 Notional amount	2006 Fair value of assets	2006 Fair value of liabilities	2006 Total fair value	Fair values 2006 according to maturity – Assets up to 1 year	Assets up to 2 years	Assets up to 3 years	Assets up to 4 years	Assets up to 5 years	Assets more than 5 years	Liabilities up to 1 year	Liabilities up to 2 years	Liabilities up to 3 years	Liabilities up to 4 years	Liabilities up to 5 years	Liabilities more than 5 years
Interest rate products																		
Interest rate swaps	1,765	73	1,764	22	–11	11	0	0	0	0	0	22	0	0	–1	0	0	–10
of which cash flow hedges	187	14	186	7	–1	6	0	0	0	0	0	7	0	0	0	0	0	–1
of which fair value hedges	1,478	68	1,478	15	–6	9	0	0	0	0	0	15	0	0	0	0	0	–6
of which held for trading	100	–9	100	0	–4	–4	0	0	0	0	0	0	0	0	–1	0	0	–3
FRAs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest rate options	150	–2	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which cash flow hedges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
of which held for trading	150	–2	150	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	1,915	**71**	**1,914**	**22**	**–11**	**11**	**0**	**0**	**0**	**0**	**0**	**22**	**0**	**0**	**–1**	**0**	**0**	**–10**
Currency derivatives																		
Currency forwards	1,149	–29	1,603	4	–67	–63	4	0	0	0	0	0	–39	–6	–6	–6	–6	–4
of which cash flow hedges	739	–28	557	2	–40	–38	2	0	0	0	0	0	–12	–6	–6	–6	–6	–4
of which net investment hedges	0	0	315	0	–16	–16	0	0	0	0	0	0	–16	0	0	0	0	0
of which held for trading	410	–1	731	2	–11	–9	2	0	0	0	0	0	–11	0	0	0	0	0
Currency options	443	3	162	3	0	3	3	0	0	0	0	0	0	0	0	0	0	0
of which cash flow hedges	443	3	162	3	0	3	3	0	0	0	0	0	0	0	0	0	0	0
Currency swaps	2,505	–19	3,896	49	–23	26	49	0	0	0	0	0	–23	0	0	0	0	0
of which cash flow hedges	0	0	62	0	–1	–1	0	0	0	0	0	0	–1	0	0	0	0	0
of which held for trading	2,505	–19	3,834	49	–22	27	49	0	0	0	0	0	–22	0	0	0	0	0
Cross-currency swaps	2,448	–24	328	13	–32	–19	0	0	0	0	0	13	0	0	0	0	–6	–26
of which cash flow hedges	224	–17	214	13	–6	7	0	0	0	0	0	13	0	0	0	0	–6	0
of which fair value hedges	243	–15	114	0	–26	–26	0	0	0	0	0	0	0	0	0	0	0	–26
of which held for trading	1,981	8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	6,545	**–69**	**5,989**	**69**	**–122**	**–53**	**56**	**0**	**0**	**0**	**0**	**13**	**–62**	**–6**	**–6**	**–6**	**–12**	**–30**
Transactions based on commodity prices																		
Fuel hedging program	373	30	374	2	–33	–31	2	0	0	0	0	0	–32	–1	0	0	0	0
of which cash flow hedges	373	21	374	2	–33	–31	2	0	0	0	0	0	–32	–1	0	0	0	0
of which held for trading	0	9	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Derivatives with amortizing notional volumes are reported in the full amount at maturity.

Fair value hedges

Interest rate swaps were used to hedge the fair value risk of fixed-interest euro-denominated liabilities. The fair values of the interest rate swaps used in fair value hedges amount to €9 million (previous year: €68 million). The sharp reduction in fair value in 2006 is due to market interest rate movements and the shorter remaining term of the interest rate swaps. At the balance sheet date, there was also a €40 million (previous year: €45 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 amortized 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 of December 31, 2006 is €–26 million (previous year: €–15 million).

Cash flow hedges

The Group uses currency forwards, currency swaps and currency options to hedge the future cash flow risks from foreign currency revenue and expenses relating to the Group's operating business. The fair values of currency forwards and currency swaps amount to €–4 million (previous year: €1 million), and the fair values of currency options amount to €3 million (previous year: €3 million). The underlyings will be recognized in the income statement in 2007.

Currency forwards with a fair value of €–35 million (previous year: €–29 million) as of December 31, 2006 were entered into to hedge the risk of future lease payments and annuities denominated in foreign currencies. The payments for the underlyings are made in installments, with the final payment due in 2013.

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 €13 million (previous year: €–3 million). The investments relate to internal Group loans which mature in 2014.

The Group is exposed to commodity price risk in connection with the purchase of aircraft kerosene. Future cash flow risks are hedged by entering into derivative transactions. Future cash flows from the planned purchase of aircraft kerosene are hedged against rising prices. The fair values of derivatives amounted to €–31 million (previous year: €21 million) at the balance sheet date. The underlyings will be recognized in the income statement in 2007 and 2008.

Net investment hedges

Foreign currency investments in foreign subsidiaries result in risks to the Group's equity. At the balance sheet date, the notional value of outstanding currency forwards used to hedge these risks was €315 million (previous year: €0 million). The effectiveness of these net investment hedges is measured using the spot rate method. Of the fair value of €–16 million, €–10 million was recognized in equity and €–6 million was recognized in the income statement.

53 Contingent liabilities

The Group's contingent liabilities total €2,840 million (previous year: €2,658 million). €2,148 million of this relates to guarantee obligations and €324 million to liabilities from litigation risks.

In addition to these contingent liabilities, the Deutsche Postbank Group has irrevocable loan commitments amounting to €21,369 million (previous year: €16,583 million).

54 Litigation

Details of litigation can be found in the Group Management Report.

55 Other financial obligations

In addition to provisions, liabilities, and contingent liabilities, there are other financial obligations amounting to €6,414 million (previous year: €6,881 million) from non-cancelable operating leases as defined by IAS 17.

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

Leases		
€m	2005	2006
Land and buildings	5,975	5,637
Technical equipment and machinery	209	214
Other equipment, operating and office equipment	402	324
Aircraft	295	222
Other	0	17
	6,881[1)]	6,414

1) Prior-period amount restated due to application of IFRIC 4, see Note 5.

The maturity structure of future non-cancelable payment obligations from operating leases is presented below:

Minimum lease payments		
€m	2005	2006
Year 1 after reporting date	1,317	1,160
Year 2 after reporting date	1,028	958
Year 3 after reporting date	829	779
Year 4 after reporting date	729	611
Year 5 after reporting date	527	468
Year 6 after reporting date and thereafter	2,451	2,438
	6,881[1)]	6,414

1) Prior-period amount restated, see Note 5.

The present value of discounted minimum lease payments is €4,975 million (previous year: €5,458 million), based on a discount factor of 5.00% (previous year: 4.55%). Overall, rental and lease payments of €2,140 million (previous year: €1,458 million) arose in 2006, of which €1,297 million (previous year: €931 million) relates to non-cancelable leases.

Future lease obligations from non-cancelable leases relate primarily to the following companies:

Future lease obligations		
€m	2005	2006
Deutsche Post AG/Deutsche Post Immobilien GmbH	1,976	2,306
Express and logistics companies	4,232	3,392
Other Group companies (including Deutsche Postbank Group)	673	716
	6,881[1)]	6,414

1) Prior-period amount restated, see Note 5.

The purchase obligation for investments in noncurrent assets amounted to €491 million.

56 Related-party disclosures

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

In addition to the consolidated subsidiaries, Deutsche Post World Net has direct and indirect relationships with a large number of unconsolidated subsidiaries and associates 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.

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

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

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

Relationships with the Bundesanstalt für Post und Telekommunikation (BAnstPT)
The Federal Republic of Germany manages its interest in Deutsche Post AG and exercises its shareholder rights via the Bundesanstalt für Post und Telekommunikation ("Bundesanstalt") which has legal capacity and falls under the supervision of the German Federal Ministry of Finance. The *Gesetz über die Errichtung einer Bundesanstalt für Post und Telekommunikation* or *Bundesanstalt Post Gesetz* (BAnstG – German Act to Establish a Deutsche Bundespost Federal Posts and Telecommunications Agency or Federal Posts and Telecommunications Agency Act) 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 program, the Versorgungsanstalt der Deutsche Bundespost ("VAP") and the welfare service for Deutsche Post AG, Deutsche Postbank AG, Deutsche Telekom AG and the Bundesanstalt. The coordination and administration tasks are performed on the basis of agency agreements.

In 2006, Deutsche Post AG was invoiced for €68 million (previous year: €66 million) in installment payments relating to services provided by the Bundesanstalt, and Deutsche Postbank AG was invoiced for €5 million (previous year: €4 million).

Relationships with the German Federal Ministry of Finance
In fiscal 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.

The amount transferable to the German federal government for fiscal year 2006 is expected to amount to around €1.4 million (previous year: around €2.4 million). The final settlement will be made by February 15, 2007.

Deutsche Post AG also entered into an agreement with the BMF dated January 30, 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 2006, this initiative resulted in 37 permanent transfers (previous year: 194) and 22 secondments with the aim of a permanent transfer (previous year: 19).

Relationships with Deutsche Telekom AG and its subsidiaries
In fiscal year 2006, Deutsche Post World Net provided goods and services for Deutsche Telekom AG amounting to €0.6 billion (previous year: €0.7 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 €0.3 billion (previous year: €0.4 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 41.

56.2 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.

The following transactions were entered into between Deutsche Post World Net and related parties in fiscal year 2006:

In two cases, members of the Supervisory Board received loans at standard market conditions totaling €145,000. Furthermore, in one case, a consultancy agreement was entered into between Deutsche Post AG and a related party. The volume of this transaction was €147,000. There were no material transactions between Deutsche Post World Net and Supervisory Board members or executives of Group management level one.

With regard to second-level executives, agreements were entered into between Deutsche Post AG and a close family member. The relationship here was either directly with the spouse or with the spouse's company. The type of transaction primarily involved providing consultancy and other services, and in one case a supervisory board mandate was assumed. The volume of these transactions was between €2,300 and €700,000. In one case, an agreement was entered into between Deutsche Post and a company at which a close family member is employed in a managerial role. One executive was appointed a member of the board of trustees/management of a charitable organization in England that receives logistics services from Deutsche Post AG. The volume of this transaction was less than €500,000. Heads of corporate departments or business departments were granted loans totaling €2.6 million with terms of between 5 and 30 years. Interest rates are between 3.25% and 5.49%. The amount of the loans was €2.3 million as of December 31, 2006.

Remuneration of the Board of Management and the Supervisory Board
Details on the remuneration of the Board of Management and the Supervisory Board as well as on reportable transactions can be found in the Corporate Governance Report. The remuneration report contained in the latter forms part of the Notes in this area.

57 Significant subsidiaries, joint ventures, and associates

Significant subsidiaries, joint ventures, and associates

	Country	Equity interest and share of voting rights/% Dec. 31, 2005	Equity interest and share of voting rights/% Dec. 31, 2006	Revenue[1] €m 2005	Revenue[1] €m 2006
Significant subsidiaries					
MAIL					
Global Mail Inc.	USA	100.00	100.00	593	647
Williams Lea Limited (Group)[2]	UK	–	66.15	–	336
Williams Lea Inc. (Group)[2]	USA	–	66.15	–	182
Deutsche Post Global Mail (UK) Ltd.	UK	100.00	100.00	63	80
Interlanden B.V.	Netherlands	100.00	100.00	71	71
Deutsche Post In Haus Service GmbH	Germany	100.00	100.00	63	71
Deutsche Post Customer Service Center GmbH	Germany	100.00	100.00	62	69
Deutsche Post Selekt Mail Nederland C.V.	Netherlands	51.49	51.49	53	64
EXPRESS/LOGISTICS					
DHL Express (USA) Inc.	USA	100.00	100.00	3.561	3,359
Exel Europe Ltd.[3]	UK	–	100.00	–	2,303
DHL Express Vertriebs GmbH & Co. OHG	Germany	100.00	100.00	1.548	1,576
Air Express International USA Inc.	USA	100.00	100.00	1.372	1,574
Exel Inc.[3]	USA	–	100.00	–	1,420
DHL Freight GmbH	Germany	100.00	100.00	1.166	1,307
DHL Express (France) SAS	France	100.00	100.00	987	988
DHL Express (Sweden) AB	Sweden	100.00	100.00	853	901
DHL Express (Italy) S.r.L.	Italy	100.00	100.00	807	851
Exel UK Ltd.[3]	UK	–	100.00	–	795
DHL Global Forwarding Germany GmbH	Germany	100.00	100.00	514	625
DHL Solutions GmbH	Germany	100.00	100.00	480	612
DHL International (UK) Ltd.	UK	100.00	100.00	569	582
Exel Transportation Services Inc.[3]	USA	–	100.00	–	570
DHL Express Betriebs GmbH	Germany	100.00	100.00	534	557
DHL Express Iberia S. L. (Group)	Spain	100.00	100.00	504	549
DHL Express (UK) Limited	UK	100.00	100.00	646	526
Exel Global Logistics Inc.[3]	USA	–	100.00	–	503
Danzas S.p.a.	Italy	100.00	100.00	285	469
DHL Logistics (HK) Ltd.	Hong Kong	100.00	100.00	421	451
FINANCIAL SERVICES					
Deutsche Postbank AG (Group)	Germany	66.77	50.00 + 1 share	6,355	9,525
SERVICES[4]					
Significant joint ventures[5]					
Exel-Sinotrans Freight Forwarding Co. Ltd.[3]	China	–	50.00	–	316
Express Couriers Ltd.	New Zealand	50.00	50.00	75	72
Danzas DV LLC	Russia	50.00	50.00	6	5
Associates[6]	–	–	–	–	–

1) IAS amounts reported in single-entity financial statements.
2) Acquired on March 24, 2006.
3) Included in consolidated revenue since January 1, 2006.
4) Almost exclusively internal revenue.
5) Proportionate amounts.
6) The Group did not hold any significant interests in associates.

For fiscal year 2006, Deutsche Post AG has exercised the simplification options allowed by Section 264(3) of the HGB 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
- Einsnull IT Support GmbH
- Deutsche Post Print-Production GmbH
- Deutsche Post Ventures GmbH
- DHL Global Management GmbH
- Deutsche Post Express 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

58 Declaration of Conformity with the German Corporate Governance Code

On December 14, 2006, 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 fiscal year 2006 required by Section 161 of the *Aktiengesetz* (AktG – German Stock Corporation Act). This Declaration of Conformity can be accessed on the Internet at www.corporate-governance-code.de and on our homepage at www.dpwn.com.

59 Significant events after the balance sheet date

Deutsche Post has reached an agreement with the trade union ver.di on the transfer of its Parcel Germany business from the EXPRESS to the MAIL Division. In future, both business lines will be within the remit of the member of the Group's Board of Management with responsibility for MAIL. This step will enable the company to optimize internal processes and further improve the quality of service. It will not affect document and express shipments, which remain part of the EXPRESS Division. The large size of the shared customer base and the numerous synergies between the mail and parcel businesses in Germany formed the background to the decision. Here, the Group sees the potential for additional improvements in quality and significant cost benefits. Elements common to the businesses include the extensive joint delivery service outside city centers and shared points of sale in the form of the retail outlets. The decision still requires the approval of the respective bodies at Deutsche Post World Net. The company plans to start implementing the agreement as early as January 2007.

As of January 8, 2007, 99.58% – almost the entire exchangeable bond on Deutsche Post AG stock issued by KfW in December 2003 – had been converted. The bond was issued in the amount of €1.15 billion and with a maturity date of January 8, 2007. The exchange placed approximately 55.8 million of KfW's shares onto the market. The conversion price per share was €20.54, representing a premium of 30% over the share price at the issue date in 2003. The transaction reduces the number of Deutsche Post AG shares held by KfW by 4.64%, from approximately 424 million shares to approximately 368.3 million shares at the present time. This figure equates to around 30.6% of Deutsche Post AG's share capital. The transaction also increased the percentage of shares held privately from around 64.7% to around 69.4%.

60 Miscellaneous

The fees paid to the auditor, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, that were expensed in fiscal year 2006, can be broken down as follows:

Auditor's fee

€m	2005	2006
Audits of the financial statements	9.7	14.2
Other assurance or valuation services	3.2	3.5
Tax advisory services	0.5	0.4
Other services	4.6	7.6

Deutsche Post Beteiligungen Holding GmbH, Germany, intends to acquire the remaining shares in the Indian express service provider Blue Dart Express Ltd. DHL currently holds an 81.03% interest in Blue Dart via its Singapore-based subsidiary DHL Express (Singapore) Pte Ltd.

DHL intends to enter into a strategic partnership with Polar Air Cargo Worldwide, Inc. The wholly-owned subsidiary of Atlas Air Worldwide Holdings, Inc. is a leading provider of global air freight services. In order to cement the partnership, the two parties have signed a letter of intent under which DHL will invest US$150 million (€119 million) to acquire a minority stake. This 49% stake in Polar Air Cargo includes 25% of the voting rights, pursuant to the relevant US laws and regulations. The purchase price is to be paid in cash, with US$75 million paid on completion of the transaction and US$75 million paid in two installments on January 15, 2008 and November 17, 2008 at the latest. 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. Subject to the approval of the relevant authorities and provided all contractual documentation is completed as planned, the partners expect the transaction to close in early 2007. Polar Air Cargo will continue to operate as an independent company and will not be integrated into DHL or any of its units.

On January 10, 2007, Williams Lea acquired the UK company The Stationery Office, which is domiciled in London and provides print and document management services, primarily for UK government departments and public-sector organizations. The Stationery Office 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. Over the past few years, Williams Lea has systematically expanded its business at a global level.

61 Consolidated financial statements including the Deutsche Postbank Group at equity

The activities of the Deutsche Postbank Group differ substantially from the ordinary activities of the other companies in Deutsche Post World Net. To enable a clearer presentation of the net assets, financial position, and results of operations of the Group, the Deutsche Postbank Group was excluded from full consolidation in the accompanying consolidated financial statements for the period ended December 31, 2006. The Deutsche Postbank Group is accounted for in these financial statements only as a financial investment carried at equity.

The consolidated financial statements of Deutsche Post AG including the Deutsche Postbank Group at equity were prepared in accordance with the International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting Standards Board (IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), required to be applied as of the reporting date.

The accounting treatment 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 intragroup relationships recognized 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 intragroup 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 noncurrent 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 51.

61.1 Reconciliation of the income statement (Postbank at equity)

Reconciliation of the income statement (Postbank at equity)

€m	(1) Deutsche Post World Net 2006	(2) Deutsche Postbank Group 2006	(3) Consolidation of income and expense and intercompany balances 2006	(4) Other 2006	(5) Deutsche Post World Net (Postbank at equity) 2006	Deutsche Post World Net (Postbank at equity) 2005 restated
Revenue	60,545	–9,525	919	0	51,939	38,881
Other operating income	2,821	–525	273	–274	2,295	3.291
Total operating income	**63,366**	**–10,050**	**1,192**	**–274**	**54,234**	**42,172**
Materials expense[1]	–34,349	6,414	–993	0	–28,928	–19,855
Staff costs	–18,616	1,322	–7	0	–17,301	–13,719
Depreciation, amortization, and impairment losses[1]	–1,771	170	0	0	–1,601	–1,826
Other operating expenses[1]	–4,758	1,139	–191	5	–3,805	–3,766
Total operating expenses	**–59,494**	**9,045**	**–1,191**	**5**	**–51,635**	**–39,166**
Profit or loss from operating activities (EBIT)	**3,872**	**–1,005**	**1**	**–269**	**2,599**	**3,006**
Net income from associates	4	0	0	0	4	71
Net income from measurement of Deutsche Postbank Group at equity	0	0	0	663	663	330
Other financial income	198	–11	139	–137	189	238
Other finance costs[1]	–1,232	76	–3	0	–1,159	–982
Net other finance costs	–1,034	65	136	–137	–970	–744
Net finance costs	**–1,030**	**65**	**136**	**526**	**–303**	**–343**
Profit or loss before income taxes	**2,842**	**–940**	**137**	**257**	**2,296**	**2,663**
Income tax expense	–560	245	0	0	–315	–379
Consolidated net profit or loss for the period	**2,282**	**–695**	**137**	**257**	**1,981**	**2,284**
attributable to						
Deutsche Post AG shareholders	1,916	–695	137	558	1,916	2,235
Minorities	366	0	0	–301	65	49

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

61.2 Reconciliation of the balance sheet (Postbank at equity)

Reconciliation of the balance sheet (Postbank at equity)

€m	(1) Deutsche Post World Net Dec. 31, 2006	(2) Deutsche Postbank Group Dec. 31, 2006	(3) Consolidation of intercompany balances Dec. 31, 2006	(4) Other Dec. 31, 2006	(5) Deutsche Post World Net (Postbank at equity) Dec. 31, 2006	Deutsche Post World Net (Postbank at equity) Dec. 31, 2005 restated
ASSETS						
Intangible assets[1]	14,652	–2,505	0	991	13,138	12,804
Property, plant, and equipment[1]	9,388	–942	0	0	8,446	9,155
Investment property	122	–72	0	0	50	35
Investments in associates	63	0	0	0	63	78
Investments in Deutsche Postbank Group[1]	0	0	0	1,611	1,611	3,390
Other noncurrent financial assets	931	–102	0	0	829	718
Noncurrent financial assets	994	–102	0	1,611	2,503	4,186
Other noncurrent assets	376	0	0	0	376	373
Deferred tax assets[1]	542	–244	0	0	298	521
Noncurrent assets	**26,074**	**–3,865**	**0**	**2,602**	**24,811**	**27,074**
Inventories	268	0	0	0	268	279
Noncurrent assets held for sale	56	0	0	0	56	28
Tax receivables	670	–94	0	0	576	526
Receivables and other assets[1]	8,917	–633	143	0	8,427	7,883
Receivables and other securities from financial services	179,280	–179,280	0	0	0	0
Financial instruments	42	0	0	0	42	35
Cash and cash equivalents	2,391	–1,015	385	0	1,761	1,384
Current assets	**191,624**	**–181,022**	**528**	**0**	**11,130**	**10,135**
	217,698	**–184,887**	**528**	**2,602**	**35,941**	**37,209**
EQUITY AND LIABILITIES						
Issued capital	1,202	–410	0	410	1,202	1,193
Other reserves[1]	1,528	–1,047	0	1,047	1,528	2,021
Retained earnings[1]	8,490	–3,748	0	3,748	8,490	7,410
Equity attributable to Deutsche Post AG shareholders	11,220	–5,205	0	5,205	11,220	10,624
Minority interest[1]	2,732	–2	0	–2,602	128	110
Equity	**13,952**	**–5,207**	**0**	**2,603**	**11,348**	**10,734**
Provisions for pensions and other employee benefits[1]	6,134	–1,115	0	0	5,019	5,171
Deferred tax liabilities[1]	1,426	–974	0	0	452	483
Other noncurrent provisions[1]	4,780	–2,537	0	0	2,243	2,145
Noncurrent provisions	**12,340**	**–4,626**	**0**	**0**	**7,714**	**7,799**
Noncurrent financial liabilities[1]	3,495	0	0	0	3,495	5,045
Other noncurrent liabilities	5,285	–5,048	5	0	242	233
Noncurrent liabilities	**8,780**	**–5,048**	**5**	**0**	**3,737**	**5,278**
Noncurrent provisions and liabilities	**21,120**	**–9,674**	**5**	**0**	**11,451**	**13,077**
Tax provisions	460	–84	0	0	376	550
Other current provisions	1,433	–38	0	0	1,395	1,813
Current provisions	**1,893**	**–122**	**0**	**0**	**1,771**	**2,363**
Current financial liabilities	1,945	0	3	0	1,948	930
Trade payables	5,069	–139	0	0	4,930	4,869
Liabilities from financial services	168,663	–168,663	0	0	0	0
Tax liabilities	875	–123	–1	0	751	558
Liabilities associated with noncurrent assets held for sale	17	0	0	0	17	20
Other current liabilities[1]	4,164	–959	521	–1	3,725	4,658
Current liabilities	**180,733**	**–169,884**	**523**	**–1**	**11,371**	**11,035**
Current provisions and liabilities	**182,626**	**–170,006**	**523**	**–1**	**13,142**	**13,398**
	217,698	**–184,887**	**528**	**2,602**	**35,941**	**37,209**

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

61.3 Cash flow statement (Postbank at equity)

Cash flow statement (Postbank at equity) €m	2005 restated	2006
Net profit before taxes	**2,663**	**2,296**
Net finance cost excluding net income from measurement at equity	673[1]	966
Net income from measurement at equity	–330	–663
Profit from operating activities (EBIT)	**3,006**	**2,599**
Depreciation/amortization of noncurrent assets	1,826[1]	1,601
Gains on disposal of noncurrent assets	–165	–164
Non-cash income and expense	77	105
Change in provisions	–2,466	–1,055
Taxes paid	–260	–251
Net cash from operating activities before changes in working capital	**2,018**	**2,835**
Changes in working capital		
Inventories	17	–54
Receivables and other assets	–277	–865
Liabilities and other items	–43	262
Net cash from operating activities	**1,715**	**2,178**
Proceeds from disposal of noncurrent assets		
Divestitures	1,142	239
Other noncurrent assets	521	925
	1,663	**1,164**
Cash paid to acquire noncurrent assets		
Investments in companies	–4,135	–440
Other noncurrent assets	–1,905	–1,813
	–6,040	**–2,253**
Interest received	226	86
Postbank dividend	137	137
Current financial instruments	154	–5
Net cash used in investing activities	**–3,860**	**–871**
Change in financial liabilities	–324[1]	272
Dividend paid to Deutsche Post AG shareholders	–556	–836
Dividend paid to other shareholders	–8	–37
Issuance of shares under stock option plan	65	124
Interest paid	–384[1]	–399
Net cash used in financing activities	**–1,207**	**–876**
Net change in cash and cash equivalents	–3,352	431
Effect of changes in exchange rates on cash and cash equivalents	–45	–38
Change in cash and cash equivalents associated with noncurrent assets held for sale	0	–16
Cash and cash equivalents at January 1	4,781	1,384
Cash and cash equivalents at December 31	**1,384**	**1,761**

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

Bonn, February 22, 2007

Deutsche Post AG

The Board of Management

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 January 1 to December 31, 2006. 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, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation 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, February 22, 2007

PricewaterhouseCoopers

Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Brebeck)	(Ruske)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Glossary

Co-pack services
Finishing, order picking, and packaging under customer contract.

Contract logistics
Performance of complex logistics and logistics-related tasks along the value chain by a service provider. Services tailored to the particular industry and customer are provided under contracts lasting several years.

Conurbations
In Germany, city with over 200,000 inhabitants.

Day-definite
Delivery of express shipments on a specified day.

Densely populated area
A city, town or suburb which is not considered a conurbation but which has a relatively high household density.

Direct marketing
Market-oriented activities which draw on direct communications to selectively reach target groups through a personal, individualized approach.

Distribution
Process flows in the sales channel from producers via wholesalers/retailers to consumers.

Downstream access
As the dominant company in the market, Deutsche Post is obliged to make parts of the mail value chain available separately to customers and, under certain conditions, other postal service providers.

EU Postal Directive
Legal framework for the postal markets in the member states of the European Union.

Exclusive license
In accordance with the German Postal Act, Deutsche Post AG has the exclusive license (which will expire at the end of 2007) to commercially transport letters and addressed catalogs individually weighing up to 50g and costing less than two and a half times the standard rate. Notable exceptions include higher-value services which can be separated from universal services and offer special service features.

Fast-moving consumer goods
Everyday consumer goods that sell quickly.

Federal Network Agency
(*Bundesnetzagentur*)
National regulator for electricity, gas, telecommunications, post and railway. Previously the Regulatory Authority for Telecommunications and Posts (Regulierungsbehörde für Telekommunikation und Post).

First Choice
Group-wide program aimed at improving service quality and enhancing customer focus.

Full container load (FCL)
Shipments which completely fill a container.

Full truck load (FTL)
Shipments which completely fill a truck.

GCS
Global Customer Solutions. Account management organization for the Group’s 100 biggest clients.

Hub
Main transshipment base. Collection center for the transshipment and consolidation of flows of goods.

IATA
International Air Transport Association.

Infopost/Infobrief
Mail product for sending larger volumes of addressed advertising mailings and catalogs.

Intermodal transport
Transport chain integrating different modes of transport.

Less than container load (LCL)
Loads that will not fill a container by themselves and are therefore grouped for ocean transport.

Less than truck load (LTL)
Loads that will not fill a truck by themselves and are therefore grouped for land transport.

Outsourcing
The subcontracting of tasks to external service providers.

Philately
The study of stamps. Systematic collection of postage stamps.

Postal Act
(*Postgesetz*)
The purpose of the German Postal Act, which was adopted on January 1, 1998, is to promote postal competition through regulation and ensure the nationwide provision of appropriate and sufficient postal services. The Postal Act includes regulations on licensing, price control, and the universal service.

Preferred periodical
A press product of which more than 30% consists of journalistic reporting.

Price-cap procedure
Procedure whereby the Federal Network Agency approves prices for key mail products. The agency approves prices on the basis of parameters it stipulates in advance, which set the average changes in these prices within baskets of services defined by the agency.

Radio Frequency Identification (RFID)
Technology that transmits, receives and stores data using a transponder without the need for physical or visual contact.

Reverse logistics
Return transport and utilization of products and materials.

Same-day
Same-day delivery of express shipments.

Standard letter
Letter measuring max. 235 x 125 x 5mm and weighing up to 20g.

Standard periodical
A press product of which no more than 30% consists of journalistic reporting.

TEU
Twenty foot container equivalent unit. Standardized container unit measuring 20 feet in length (1 foot = approximately 30cm).

Time-definite
Delivery of express shipments at a specified time.

Unaddressed mail
Unaddressed advertising mailings sent to households.

Value-added services
Services which go beyond core services offered and thus create added value.

Index

8-Year Review

8-Year-Review 1999 to 2006 €m	1999 restated	2000 restated	2001 restated	2002 restated	2003 restated	2004 restated	2005 restated	2006
Revenue								
MAIL	11,671	11,733	11,707	12,129	12,495	12,747	12,878	13,286
EXPRESS	4,775	6,022	6,421	14,637	15,293	17,557	16,831	17,195
LOGISTICS	4,450	8,289	9,153	5,817	5,878	6,786	9,933	22,739
FINANCIAL SERVICES	2,871	7,990	8,876	8,676	7,661	7,349	7,089	9,593
SERVICES	–	–	–	–	–	–	3,874	4,048
Divisions total	23,767	34,034	36,157	41,259	41,327	44,439	50,605	66,861
Consolidation (until 2004 Other/consolidation)	–1,404	–1,326	–2,778	–2,004	–1,310	–1,271	–6,011	–6,316
Total	**22,363**	**32,708**	**33,379**	**39,255**	**40,017**	**43,168**	**44,594**	**60,545**
Profit from operating activities before goodwill amortization (EBITA)								
MAIL	1,009	2,004	1,960	2,144	2,082	2,085	2,030	2,054
EXPRESS	60	76	176	270	365	373	411	325
LOGISTICS	–27	113	159	173	206	281	346	762
FINANCIAL SERVICES	58	505	522	679	568	716	869	1,004
SERVICES	–	–	–	–	–	–	679	–237
Divisions total	1,100	2,698	2,817	3,266	3,221	3,455	4,335	3,908
Consolidation (until 2004 Other/consolidation)	–179	–319	–270	–297	–246	–84	–131	–36
Total	**921**	**2,379**	**2,547**	**2,969**	**2,975**	**3,371**	**4,204**	**3,872**
Profit from operating activities (EBIT)								
MAIL	1,008	2,003	1,958	2,138	2,067	2,072	2,030	2,054
EXPRESS	31	33	126	–79	152	117	–23	325
LOGISTICS	–67	13	42	80	116	182	346	762
FINANCIAL SERVICES	58	505	520	678	567	714	863	1,004
SERVICES	–	–	–	–	–	–	679	–237
Divisions total	1,030	2,554	2,646	2,817	2,902	3,085	3,895	3,908
Consolidation (until 2004 Other/consolidation)	–179	–319	–270	–297	–246	–84	–131	–36
Total	**851**	**2,235**	**2,376**	**2,520**	**2,656**	**3,001**	**3,764**	**3,872**
Consolidated net profit for the period	**1,029**	**1,527**	**1,587**	**1,590**	**1,342**	**1,740**	**2,448**	**2,282**
Cash flow/investments/depreciation and amortization								
Cash flow from operating activities	4,514	2,216	3,059	2,967	3,006	2,336	3,624	3,922
Cash flow from investing activities	–2,983	–2,098	–2,380	–2,226	–2,133	–385	–5,052	–2,697
Cash flow from financing activities	–364	–89	–619	147	–304	–493	–1,288	–865
Investments	4,553	3,113	3,468	3,100	2,846	2,536	6,176	4,066
Depreciation and amortization	993	1,204	1,285	1,893	1,693	1,821	1,961	1,771
Assets and capital structure								
Noncurrent assets[1)]	9,791	11,081	12,304	14,536	15,957	17,027	25,223	26,074
Current assets (until 2003: including deferred tax assets)[1)]	65,225	139,199	144,397	148,111	138,976	136,369	147,417	191,624
Equity (excluding minority interest)	2,564	4,001	5,353	5,095	6,106	7,242	10,624	11,220
Minority interest	56	79	75	117	59	1,623	1,791	2,732
Current and noncurrent provisions	11,009	11,107	10,971	12,684	12,673	12,441	12,161	14,233
Current and noncurrent liabilities[2)]	5,913	9,723	8,770	11,900	12,778	15,064	19,371	20,850
Total assets	**75,016**	**150,280**	**156,701**	**162,647**	**154,933**	**153,396**	**172,640**	**217,698**

8-Year-Review 1999 to 2006

		1999 restated	2000 restated	2001 restated	2002 restated	2003 restated	2004 restated	2005 restated	2006
Employees/staff costs									
Total number of employees (headcount including trainees)	at Dec. 31	301,229	324,203	321,369	371,912	383,173	379,828	502,545	520,112
Full time equivalents (including trainees)[3]	at Dec. 31	264,424	284,890	283,330	334,952	348,781	340,667	455,115	463,350
Average number of employees		304,265	319,998	323,298	375,890	375,096	381,492	393,463	507,641
Staff costs	€m	11,503	11,056	11,246	13,313	13,329	13,840	14,337	18,616
Staff cost ratio[4]	%	51.4	33.8	33.7	33.9	33.3	32.1	32.2	30.7
Key figures revenue/income/assets and capital structure									
Return on sales[5]	%	4.1	7.3	7.6	7.6	7.4	7.0	8.4	6.4
Return on equity (ROE) before taxes[6]	%	35.9	62.1	45.9	35.5	34.2	29.2	28.7	21.6
Return on capital employed (ROCE)[7]	%	1.9	2.0	1.5	1.6	1.7	1.9	2.3	2.0
Tax rate[8]	%	–32.6	25.1	26.1	14.3	29.9	20.2	19.8	19.7
Equity ratio[9]	%	3.4	2.7	3.4	3.1	3.9	5.8	7.2	6.4
Net debt (Postbank at equity)[10]	€m	1,361	2,010	1,750	1,494	2,044	–32	4,193	3,083
Net gearing (Postbank at equity)[11]	%	34.8	33.4	24.6	22.7	25.1	–0.4	28.1	21.4
Dynamic gearing (Postbank at equity)[12]	years	0.31	0.96	0.64	0.46	0.82	0.00	2.44	1.42
Key stock data									
(Diluted) earnings per share[13), 14)]	€	0.92	1.36	1.42	0.59	1.18	1.44	1.99	1.60
(Diluted) earnings per share[13), 14)] before extraordinary expense	€	0.92	1.36	1.42	1.41	1.18	1.44	1.99	1.60
Cash flow[15] per share[13), 14)]	€	4.05	1.99	2.75	2.67	2.70	2.10	3.23	3.28
Dividend distribution	€m	178.05	300.46	411.74	445.12	489.63	556.40	835.71	901.74
Payout ratio (distribution to consolidated net profit)	%	17.39	19.87	26.11	67.54	37.41	34.82	37.39	47.06
Dividend per share[13]	€	0.16	0.27	0.37	0.40	0.44	0.50	0.70	0.75[16]
Dividend yield (based on year-end closing price)	%	n/a	1.2	2.5	4.0	2.7	3.0	3.4	3.3
(Diluted) price/earnings ratio before extraordinary expense[17]		n/a	16.8	10.6	7.1	13.9	11.7	10.3	14.3
Number of shares carrying dividend rights	millions	1,112.8	1,112.8	1,112.8	1,112.8	1,112.8	1,112.8	1,193.9	1,202.3
Year-end closing price	€	n/a	22.90[18]	14.99	10.00	16.35	16.90	20.48	22.84

1) From 2004 balance sheet presented in accordance with the new IAS 1 as explained in item 5 of the Notes to the 2005 consolidated financial statements.
2) Excluding liabilities from financial services.
3) From 2004 excluding trainees.
4) Staff costs/revenue.
5) Total EBITA/revenue; from 2004: total EBIT/revenue.
6) Profit before income taxes/average equity (from 2004 including minority interest).
7) Profit from operating activities (EBIT)/average total assets.
8) Income tax expense/profit before income taxes.
9) Equity (from 2004 including minority assets)/total assets.
10) Financial liabilities excluding cash and cash equivalents, current financial instruments, long-term deposits, and financial liabilities to minority shareholders of Williams Lea.
11) Net debt/net debt and equity (from 2004 including minorities).
12) Net debt/cash flow from operating activities.
13) To enhance comparability, the calculation 1999 was based on the number of shares after the increase in share capital and the conversion to euros, as well as conversion to 1,112,800,000 no-par value shares (1999: 42,800,000 shares).
14) The weighted average number of shares for the period was used for the calculation.
15) Cash flow from operating activities.
16) To be proposed to the AGM.
17) Year-end closing price/earnings per share before extraordinary expense.
18) Deutsche Post AG went public on November 20, 2000. Share price data have only been available since this date.

Events and Contacts

Financial calendar	
May 8, 2007	Annual General Meeting
May 9, 2007	Dividend payment
May 15, 2007	Interim report on the first quarter of 2007
	Analysts' conference call
August 3, 2007	Interim report on the first half of 2007
	Financials press conference and analysts' conference call
November 8, 2007	Interim report on the first nine months of 2007
	Analysts' conference call

For more information on other events, updates and details of live webcasts, please visit http://investors.dpwn.com

Investor events	
March 21 – 22, 2007	JPMorgan Transport Conference (New York)
March 26 – 27, 2007	Merrill Lynch German Conference "All Stars" (New York)
March 29, 2007	Cheuvreux European Large Cap Conference (Paris)
June 20 – 21, 2007	German Corporate Conference Deutsche Bank (Frankfurt)
June 25 – 26, 2007	Goldman Sachs Business Service Conference (London)
September 7 – 9, 2007	IAM – International Investors Fair (Düsseldorf)
November 14 – 15, 2007	WestLB Deutschland Conference (Frankfurt)

Contacts

Investor Relations

Institutional investors
Fax: +49 (0)228 182 63299
E-mail: ir@deutschepost.de

Private investors
Tel.: +49 (0)1805 710101
E-mail:
retailinvestors@deutschepost.de

Press Office
Fax: +49 (0)228 182 9880
E-mail:
pressestelle@deutschepost.de

Ordering a copy of the Annual Report

External
Tel.: +49 (0)1805 710101
E-mail:
retailinvestors@deutschepost.de
Online: http://investors.dpwn.com

Internal
Order module GeT
Mat. No. 675-601-542

English translation by
Deutsche Post Foreign Language Service et al.

This annual report was published in German and English on March 20, 2007.

Picture references
Press and Information Office of the Federal Government
Deutsche Post World Net picture database
DHL USA
Polar Air Cargo

Photography
Andreas Pohlmann
Uwe Schossig
John Wildgoose

< Please open here

Printed on 100% recycled paper

Deutsche Post AG
Headquarters
Investor Relations
53250 Bonn
Germany
www.dpwn.com

Deutsche Post World Net
MAIL EXPRESS LOGISTICS FINANCE