

Deutsche Post Finance B.V.

Annual Report 2018

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1. Management Report

1.1 Introduction

This report includes the 2018 Financial Statements of Deutsche Post Finance B.V. (“The Company”). The Company is part of Deutsche Post DHL Group (“The Group”).

1.2 Incorporation

The Company is a private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid) and was incorporated in The Netherlands, Rotterdam on 13 April, 1999. It is governed by the laws of The Netherlands. The Company is now listed in the Commercial Register of the Dutch Chamber of Commerce under number 24292643. Its official seat is in Maastricht, The Netherlands, its business address is Pierre de Coubertinweg 7N, 6225 XT Maastricht, The Netherlands, telephone number +31 (43) 3564000.

The Company is a privately held company and is not subject to public corporate governance standards. The Company is not required to have an audit committee under the laws of The Netherlands due to an exemption under article 3 of the Decree implementing (i) Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and (ii) Regulation (EU) 537/2014 on specific requirements regarding statutory audits of public-interest entities and amending the Decree implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (Besluit instelling auditcommissie). It does not have an audit committee.

The Legal Entity Identifier (LEI) of The Company is 52990063W8KQHQM4M43.

1.3 Organizational Structure

The Company is owned 100% by Deutsche Post International B.V. Deutsche Post International B.V. has its official seat in Amsterdam and its business address at Pierre de Coubertinweg 7N, 6225 XT Maastricht, The Netherlands. The Company is owned 100% by Deutsche Post Beteiligungen Holding GmbH, which is, in turn 100% owned by Deutsche Post AG in Bonn, Germany. The Company has no subsidiaries, joint ventures or associates.

1.4 Share Capital

As of 31 December 2018, the authorized share capital of the Company amounted to EUR 90,000 and consists of 180 ordinary shares each of EUR 500. The issued share capital amounts to EUR 18,500 and consists of 37 ordinary shares with a nominal value of EUR 500 each, which are fully paid.

1.5 Business overview, Purpose and Objects

The Company engages in several activities in the field of finance. The Company serves as a vehicle for the financing activities of Deutsche Post DHL Group including the issuance of bonds. The principal activity of the Company consists of raising capital in order to lend funds to Deutsche Post DHL Group companies. According to article 2 of the articles of association the objects of Deutsche Post Finance B.V. are:

1.
 - a. to issue, purchase and sell bonds, debt instruments, shares, profit sharing certificates, options and other securities of any form or, to otherwise enter into loan transactions as debtor, including, the borrowing and lending of moneys of and to general partnership or a limited partnership of which the company is a general partner;
 - b. to provide credit, to lend moneys and to guarantee loans or to otherwise provide security for obligations to pay;
 - c. apart from the above to perform financial transactions of whatsoever nature;
 - d. to participate in, to perform managing activities for and to supervise other companies or businesses;
 - e. to acquire, transfer, to perform custody services and operation of assets of whatsoever nature.
2. To perform other activities that in any way can be considered to be in line with the activities mentioned above, are a result of those activities or are in any way instrumental to those activities.

1.6 Management Board

The Management Board currently consists of two members:

Mr. Roland W. Buss

Mr. Timo L.F. van Druten.

1.7 Main business developments

The world economy posted solid growth in 2018 with economic momentum peaking at mid-year. In the industrial countries, average GDP growth declined to 2,3%. Growth in the emerging markets slowed slightly to 4,6%. Total global economic output was up by 3,7%, somewhat less than in the previous year.

In the euro zone, the economic upswing weakened in the year under review. Domestic demand continued to provide strong momentum, however. In particular, gross fixed capital formation increased significantly. Growth in private consumption slowed somewhat but maintained a solid level. Government spending increased moderately. Foreign trade continued to contribute to economic growth, albeit to a much lesser extent than in the previous year. The decrease in foreign trade growth was ultimately responsible for the decline in GDP growth to 1,8% (previous year: 2,4%). The average unemployment rate dropped significantly to 8,2% in line with the continuing upturn.

The European Central Bank (ECB) adhered to the cautious change of direction in its monetary policy initiated in 2018. The Bank reduced its monthly bond-buying volumes from EUR 30 billion at the start of the year to EUR 15 billion starting in October before phasing out the quantitative easing programme entirely at the end of the year. Euro zone monetary policy nonetheless remained quite expansionary. The ECB left its key refinancing rate at 0,00% and the deposit rate for the year as a whole was -0,40%. By contrast the US Federal Reserve tightened its monetary policy. The Fed raised its key interest rate in four steps of 0,25% to 2,50% at year end. The euro weakened slightly against the US dollar in 2018 in light of the increasing divergence in key interest rates and lower economic-momentum in the euro zone. At the end of the year the euro was trading at just under USD 1,15, a year-on-year decline of 4,7%.

The euro zone bond markets were negatively impacted by political uncertainty and changing economic expectations during 2018. Capital market interest rates initially rose at the start of the year. However, increasing risk at an international level led to a subsequent decrease in investor risk affinity. This effect was exacerbated as the economy weakened towards the end of the year, leading to a significant decrease in capital market interest rates. By year-end 2018, yields on ten-year German government bonds had fallen to 0,24% (previous year: 0,43%). By contrast, yields on ten-year US government bonds were up by 0,28 percentage points year-on-year to 2,68% at the end of the year. Risk premiums for investment grade corporate bonds were well above the year-end 2017 level at the end of 2018.

In the reporting period, the Company did not perform any activities on the capital markets. In order to maintain the Group's future unrestricted access to the capital markets, the Company together with Deutsche Post AG, also updated their EUR 8 billion Debt Issuance Programme in the year under review.

As the Company did not perform any activities on the capital markets in 2018, its balance sheet total being EUR 555.236.880 as per 31 December 2018 nearly stayed constant in comparison to year end 2017 with a total of EUR 558.084.648.

The Company's result after taxation for 2018 amounts to a profit of EUR 450.515. Excluding the net gain from hedge ineffectiveness, totaling EUR 14.361 and the movement for expected credit losses under IFRS 9 of EUR 6.708, the 2018 minimum margin result amounts to a profit of EUR 429.446 [EUR 629.558 in 2017] and is in line with the management's expectations. The ineffectiveness recognized in the statement of comprehensive income results from strict hedge accounting requirements.

The Company, being a funding vehicle for the Group, raises finance and on-lends monies to companies within the Group by way of intra-group loans. Typically, the terms of such intra-group loans match the payment obligations of the Company under the bonds issued by it to fund such loans. In the event that a company fails to make a payment under an intra-group loan, the Company may not be able to meet its payment obligations under bonds issued by it and its creditors would have to rely on guarantees issued by Deutsche Post AG.

Hence payment of principal of and interest on bonds issued by the Company ultimately depend on Deutsche Post AG. This means that risks in respect of the Company substantially correspond with those in respect of the Group. Reference here is made to the Group's Annual Report 2018.

Moreover, due to the nature of its business, the Company might be adversely affected by changes in interest rates or foreign exchange rates. Interest risks as well as currency risks are hedged according to the guidelines of the Group by the Group's Central Treasury. The variety of instruments used for hedging purposes and the policies are described in the notes to the Financial Statements. The Company's attitude towards risk is an adverse one. Hence, hedges are put in place in order to avoid interest and currency risks.

The cash and liquidity of the Group's globally operating subsidiaries is managed centrally on headquarters level. A major part of the Group's external revenue is consolidated in cash pools and used to balance internal liquidity needs. The Group's intragroup revenue is also pooled and managed in an In-House-Bank-System provided by Deutsche Post AG. As the Company is linked to this Bank-System, liquidity is provided by Deutsche Post AG.

1.8 Future business developments

The global economy is expected to grow more slowly in 2019 than in the year under review. Economic growth will be supported by continuing expansionary policies and fiscal stimuli, although their effects will tend to diminish. Europe could be negatively affected by the consequences of a UK exit from the EU without an exit deal. The ECB recently communicated to leave its key refinancing rate in 2019 at 0,00%.

As the Company is one of the most important financing vehicles of the Group, the financial position, especially the liquidity situation and the planned capital expenditures of the Group, very much affect the business development of the Company.

The Group anticipates a reduction in its liquidity in the first half of 2019 as a result of the annual pension prepayments due to the Bundesanstalt für Post und Telekommunikation as well as the dividend payment for the financial year 2018 in May 2019. In addition payments not covered by borrowed funds to renew the aircraft fleet in the Express division will reduce liquidity. By contrast, the proceeds from the sale of the Group's supply chain business in China will increase liquidity in the first half of the year. However, the Group's operating liquidity situation will improve again significantly towards the end of the year, due to the upturn in business that is normal in the second half of a year.

In 2019 the Group plans to increase capital expenditure (excluding leases) to around EUR 3,7 billion in support of its strategic objectives and further growth. This figure also includes around EUR 1,1 billion for the largely debt-financed renewal of the Express intercontinental fleet.

The key control parameters for liquidity management of the Group are the centrally available liquidity reserves. The Group had central liquidity reserves of EUR 4,3 billion as at the reporting date, consisting of central financial investments amounting to EUR 2,3 billion plus a syndicated credit line of EUR 2 billion. Moreover, the Group enjoys open access to the capital markets on account of its good ratings within the transport and logistics sector and is well positioned to secure capital requirements.

In summary the Group's liquidity is sound in the short and medium terms.

For further information on the Group's expected financial position in 2019 reference is made to the Deutsche Post DHL Group Annual Report 2018.

The management of the Company is not aware of any plans to raise funds from the capital markets in 2019. Deutsche Post Finance B.V. will persist as Group finance company and any possible future proceeds of debt issues will be lent within the Group.

1.9 Diversity

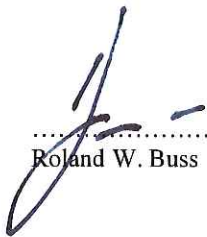
In the context of article 2:391 paragraph 7 BW we declare that during issuance of the Financial Statements, the Company does not comply with the requirement that at least 30% of the seats in the management board have to be held by the female gender. This is not a deliberate choice, but a consequence of the fact that only limited changes have been taken place in the management board.

1.10 Responsibility Statement

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

Maastricht, 10 April 2019

The Management Board:



.....
Roland W. Buss



.....
Timo L.F. van Druten

2. Financial Statements

2.1 Balance sheet

Amounts in EUR	Note	At 31 December 2018	At 31 December 2017
Non-current assets			
Long-term loans receivable from affiliates	(16)	508.040.682	482.911.290
Non-current derivatives	(17)	37.433.124	40.310.637
		545.473.806	523.221.927
Current assets			
Short-term receivables from affiliates	(18)	71.361	65.944
Cash pool receivables	(19)	9.691.713	34.789.525
Other receivables		0	7.252
		9.763.074	34.862.721
		555.236.880	558.084.648
Shareholder's equity			
	(20)		
Share capital		18.500	18.500
Capital reserve		2.000.000	2.000.000
Retained earnings		16.801.097	17.227.898
		18.819.597	19.246.398
Long-term liabilities			
Bond long-term	(21)	528.590.505	531.005.338
		528.590.505	531.005.338
Short-term liabilities			
Accrued interest	(22)	7.813.014	7.813.014
Other current liabilities and accruals	(23)	13.764	19.898
		7.826.778	7.832.912
		555.236.880	558.084.648

The notes are an integral part of the Company's Financial Statements.

2.2 Statement of comprehensive income
For the year ended 31 December 2018

Amounts in EUR	Note	2018	2017
Interest income	(24)	6.338.364	14.525.137
Interest expenses	(25)	(5.793.028)	(13.782.479)
Other gains and losses	(26)	21.069	278.038
Other operating expenses	(27)	(115.890)	(113.100)
Profit before taxes		450.515	907.596
Income tax expense	(28)	0	0
Profit for the year		450.515	907.596
Items that may be subsequently reclassified to profit or loss			
Changes in hedge reserve	(20)	0	(2.263.248)
Total Comprehensive income/(loss)		450.515	(1.355.652)

The profit for the year is attributable to the parent.

The notes are an integral part of the Company's Financial Statements.

2.3 Statement of changes in equity
For the year ended 31 December 2018

Movements in shareholder's equity during the financial year were as follows:

Amounts in EUR	Total	Share capital	Capital reserve	Hedge reserve	Retained earnings
At 1 January 2017	20.602.050	18.500	2.000.000	2.263.248	16.320.302
<i>Movements 2017</i>					
Value changes of derivatives	(2.263.248)	0	0	(2.263.248)	0
Net result 2017	907.596	0	0	0	907.596
Balance at 31 December 2017	19.246.398	18.500	2.000.000	0	17.227.898
Balance at 1 January 2018	19.246.398	18.500	2.000.000	0	17.227.898
<i>IFRS 9 first time adoption</i>	(877.316)	0	0	0	(877.316)
Balance at 1 January 2018 after adoption	18.369.082	18.500	2.000.000	0	16.350.582
<i>Movements 2018</i>					
Net result 2018	450.515	0	0	0	450.515
Balance at 31 December 2018	18.819.597	18.500	2.000.000	0	16.801.097

Notes to the Shareholder's Equity are included in note 20.

The notes are an integral part of the Company's Financial Statements.

2.4 Cash flow statement
For the year ended 31 December 2018

Amounts in EUR	Note	2018	2017
Cash inflow			
Repayment of loans	(16)	4.000.000	882.437.873
Interest inflow		21.082.947	60.071.013
Total cash inflow		25.082.947	942.508.886
Cash outflow			
Redemption of maturing bonds		0	(750.000.000)
New allocation of loans	(16)	(30.000.000)	(25.000.000)
Interest outflow		(20.065.986)	(57.243.388)
Other outflows (SLA, rating fee, etc.)		(114.773)	(104.186)
Net outflow from maturing FX derivatives		0	(90.237.873)
Total cash outflow		(50.180.759)	(922.585.447)
Net cash flow		(25.097.812)	19.923.439
Cash pool balance at 1 January		34.789.525	14.866.086
Cash pool balance at 31 December	(19)	9.691.713	34.789.525

All cash flows are considered to be operating cash flows. Reference is made to note 6.

The notes are an integral part of the Company's Financial Statements.

2.5 Notes to the Financial Statements

(1) *General overview*

Deutsche Post Finance B.V. (hereafter “The Company”), having its statutory seat in Maastricht, was incorporated in the Netherlands, Rotterdam on 13 April 1999 and is now listed in the Commercial Register of the Chamber of Commerce in Maastricht under number 24.29.26.43. The Company is owned 100% by Deutsche Post International B.V. in Maastricht, the Netherlands. The ultimate shareholder is Deutsche Post AG in Bonn, Germany.

The principal activity of the Company consists of raising capital in order to lend funds to Deutsche Post DHL Group companies. The Company together with Deutsche Post AG has a EUR 8 billion Debt Issuance Programme in place.

Items included in the Financial Statements are measured using the currency of the primary environment in which Deutsche Post Finance B.V. operates (“the functional currency”). The Financial Statements are presented in Euro, which is the Company’s presentation currency and functional currency.

The Company has no subsidiaries, joint ventures or associates. The Company itself is a part of the Group and the financial results of the Company are incorporated into the IFRS Consolidated Financial Statements of the Group.

The date of approval of these Financial Statements by the Management Board is 10 April 2019.

(2) *Basis of accounting*

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and also comply with the financial reporting requirements included in section 9 of Book 2 of the Dutch Civil Code. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of all derivative contracts.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in note 4.

(3) *New developments in international accounting under IFRS*

The following Standards, changes to Standards and Interpretations are required to be applied on or after 1 January 2018:

	Required to be applied for financial years beginning on or after	Significance
IFRS 9 Financial Instruments (Issue date: 24 July 2014)	1 January 2018	Relevant
IFRS 15 Revenue from Contracts with Customers (Issue date: 11 September 2015)	1 January 2018	Irrelevant
Amendments to IFRS 4 Insurance Contracts – Application of IFRS 9 Financial Instruments Jointly with IFRS 4 Insurance Contracts (Issue date: 12 September 2016)	1 January 2018	Irrelevant
Annual Improvements to 2014 – 2016 (Issue date: 8 December 2016)	1 January 2018	Irrelevant
Amendment to IFRS 2 (Issue date: 20 June 2016)	1 January 2018	Irrelevant
IFRIC 22 Foreign Currency Transactions and Advance Considerations (Issue date: 8 December 2016)	1 January 2018	Irrelevant
Amendment to IAS 40 (Issue date: 8 December 2016)	1 January 2018	Irrelevant

New accounting pronouncements adopted by the EU but only required to be applied in future periods (the Company did not early adopt these).

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

	Required to be applied for financial years beginning on or after	Significance
Amendments to IFRS 9 Financial Instruments: Early Repayment Arrangements with Negative Compensation (Issue date: 12 October 2017)	1 January 2019	Irrelevant
IFRS 16 Leases (Issue date: 13 January 2016)	1 January 2019	Irrelevant
IFRIC 23 Uncertainty Regarding Income Tax Treatment (Issue date: 7 June 2017)	1 January 2019	Effects are currently being evaluated

In July 2014, the IASB published the complete version of IFRS 9, which replaces most of the guidance in IAS 39. This includes amended guidance on the classification and measurement of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 has a very

similar scope to IAS 39. The new classification approach on financial assets is based on their contractual cash flow characteristics and on the business model in which they are held. That will see financial assets classified and measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

With that, the existing IAS 39 categories of held-to-maturity, loans and receivables, held-for-trading and available for sale are removed. The impact on Deutsche Post Finance B.V. is explained under note 8.

IFRS 9 defines a new impairment model for financial assets which are measured at amortized cost, the “Expected Loss Model”. Under the model it is no longer necessary for a loss event to have occurred before credit losses are recognized. Instead, the standard requires an entity to recognize a credit loss for a financial asset measured at amortized cost with the financial asset’s initial recognition. This leads to an earlier recognition of a credit loss than under the IAS 39 “Incurred Loss Model”. The impact on the 2018 opening balances was calculated with EUR 0,9 million and impacts the Company’s equity. It is referred to note 8 and note 16.

IFRS 9 will also more closely align hedge accounting with an entity’s risk management activities and increases the number of eligible hedged items and hedging instruments. For example, net positions and aggregated exposures may now qualify as hedged items. These changes do not change the hedging strategies therefore the Company has decided to continue to apply the principles of hedge accounting in accordance with IAS 39 from 1 January 2018 until further notice.

New accounting pronouncements not yet adopted by the EU.

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

	Required to be applied for financial years beginning on or after	Significance
Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Investments in Associates and Joint Ventures (Issue date: 12 October 2017)	1 January 2019	Irrelevant
Annual Improvements to 2015 – 2017 (Issue date: 12 December 2017)	1 January 2019	Irrelevant
Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (Issue date: 7 February 2018)	1 January 2019	Irrelevant
Amendments to IFRS 3 Business Combinations (Issue date: 22 October 2018)	1 January 2020	Irrelevant
Amendments to References to the Conceptual Framework for IFRS Standards (Issue date: 29 March 2018)	1 January 2020	Relevant

	Required to be applied for financial years beginning on or after	Significance
Amendments to IAS 1 & IAS 8 Definition of Material (Issue date: 31 October 2018)	1 January 2020	Relevant
IFRS 17 Insurance Contracts (Issue date: 18 May 2017)	1 January 2021	Irrelevant

(4) Critical accounting estimates and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continuously evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans

Loans issued by the company are revalued at each balance sheet date. The borrowers' creditworthiness is monitored on an ongoing basis. Information published by rating agencies on the capital market is used to assess the creditworthiness of debtors and to calculate a potential future loss. A short-cut method is used to determine the expected credit loss on low credit risk intercompany loans: It assumes that the default probability for the intercompany loans is that of the lowest investment grade. The respective one-year global default rate as published by Standard & Poor's was 0,17% at the end of 2018.

(b) Fair value of the derivative

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques (level 2 of the IFRS 13 fair value hierarchy). These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. With regard to the existing interest rate swap with Deutsche Post AG the fair value was calculated with a discounted cash flow method and the applicable market Euro swap rate at the end of 2018 was -0,01%. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(5) Related party transactions

Deutsche Post Finance B.V. is involved in various related party transactions. For more details we refer to these Financial Statements.

(6) Cash flow statement

The statement of cash flows analyses changes in cash and cash equivalents during a period. According to IAS 7.18 the company presents its cash flows on the basis of the direct method in the annual financial statements. The direct method presents the specific cash flows associated with items that affect cash flow. Major classes of gross cash receipts and gross cash payments on behalf of Deutsche Post Finance B.V. are disclosed.

The cash flows that are presented in this cash flow statement represent the receipts and payments made on behalf of Deutsche Post Finance B.V. resulting from the cash pool agreement between

the Company and Deutsche Post AG. They are presented in the cash flow statement even though Deutsche Post Finance B.V. itself has no cash, but a cash pool balance with Deutsche Post AG. The cash pool balances are disclosed under “Cash pool receivables” in the balance sheet (note 19).

The principal activity of the Company consists of raising capital in order to lend funds to Deutsche Post DHL Group companies. Therefore all activities, relating to interest received and paid are classified as operating activities. All transactions and balances of the Company within the in-house bank of the Group are classified as changes in working capital (changes in receivables and payables).

The Company has not paid any dividends during 2018.

(7) Foreign currencies

Transactions in currencies other than Euro are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognized in the income statement except when deferred in equity as qualifying cash flow hedges. At the balance sheet date the Company does not have any foreign currency transactions.

(8) Financial assets

Financial instruments are contractual obligations that give rise to a financial asset of one entity and a financial liability or equity instrument in another entity. These include both primary and derivative financial instruments. Primary financial instruments include in particular all receivables, financial liabilities, securities, loans and accrued interest.

Until 31 December 2017, the Company accounted financial assets in accordance with the provisions of IAS 39, with a distinction being made between two categories of financial instruments:

- Loans and receivables
- Financial assets at fair value through profit or loss

Category: Loans and receivables

These were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Unless held for trading, they were carried at cost or amortized cost on the balance sheet date. Due to their short maturities, the carrying amounts of money market receivables approximated their fair values. “Loans and receivables” were classified as current assets unless their maturity exceeded twelve months after the balance sheet date, otherwise they were reported as non-current assets. If there were any doubts as to the collectability of receivables, they were carried at amortized cost less appropriate specific valuation allowances or lump-sum specific valuation allowances. An impairment loss on trade receivables was recognized when there was objective evidence that the amounts due were not fully recoverable. The impairment was recognized in the income statement via an allowance account.

Category: Financial assets at fair value through profit or loss

All financial instruments held for trading as well as derivatives not included in hedge accounting were allocated to this category. They were measured at fair value. All changes in fair value were recognized in profit or loss. All financial instruments in this category were recognized on the trade date. Assets in this category were recognized as current assets if they were either held for trading or expected to be realized within twelve months of the balance sheet date.

Since 1 January 2018 (the date of initial application of IFRS 9), financial assets have been classified into the following measurement categories according to IFRS 9:

- Debt instruments measured at amortized cost,
- Financial assets at fair value through profit or loss (FVTPL)

The classification of debt instruments depends on the Company's business model for managing financial assets and contractual cash flows. The Company's management has assessed which business models apply to the held by them financial assets and has classified its financial instruments into the appropriate IFRS 9 categories. Debt instruments in the Company are generally recognized at amortized cost. Therefore, financial assets classified as loans and receivables under IAS 39 are now classified as debt instruments measured at amortized cost. Interest income from these financial assets is reported under financial income using the effective interest method.

As of 31 December 2017, no assets were in the IAS 39 categories held-to-maturity, held-for-trading and available for sale to be assigned. As a result, no reclassifications were made on 1 January 2018.

The derivative existing as of 31 December 2017 was classified as "Financial assets at fair value through profit or loss (FVTPL)" on 1 January 2018.

Category: Debt instruments measured at amortized cost

Financial instruments classified as debt instrument measured at amortized cost, are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. They are non-derivative financial assets with fixed or determinable payments that are assigned to the business model "Hold". The instruments fulfil the SPPI Test (Solely Payments of Principal and Interest Test). Credit losses calculated using the general approach of IFRS 9 are charged to the income statement. They are considered to have a low credit risk. Debt instruments that are not listed on the capital markets are considered to have a low credit risk if the risk of non-performance is low and the debtor is able at all times (prospective estimate: will be able) to meet its contractual payment obligations in the short term.

Category: Financial assets at fair value through profit or loss

Derivatives have been classified as "Financial assets at fair value through profit or loss". Initial recognition and subsequent measurement are disclosed under note 12 "Derivative financial instruments and hedge accounting".

As of 1 January 2018, no instruments were classified into the following categories: debt instruments that are measured at fair value through other comprehensive income (FVOCI) and Equity instruments classified as fair value through other comprehensive income (FVOCI).

All financial assets are recognized on the balance sheet, when the Company becomes a party to the contract by using trade date accounting. They are included in the current assets except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Impairment

In accordance with IAS 39, the carrying amounts of financial assets that were not to be measured at fair value through profit or loss had to be assessed for impairment at each balance sheet date up to 31 December 2017. IAS 39 defined the “Incurred Loss Model” for this. The model assumes that all financial assets will be repaid evidence until to the contrary is identified. If there had been objective evidence of impairment, an impairment loss would have been recognized in profit or loss. Only at this triggering event the financial asset’s carrying amount had to be written off to its fair value. These impairments would have had to be reversed if objective circumstances had arisen after the balance sheet date which indicated a reversal of the impairment loss. A write-up could only be made up to the amount of the amortized cost that would have resulted had the impairment not been recognized. The company has not made any value adjustments in the past financial years. Since January 1, 2018, the Company has assessed the expected credit losses related to its debt instruments on a forward-looking basis. The applicable impairment method depends on whether there is a significant increase in credit risk. The main difference between the “Incurred Loss Model” (IAS 39) and the new “Expected Loss Model” (IFRS 9) is that the expected loss is recognized before a loss event occurs and not after a loss event has been identified. It is referred to note 4(a).

The fair values of the loans have been calculated by applying the discounted cash flow method. It is also referred to note 4(a).

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the assets have been settled.

(9) *Cash pool receivables and payables*

The Company participates in the cash pooling of the Group. The cash pool balances at the balance sheet date are shown as cash pool receivables or cash pool payables to related parties (and not shown as cash and cash equivalents).

Cash pool receivables are part of the financial instruments and classified as “Debt instruments measured at amortized cost” (note 10).

Fair values are considered to approximately match the carrying amounts of short-term receivables.

(10) *Financial liabilities*

There are no changes due to the implementation of IFRS 9.

Financial liabilities must be classified under IAS 39 and also under IFRS 9 in “Financial liabilities at fair value through profit or loss” and in “Other liabilities”. Financial liabilities must be derecognized on the balance sheet, when the Company becomes a party to the contract at fair value on inception. They are included in the current liabilities except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities.

Under IAS 39 and IFRS 9 derivative financial liabilities are classified as “Financial liabilities at fair value through profit or loss”. Initial recognition and subsequent measurement are disclosed under note 8 “Derivative financial instruments and hedge accounting”.

The remaining liabilities are classified as “Other liabilities”. They are subsequently carried at amortized cost by applying the effective interest method.

The fair value of the bond is derived from the published market price.

Financial liabilities under fair value hedge accounting are including an adjustment for the fair value of the risk being hedged.

Financial liabilities are derecognized when the obligation to settle the liabilities has expired or has been settled.

(11) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Currently, there are no assets or liabilities which are offset.

(12) *Derivative financial instruments and hedge accounting*

All derivative financial instruments are recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the instrument is designated as a hedging instrument.

To avoid variations in the net profit resulting from changes in the fair value of derivative financial instruments, hedge accounting is applied where possible. This concerns the interest swap.

If hedge accounting is applied, the net profit or loss from both the derivative and the related hedged item are simultaneously recognized in income. Depending on the hedged item and the risk to be hedged, the Company uses fair value hedge accounting or cash flow hedge accounting. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in the income statement as they arise. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealized gains or losses reported in the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative are also recognized in profit or loss. Accordingly, changes in the fair value of both the derivatives and the hedged item are simultaneously recognized in income or expense.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit and loss over the period to maturity.

As of 31 December 2018 no cash flow hedge was designated, there was only one fair value hedge.

(13) Interest income and expense

According to the IFRS 9 (general approach) the interest income and expense for financial assets in stage 1 and stage 2 are calculated on the gross carrying amount. For financial assets in stage 3, the company will continue to recognize lifetime ECL, as in stage 2, but they will now recognize interest income on a net basis. This means that interest income will be calculated based on the gross carrying amount of the financial asset less ECL.

(14) Principles for the determination of the result

Interest income and interest expense are accounted for during the period to which these belong. For interest expenses, the Company takes the transaction fees, if applicable, into account.

(15) Financial risk management

The principal activity of the Company consists of raising debt capital through bond issuances in order to lend those funds to Deutsche Post DHL Group companies. The capital managed by the Company is defined as the nominal amount of outstanding bonds issued by the Company, i.e. currently EUR 500 million. It is fixed until the existing bond needs to be redeemed or new bonds are being issued. In view of the Group's long-term capital requirements, the Group established a Debt Issuance Programme with a volume of up to EUR 8 billion. The Company is a possible issuer under the programme which offers the Company the possibility to issue bonds in customized tranches up to a stipulated total amount and enables it to react flexibly to changing market conditions.

The activities of the Company result in financial risks that may arise from changes in exchange rates and interest rates. Both risks are hedged according to the Group's guidelines by the Group's Central Treasury.

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

The Group's Board of Management receives regular internal information on the existing financial risks and the hedging instruments deployed to limit them.

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

Interest rate risk and interest rate management

Interest rate risk arises from changes in market interest rates for financial assets and financial liabilities. To quantify the risk profile, according to the Group's guidelines, all interest-bearing

receivables and liabilities are recorded, interest rate analyses are regularly prepared, and the potential effects on the net interest income are examined.

The Group uses interest rate derivatives, such as interest rate swaps, to reduce financing costs and optimally manage and limit interest rate risks by adjusting the ratio of fixed to variable interest agreements.

At 31 December 2018 a fixed rate bond with a total notional volume of EUR 500 million was outstanding, maturing in 2022.

The bond maturing in 2022 has been transformed into a floating rate liability with a fixed to float receiver interest rate swap. For this interest rate swap fair value hedge accounting is applied. The EUR 500 million have been used to finance floating rate EUR loans to Deutsche Post DHL Group companies maturing in 2022.

IFRS 7 requires a company to disclose a sensitivity analysis, showing how profit and loss and equity are affected by hypothetical changes in interest rates at the reporting date. For the sensitivity analysis concerning the impact on profit and loss all primary variable rate financial instruments and the floating rate leg of the interest rate swap has been taken into consideration.

If the market interest rates as at 31 December 2018 would have been 100 basis points higher, the net financial income would have increased by EUR 89.113 (2017: EUR 171.000). A 100 basis points decrease leads to the opposite effect (net financial income decreases by EUR 89.113).

The company did not have any outstanding cash flow hedging transactions on its balance sheet at the end of 2018 and at the end of 2017, therefore it was not necessary to calculate the equity impact of a hypothetical change in interest rates.

Foreign exchange risk

The Company did not have any foreign currency transactions in its balance sheet at the end of 2018 and at the end of 2017.

Liquidity risk

The Group ensures a sufficient supply of cash for Group companies at all times via a largely centralized liquidity management system. The Company is one of the most important financing entities within the Group. Therefore the Company issued bonds which are fully guaranteed by Deutsche Post AG.

The following picture shows the maturity structure of primary financial liabilities:

Maturity structure – undiscounted cash flows non-derivative financial instruments

31-12-2018						
EUR (million)	less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	more than 5 years
Bonds *	(15)	(15)	(15)	(515)	0	0
Loans payable	0	0	0	0	0	0
	(15)	(15)	(15)	(515)	0	0

* interests are included

31-12-2017

EUR (million)	less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	more than 5 years
Bonds *	(15)	(15)	(15)	(15)	(515)	0
Loans payable	0	0	0	0	0	0
	(15)	(15)	(15)	(15)	(515)	0

* interests are included

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

Maturity structure – undiscounted cash flows derivative financial instruments

31-12-2018

EUR (million)	less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	more than 5 years
Derivative assets						
Cash inflows	15	15	15	15	0	0
Cash outflows	(6)	(5)	(7)	(4)	0	0
Derivative liabilities						
Cash inflows	0	0	0	0	0	0
Cash outflows	0	0	0	0	0	0

31-12-2017

EUR (million)	less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	more than 5 years
Derivative assets						
Cash inflows	15	15	15	15	15	0
Cash outflows	(5)	(6)	(8)	(9)	(5)	0

Derivative liabilities						
Cash inflows	0	0	0	0	0	0
Cash outflows	0	0	0	0	0	0

Credit risk

In accordance with the impairment model of IFRS 9 “Expected Credit Loss”, financial assets must generally be assessed for an expected credit loss. Expected credit loss (ECL) as defined by IFRS 9 is the probability-weighted estimate of credit losses over the expected life of a financial instrument. Default is the difference between the cash flows due to the Company under the contract and the cash flows expected by the Company. As the expected credit losses take into account the amount and timing of the payments, a credit loss arises even if the Company expects that it will be paid in full but later than the contractual due date.

The ECL is measured at the individual position level, in exceptional cases at the collective portfolio level (grouped exposures based on common credit risk characteristics). IFRS 9 provides a three-stage model, the “general approach”, to determine the credit loss.

According to the three-stage model, debt instruments measured at amortized cost are allocated to stage 1 at initial recognition. The expected loss corresponds to the value that can arise from possible default events within the next twelve months (12- month expected loss) after the balance sheet date. If there has been a significant increase in the counterparty credit risk since initial recognition, the financial asset is transferred from stage 1 to stage 2. Among other things, the default risk is significantly increased if the debtor no longer meets its payment obligations in the short term or if an actual or expected deterioration in the debtor’s business results becomes apparent. The default risk is then measured on the basis of the probability of default (PD) over the entire remaining term (lifetime PD). The impairment corresponds to the value that can arise from possible default events during the remaining term of the financial asset. A transfer from stage 1 to stage 2 must take place at the latest when the contractual payments are more than 30 days overdue. If there is objective evidence that a financial asset is impaired. It must be transferred to stage 3. Which is the case if the payments are more than 90 days past due, it is assumed that the debtor is experiencing significant financial difficulties and that there is objective evidence of a loan default.

In general, the Company only grants intra Group loans. The Company has made assessments of the credit risk of its counterparties on January 1, 2018 and December 31, 2018. Based on these assessments all borrowers have the strong capacity to meet their contractual cash flow obligations in the near term. Therefore all loans were classified as low credit risk loans and the credit loss allowance was limited to the ECL within twelve months after the balance sheet date (stage 1). Furthermore, the management has decided to use a short-cut to calculate the actual ECL, which

assumes that the one-year default probability for the loans is that of the lowest investment grade BBB as published by Standard & Poor's and that no amount would be recovered in the event of a default. The respective calculations resulted in amounts, which were considered to be immaterial by the management, in total EUR 870.606 as shown under note 16.

The cash pool balance receivable measured at amortized cost is subject to the credit risk of the head of the cash pool, which is Deutsche Post AG. The management assesses the default risk as low. Due to the materiality of the risk, no risk provisions were made.

In the financial year, the cash flows of the debt instruments were neither modified nor model changes made to derive risk parameters. As a result, the input parameters were not revalued. Loans and receivables measured at amortized cost were recognized at stage 1 at the balance sheet date. At the balance sheet date, there were no indications of significant deterioration of creditworthiness.

During the year there was no reclassification within the stages.

All derivative assets are concluded with Deutsche Post AG.

(16) Long-term loans receivable from affiliates

Movements during the financial year were as follows:

	2018	2017
	EUR	EUR
Opening balance at 1 January	482.911.290	500.111.290
IFRS 9 first time adoption	(877.316)	n.a.
Opening balance at 1 January after IFRS 9 adoption	482.033.974	-
New loans	30.000.000	25.000.000
Redemptions	(4.000.000)	(42.200.000)
IFRS expected credit loss (adjustment at 31 December 2018)	6.708	0
	<hr/>	<hr/>
Balance at 31 December	508.040.682	482.911.290
	<hr/>	<hr/>

Long-term loans receivable at year end amounted to the following balances:

	2018	2017
	EUR	EUR
Deutsche Post DHL Group related parties	508.911.290	482.911.290
IFRS 9 expected credit loss	(870.608)	0
	<hr/>	<hr/>
	508.040.682	482.911.290
	<hr/>	<hr/>

The maturity of the long-term loans receivable is as follows:

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
2022	508.040.682	482.911.290

Between October 2012 and December 2018 new loans for an amount totalling EUR 508.911.290 were granted to other Deutsche Post DHL Group related parties. All these loans mature in 2022.

None of the long-term loans receivable have matured or are past due.
None of the long-term loans receivable are impaired.

The nominal interest rates at the balance sheet date were as follows:

	<u>31-12-2018</u>	<u>31-12-2017</u>
EUR	1.27%	1.23%

The carrying amounts and fair value of the long-term loans receivable at year end were:

Carrying amounts		Fair values	
<u>31-12-2018</u>	<u>31-12-2017</u>	<u>31-12-2018</u>	<u>31-12-2017</u>
EUR	EUR	EUR	EUR
508.911.290	482.911.290	531.067.022	511.632.149

The fair values are based on contractual cash flows discounted using a rate based on the current market rate.

The carrying amounts of the Company's long-term loans receivable at year end were denominated in the following currencies:

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
EUR	508.911.290	482.911.290

The Company has the following fixed rate/floating rate long-term loans:

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
Floating rate loans	508.911.290	482.911.290

(17) Non-current derivatives

The following table shows the fair value of the derivative applied by the Company:

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
Interest rate swap (positive value)	37.433.124	40.310.637

The fair value of the interest rate hedging instrument was calculated on the basis of discounted expected future cash flows, using a discounted cash flow model using observable market input.

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
Interest rate swap (notional amount)	500.000.000	500.000.000

Fair value hedge

An interest rate swap with a volume of EUR 500.000.000 was concluded in 2012 to hedge the fair value risk of the nominal amount of the fixed interest Euro-denominated bond maturing on 27 June 2022. The positive fair value of this fixed to floating interest rate swap amounts to EUR 37.433.124 [2017: EUR 40.310.637].

(18) Short-term receivables from affiliates

Short-term receivables represent interest receivables.

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
Interest receivable from Deutsche Post DHL Group companies	71.361	65.944

(19) *Cash pool receivables*

Cash pool receivables represent cash pool balances of Deutsche Post Finance B.V. and are related to the cash pool agreement between the Company and Deutsche Post AG.

	<u>31-12-2018</u>	<u>31-12-2017</u>
	EUR	EUR
Cash pool receivables	9.691.713	34.789.525

(20) *Shareholder's equity*

Share capital

The authorized share capital of the Company as at 31 December 2018 amounts to EUR 90.000 and consists of 180 ordinary shares each of EUR 500. The issued share capital amounts to EUR 18.500 and consists of 37 ordinary shares with a nominal value of EUR 500 each, which is fully paid.

Capital reserve

On 23 May 2002 the shareholder paid a capital contribution amounting to EUR 2.925.697. On the same date the shareholder approved offsetting the negative retained earnings as at 31 December 2001, amounting to EUR 925.697, against the capital reserve.

Hedge reserve

Net gains or losses from changes in the fair value of the effective portion of the interest rate part of a cash flow hedge are taken directly to the hedge reserve. The hedge reserve is released to income when the hedged item is settled. The ineffective portion of the cash flow hedges is excluded from the hedge reserve and recognized in profit and loss for the year. The hedge reserve at the end of 2018 is zero as all cash flow hedges have already expired in 2017.

	<u>2018</u>	<u>2017</u>
	EUR	EUR
Opening balance at 1 January	0	2.263.248
Effective portion of changes in fair value of cash flow hedges	0	(2.263.248)
Balance at 31 December	<u>0</u>	<u>0</u>

Proposal for the appropriation of net result 2018

	<u>2018</u>
	EUR
Profit for the year	<u>450.515</u>

The Management Board proposes to transfer the profit for the year 2018 to the retained earnings.

(21) *Bond – long-term*

On 25 June, 2012 the Company issued a EUR 500.000.000, 2,95% bond of 2012/2022 with an issue price of 99,471% (Bond 2022). Bond 2022 is listed at the Luxembourg Stock Exchange.

The bond issued by the Company is fully guaranteed by Deutsche Post AG. The below two tables show nominal amounts.

Bond	31-12-2018	31-12-2017
	EUR	EUR
Bond 2022	500.000.000	500.000.000
	31-12-2018	31-12-2017
	EUR	EUR
The maturity of the bond as reported at year end is: 1 – 5 years, nominal value	500.000.000	500.000.000

The carrying amount of the amortized costs of the bond (before the fair value adjustments relating to hedging) is as follows:

Bond	31-12-2018	31-12-2017
	EUR	EUR
Bond 2022	498.219.057	497.743.849

The carrying amount of the bond (after fair value adjustment relating to hedging) is as follows:

Bond	31-12-2018	31-12-2017
	EUR	EUR
Bond 2022	528.590.505	531.005.338

The fair value of the bond is as follows:

Bond	31-12-2018	31-12-2017
	EUR	EUR
Bond 2022	546.100.000	561.090.000

The effective interest rates, taking into account the effect of the interest rate swap is as follows:

Bond	31-12-2018	31-12-2017
Bond 2022	1,0963%	1,0631%

(22) Accrued interest

	31-12-2018	31-12-2017
	EUR	EUR
Accrued interest payable to bondholders	7.556.850	7.556.850
Accrued charges for guarantee provision	256.164	256.164
	7.813.014	7.813.014

The guarantee provision relates to the guarantee issued by Deutsche Post AG (guarantor) in favour of the investors in the 2012/2022 bond issued by the Company (warrantee).

(23) Other current liabilities and accruals

The breakdown of accruals and deferred income is as follows:

	31-12-2018	31-12-2017
	EUR	EUR
Other accruals	13.764	19.898

All balances stated above fall due within 1 year.

(24) *Interest income*

The interest income arises from settled and unsettled balances with related parties, which the Company shows as receivables. The interest income from affiliated companies can be specified as follows:

	2018	2017
	EUR	EUR
Interest income on loans to Deutsche Post DHL Group companies	6.338.364	16.504.383
Interest expenses from cross-currency swaps (Deutsche Post AG)	0	(1.979.246)
	<u>6.338.364</u>	<u>14.525.137</u>

(25) *Interest expenses*

Interest expenses due on bonds can be specified as follows:

	2018	2017
	EUR	EUR
Interest expenses (fixed) Bond 2017	0	(6.857.877)
Interest expenses (fixed) Bond 2022	(14.750.000)	(14.750.000)
Interest income from interest rate swaps related to Bond 2022	9.932.180	9.813.153
Amortization of the bond discount and issue costs and release of upfront compensation payment (deferred income)	(475.208)	(1.122.002)
Guarantee fees	(500.000)	(865.753)
	<u>(5.793.028)</u>	<u>(13.782.479)</u>

(26) *Other gains and losses*

	2018	2017
	EUR	EUR
Losses from fair valuation of interest rate swaps	(2.786.604)	(10.461.721)
Losses from foreign exchange differences	0	(53.761.843)
Gains from hedge ineffectiveness	14.361	278.038
Credit result IFRS 9	6.708	0
Gains from fair valuation of cross-currency interest rate swaps	0	53.761.843
Gains from valuation of bonds (interest related)	2.786.604	10.461.721
	<u>21.069</u>	<u>278.038</u>

The gains and losses from foreign exchange differences result from the translation of loans denominated in foreign currencies.

(27) Other operating expenses

	2018	2017
	EUR	EUR
Legal, consulting and audit fees	(60.700)	(62.000)
Other administrative expenses	(55.190)	(51.100)
	<u>(115.890)</u>	<u>(113.100)</u>

For the independent auditor's fees refer to note 33.

(28) Income tax expense

The Company is part of the fiscal unity formed with Deutsche Post International B.V. and its affiliated companies in the Netherlands. Current and deferred income tax assets and liabilities of the Company have been included and recognized in the accounts of Deutsche Post International B.V. as head of the fiscal unity. Reference is made to note 32.

(29) Additional disclosure on the financial instruments

Deutsche Post Finance B.V. classifies financial instruments in relation to the respective balance sheet accounts. The following table reconciles the balance sheet accounts to the categories used by the Company.

Reconciliation of carrying amounts in the balance sheet as at 31 December 2018

31-12-2018

EUR	Carrying amount	Debt instruments measured at amortized cost	Financial assets at fair value through profit or loss
Assets			
Non-current assets	545.473.806	508.040.682	37.433.124
Long-term loans receivable			
<i>At amortized cost</i>	508.040.682	508.040.682	0
Non-current derivatives positive FV			
<i>At fair value</i>	37.433.124	0	37.433.124
Current assets	9.763.074	9.763.074	0
Short-term loans receivable			
<i>At amortized cost</i>	0	0	0
Short-term receivables from affiliated companies			
<i>At amortized cost</i>	9.691.713	9.691.713	0
Cash pool receivables			
<i>At amortized cost</i>	71.361	71.361	0
Other receivables			
<i>At amortized cost</i>	0	0	0
Current derivatives positive FV			
<i>At fair value</i>	0	0	0
Total assets	555.236.880	517.803.756	37.433.124

31-12-2018

EUR	Carrying amount	Other liabilities at amortized cost
Liabilities		
Long-term liabilities	(528.590.505)	(528.590.505)
Bonds long-term		
<i>At amortized cost</i>	(528.590.505)	(528.590.505)
Non-current derivatives negative FV		
<i>At fair value</i>	0	0
Short-term liabilities	(7.826.778)	(7.826.778)
Bonds short-term		
<i>At amortized cost</i>	0	0
Accrued interest		
<i>At amortized cost</i>	(7.813.014)	(7.813.014)
Other current liabilities and accruals		
<i>At amortized cost</i>	(13.764)	(13.764)
Short-term payables		
<i>At amortized cost</i>	0	0
Current derivatives negative FV		
<i>At fair value</i>	0	0
Total liabilities	(536.417.283)	(536.417.283)

Reconciliation of carrying amounts in the balance sheet as at 31 December 2017

31-12-2017			
EUR	Carrying amount	Loans and receivables	Derivatives designated as hedging instrument
Assets			
Non-current assets	523.221.927	482.911.290	40.310.637
Long-term loans receivable			
<i>At amortized cost</i>	482.911.290	482.911.290	0
Non-current derivatives positive FV			
<i>At fair value</i>	40.310.637	0	40.310.637
Current assets	34.862.721	34.862.721	0
Short-term loans receivable			
<i>At amortized cost</i>	0	0	0
Short-term receivables from affiliated companies			
<i>At amortized cost</i>	34.789.525	34.789.525	0
Cash pool receivables			
<i>At amortized cost</i>	65.944	65.944	0
Other receivables			
<i>At amortized cost</i>	7.252	7.252	0
Current derivatives positive FV			
<i>At fair value</i>	0	0	0
Total assets	558.084.648	517.774.011	40.310.637

31-12-2017

EUR	Carrying amount	Other liabilities
Liabilities		
Long-term liabilities	(531.005.338)	(531.005.338)
Bonds long-term		
<i>At amortized cost</i>	(531.005.338)	(531.005.338)
Non-current derivatives negative FV		
<i>At fair value</i>	0	0
Short-term liabilities	(7.832.912)	(7.832.912)
Bonds short-term		
<i>At amortized cost</i>	0	0
Accrued interest		
<i>At amortized cost</i>	(7.813.014)	(7.813.014)
Other current liabilities and accruals		
<i>At amortized cost</i>	(19.898)	(19.898)
Short-term payables		
<i>At amortized cost</i>	0	0
Current derivatives negative FV		
<i>At fair value</i>	0	0
Total liabilities	(538.838.250)	(538.838.250)

If there is an active market for a financial instrument (e.g., stock exchange), the fair value is determined by reference to the market or quoted exchange price at the balance sheet date. If no fair value is available in an active market, the quoted prices in an active market for similar instruments or recognized valuation techniques are used to determine the fair value. The valuation techniques used incorporate the key factors determining the fair value of the financial instruments using validation parameters that are derived from the market conditions as at the balance sheet date. Counterparty risk is analyzed on the basis of the current credit default swaps signed by the counterparties.

The following table presents the classes of financial instruments recognized at fair value and those financial instruments whose fair value is required to be disclosed; the financial instruments are presented by level in the fair value hierarchy to which they are assigned. The simplification option under IFRS 7.29a was exercised for short-term receivables from affiliated companies; cash pool receivables, other receivables, short-term loans payable, accrued interest and other current liabilities and accruals with predominantly short maturities. Their carrying amounts as at the reporting date are approximately equivalent to their fair values.

Financial assets and liabilities: 31 December 2018

The financial assets and financial liabilities disclosed under this note are carried at amortized cost. The fair values of the financial assets were determined using the discounted cash flow method. Financial liabilities (debt instruments) are listed on the capital market.

EUR				
	Level 1	Level 2	Level 3	Total
Non-current assets	0	568.500.146	0	568.500.146
Total assets	0	568.500.146	0	568.500.146

EUR				
	Level 1	Level 2	Level 3	Total
Long-term liabilities	(546.100.000)	0	0	(546.100.000)
Total liabilities	(546.100.000)	0	0	(546.100.000)

Level 1: quoted market prices

Level 2: measurement using key inputs based on observable market data

Level 3: measurement using key inputs not based on observable market data

Financial assets and liabilities: 31 December 2017

EUR				
	Level 1	Level 2	Level 3	Total
Non-current assets	0	551.942.786	0	551.942.786
Total assets	0	551.942.786	0	551.942.786

EUR				
	Level 1	Level 2	Level 3	Total
Long-term liabilities	(561.090.000)	0	0	(561.090.000)
Total liabilities	(561.090.000)	0	0	(561.090.000)

Level 1: quoted market prices

Level 2: measurement using key inputs based on observable market data

Level 3: measurement using key inputs not based on observable market data

Level 2 includes interest rate and currency derivatives. The fair values of these derivatives are measured on the basis of discounted expected future cash flows, taking into account forward rates for currencies and interest rates. For this purpose, price quotations observable on the market are imported from information platforms customary in the market into the treasury management system.

The price quotations reflect actual transactions involving similar instruments on an active market.

No financial instruments were transferred between levels in financial year 2018 and the previous year.

Financial assets and liabilities are set off on the basis of netting agreements (master netting agreements) only if an enforceable right of set-off exists and settlement on a net basis is intended as at the reporting date. If the right of set-off is not enforceable in a normal course of business and the master netting arrangements creates a conditional right of set-off that can only be enforced by taking legal action, the financial assets and liabilities must be recognized in the balance sheet at their gross amounts as at the reporting date. At the balance sheet date the Company did not net any financial assets and liabilities.

To hedge cash flow and fair value risks, the Company enters into financial derivative transactions with Deutsche Post AG. There are no netting agreements for these contracts. Therefore all derivatives are recognized at their gross amount in the Financial Statements.

(30) Employees

The Company has no employees. Employees of the Deutsche Post European Financial Shared Services in Maastricht and the Treasury Center in Bonn perform the administrative activities.

(31) Directors' remuneration

The Management Board of the Company currently consists of two members:

- Mr. Roland W. Buss
- Mr. Timo L.F. van Druten.

The members of the Management Board do not receive any remuneration from the Company.

(32) Commitments and rights not included in the balance sheet

The Company is part of the fiscal unity headed by Deutsche Post International B.V. As a consequence, the Company is liable for all corporate income tax liabilities of the fiscal unity.

The tax position of the Company is accounted for and included in the consolidated tax position of the head of the fiscal unity, Deutsche Post International B.V. In line with Group policy the income tax expenses are not being charged to the Company, but remain with the head of the fiscal unity.

(33) Independent auditor's fees

The following fees for services rendered by the independent auditor of the Company's Financial Statements, PricewaterhouseCoopers Accountants N.V. are relating to the financial year 2018:

	2018	2017
	EUR	EUR
Audit of the Financial Statements	44.400	44.400
Other audit services	16.300	21.300
Tax services	0	0
Non-Audit services	0	0
	60.700	65.700

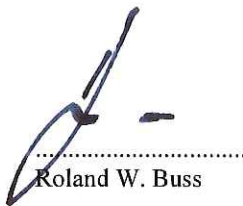
(34) *Post balance sheet events*

No post balance sheet events have occurred.

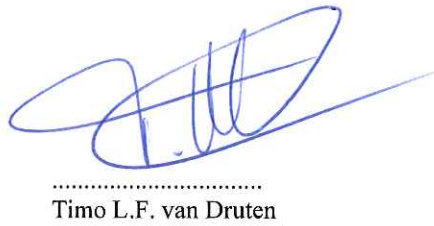
Signatures:

Maastricht, 10 April 2019

The Management Board:



.....
Roland W. Buss



.....
Timo L.F. van Druten

3. Other information

In respect of the appropriation of the net income, the following is stipulated in § 14 of the articles of association:

In the general meeting the shareholder shall decide, whether the profit achieved during the fiscal year will be completely or partly distributed, or whether it shall be transferred to the reserves.

1. Distributions can only be made if the equity exceeds the paid-in and called-up part of the capital plus legal reserves.
2. Dividends are distributed within one month after adoption of the annual Financial Statements. The general meeting can decide that the dividend is completely or partly distributed in another form than cash.
3. Either the general meeting or the management can – by taking into consideration the stipulations of § 2 – effect distributions from the profit and/or the reserves.

4. Independent auditor's report



Independent auditor's report

To: the general meeting of Deutsche Post Finance B.V.

Report on the financial statements 2018

Our opinion

In our opinion, Deutsche Post Finance B.V.'s financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of Deutsche Post Finance B.V., Maastricht ('the Company').

The financial statements comprise:

- the balance sheet as at 31 December 2018;
- the following statements for 2018: the statement of comprehensive income, statement of changes in shareholder's equity and the cash flow statement; and
- the notes, comprising the significant accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

UDQYXUAPAXU5-1200462599-26

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Independence

We are independent of Deutsche Post Finance B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Deutsche Post Finance B.V. main activity is the financing of group companies, through bond offerings on the international capital markets. The repayment of the bonds to the investors is guaranteed by Deutsche Post AG as disclosed in note 21 to the financial statements. The company has financial instruments in place to mitigate interest rate risk. We paid specific attention to the areas of focus following from the operations of the Company, as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 4 of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation and existence of issued loans and derivative valuation, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified hedge accounting as key audit matter because of the detailed formal and technical requirements that are relevant to the application of hedge accounting and because inappropriate application of these requirements can lead to a material effect on the financial statements.

Another area of focus, that was not considered as key audit matter, was the adoption and implementation of IFRS 9. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management board that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams included the appropriate skills and competences which are needed for the audit of a financing company. We therefore included specialists in the area of valuation and accounting in our team.



Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall materiality	€5,000,000 (2017: €5,000,000).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement we used 1% of total assets.
Rationale for benchmark applied	We used total assets as the primary benchmark, a generally accepted auditing practice, based on our analysis of the information needs of the common stakeholders, of which we believe the shareholders and bondholders are the most important ones. On this basis, we believe that total assets is an important metric for the financial performance of the Company.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the management board that we would report to them misstatements identified during our audit above €250,000 (2017: €250,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the management board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

Due to the nature of the company’s business we recognise that key audit matters which we reported in our independent auditor’s report on the financial statements 2017 may be long-standing and therefore may not change significantly year over year. As compared to last year, the content of one key audit matter changed due to the introduction of IFRS 9.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context.

Key audit matter**Valuation and existence of the loans issued***Notes 8 and 16*

We consider the valuation and existence of the loans issued, as disclosed in notes 8 and 16 to the financial statements for a total amount of €508.040.682, to be a key audit matter. This is due to the size of the loan portfolio in combination with the fact that the management board's assessment of objective evidence of impairment is very important and judgmental. As a result, any impairment may have a material effect on the financial statements.

The basis for determining any expected credit loss pursuant to IFRS 9 is the classification and measurement of financial instruments. The Company has performed an assessment to conclude whether the cash flows from financial instruments fulfil the requirements of the SPPI test (solely of payment of principal and interest). The management board has determined that all loans issued are categorised as stage 1 loans, hence only a 12-month expected credit loss ('ECL') has been recognised.

Our audit work and observations

We performed the following procedures to test the existence of the loans issued to the Deutsche Post DHL group companies and to test the management board's assessment of the expected credit loss to support the valuation of the loans:

- We evaluated the financial situation of the Deutsche Post DHL group companies to which loans have been provided by analysing their respective current financial data (such as result and equity) and their ability to repay the notional and interest payments to the company.
- We evaluated the financial position of the Deutsche Post DHL group companies by verifying observable data from rating agencies, developments in credit spreads and other publicly available data.
- We analysed if there were any loss events at an individual loan level by challenging the valuation assessments prepared by the management board, which we did by analysing the financial situation of the group companies to which loans have been provided.
- We compared our own estimates of the fair values of the loans issued with those made by management.
- We performed intercompany reconciliation procedures with the counterparties of the loans.
- For the expected credit loss, we assessed, with assistance of our specialists that the impairment methodology and model applied by the entity were in accordance with the requirements of IFRS 9.
- We recalculated the expected credit loss and reconciled input parameters used to external sources.
- We assessed, with assistance of our specialists, that the model used by the client as part of the impairment methodology was appropriate considering the characteristics of the loan portfolio of Deutsche Post Finance B.V.
- We verified that the required disclosures in the financial statements with respect to IFRS 9 are sufficient and in line with the applicable requirements.

Key audit matter

Derivative valuation

Note 12

We consider the fair value of the derivative portfolio of €37.433.124 as disclosed in note 12 to the financial statements and used in the company's hedge effectiveness testing to be a key audit matter. This is due to the nature of the portfolio that includes a longer-dated interest rate swap. The market for these swaps is not always fully liquid and therefore valuation is a complex area.

Hedge accounting

Note 12

We consider the application of hedge accounting to be a key audit matter. Refer to note 12 to the financial statements. This is because of the detailed formal and technical requirements that are relevant to the application of hedge accounting and because inappropriate application of these requirements can lead to a material effect on the financial statements.

Our audit work and observations

We found the management board's assessment to be sufficiently rigorous. Our procedures as set out above did not indicate material differences.

We performed the following procedures to support the valuation of derivatives:

- We tested the valuation of derivatives as well as the valuation of hedged items in hedge accounting relationships by comparing our own estimates of the values of the derivative with those made by management for the derivative.
- We also tested the mathematical accuracy of the models used and reconciled the outcome of the valuation system with the general ledger.

We found the management board's assumptions used in the valuation of the derivative to be reasonable compared to market data and the chosen models to be in line with market practice. Based on the procedures as set out above, we found no material differences.

We performed the following procedures to assess the appropriateness of the application of hedge accounting:

- We tested in full whether the hedge documentation and hedge effectiveness testing as prepared by the management board met the requirements of IAS 39 *Financial Instruments*, and whether the hedge effectiveness test was mathematically correct.
- We reconciled the outcome of the effectiveness testing for the derivative portfolio as a whole to the financial statements.

Based on the procedures as set out above we found the application of hedge accounting to be appropriate.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the management report;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.



We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The management board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Deutsche Post Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held on 18 April 2018. Our appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 16 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public-interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company for the period to which our statutory audit relates, are disclosed in note 33 to the financial statements

Responsibilities for the financial statements and the audit

Responsibilities of the management board

The management board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the management board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the management board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The management board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.



Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Eindhoven, 10 April 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by A.J.M. Vercammen RA

Appendix to our auditor's report on the financial statements 2018 of Deutsche Post Finance B.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management board.
- Concluding on the appropriateness of the management board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the management board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the management board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.