

Mr. Andrew Watchman
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Your reference **Group Accounting & Customer Finance; Principles,
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E-POST -

Date **23 December 2016**

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Subject **IFRS 16 Leases – Effective Date and Endorsement Timing**

Dear Mr. Watchman,

We welcome the opportunity to comment on the endorsement of IFRS 16 and have attached the questionnaire to this letter.

However, we became only recently aware that the endorsement of IFRS 16 by EFRAG might be delayed into the first quarter of 2018 instead of the originally planned endorsement in the second half of 2017. This raises major concerns on our side, because such a delayed endorsement of IFRS 16 would contradict an early application of IFRS 16 as permitted in the standard. Furthermore, it would destruct our current effort of implementing the three new standards IFRS 9, 15 and 16 together as of 1 January 2018. Therefore, we would like to use this letter to express our hope that EFRAG will be in a position to endorse IFRS 16 in time for adaption as of 1 January 2018.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16. We as Deutsche Post DHL Group are required to apply IFRS 15 for annual periods beginning on or after 1 January 2018. If IFRS 16 is not endorsed by the end of 2017, we will not be permitted to an early application of this standard and will not reach an alignment between first time adoption of IFRS 9, IFRS 15 and IFRS 16. This will reduce comparability with other logistics companies worldwide that are still allowed to early adopt IFRS 16.

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Please feel free to contact Maren Pollmann-Klein at +49 228 182 62330 (E-mail: Maren.Pollmann-Klein@dphl.com), if you have any questions.

Yours sincerely,

Adam Pradela
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Enclosures

EFRAG QUESTIONS

1 Do you have any information or evidence on the extent to which leases (that you are party to or otherwise aware of) will be eligible for each of the short-term and low-value assets exceptions identified in paragraph 24? If so, please provide details.

If you are a preparer, do you expect to use the exceptions? If so, please:

- (i) quantify the number and annual lease payments for each category;
- (ii) indicate the proportion of your leases (by volume and/or value) you estimate to be covered by each of the exceptions.

We will use the two exceptions for short-term leases and low-value assets. We do not have detailed information yet on how many lease contracts for short-term and low-value assets we have, but we expect the number of lease contracts covered by the two exceptions to be significant. However, we do not expect that they represent a significant amount.

2 If you are a preparer, which approach to transition do you expect to take? Please explain your reasons for this decision.

We intend to apply the modified retrospective approach. We expect that almost all of our 800 fully consolidated companies will be affected by the new standard and we estimate the number of lease assets to be accounted for to exceed 200.000. As we are planning to early adopt the standard as of 1 January 2018, we intend to reduce the workload for our subsidiaries and the corporate accounting departments by not having to collect historical data that is not easily available. However, we are aware that this will reduce the comparability with prior-year figures.

3 Are you aware of:

- (i) any contracts that you consider to be leases that would not be classified as leases under IFRS 16; or
- (ii) any contracts that you consider to be service contracts (or other non-lease contracts) that would be classified as leases under IFRS 16?

If so, please provide details of these contracts and why you consider that the classification would not be appropriate.

No, we are not aware of such contracts.

4 EFRAG is interested in understanding whether leases of intangible assets (other than rights held by a lessee under licensing agreements within the scope of IAS 38) are common. Do you have any information or evidence as to how frequently such leases of intangible assets arise in practice? If so, please provide information about the types of intangible assets that are subject to leases and the significance in operating and monetary terms.

Leases of intangible assets are very rare in our Group.

5 Do you have any comments on the comparison of IFRS 16 with IAS 17?

We expressed our concerns regarding the development of IFRS 16 in several comment letters to the IASB. We supported the idea not to change IAS 17 in general, but to bring improvement to the existing limitations of IAS 17 with relevant disclosure of leases. Now that IFRS 16 has been released, we put all our

effort into early adopt the standard and to provide the new information to our investors as soon as possible.

6 Do you have any views or information on how IFRS 16 can be expected to affect the behaviour of investors and/or lenders? If so, do you have any views or information on whether and how IFRS 16 could, for European companies that apply IFRS, positively or negatively affect:

- (i) the overall cost of capital;
- (ii) access to finance and cost of credit? Please provide any available evidence.

During the development process of IFRS 16 we performed a series of interviews with investors and analysts covering DPDHL and discussed the cornerstones of the proposed accounting rules for leases with them. The bottom lines of the discussions were that, while leasing mostly is a general topic being considered when following our Group, accounting for leases is not a specific factor in evaluating our company. Therefore, we do not expect significant changes of investors' or lenders' behaviour.

7 Do you have views or information on how IFRS 16 might affect entities' use of leasing? For example, do you expect lessees to:

- (i) reduce their use of leases with a corresponding increase in purchases of assets;
- (ii) reduce their use of leases without a corresponding increase in purchases of assets;
- (iii) seek to change the terms of new or existing leases? Please provide any available evidence.

We do not expect significant changes in our Group.

8 Do you have any additional information or views on how the endorsement of IFRS 16 can be expected to affect the leasing industry in Europe? EFRAG is particularly looking for views from the leasing industry.
Please provide any available evidence.

This question is not relevant for us.

9 Do you have any information or views on how the endorsement of IFRS 16 can be expected to affect SMEs in Europe?
Please provide any available evidence.

This question is not relevant for us.

10 Do you have any information or views on whether IFRS 16 is likely to endanger financial stability in Europe?
Please provide any available evidence.

No.

11 What is your view on the relative costs of applying IFRS 16 and US GAAP? Do you have any other views as to the advantages or disadvantages of IFRS 16 compared to US GAAP?
Please provide any available evidence

We only apply IFRS 16, therefore we do not have a view on relative costs compared to US GAAP.

We prefer the presentation according to IFRS 16 compared to US GAAP, because in the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.

12 What is your view on the one-off and ongoing costs for preparers? (Please indicate whether you are (a) a lessee; (b) a lessor; (c) both a lessee and a lessor or (d) neither a lessee nor a lessor). Will preparers that already report finance leases have lower costs than preparers without finance leases? Please provide any evidence you have on the expected magnitude of the costs.

DPDHL Group is mainly a lessee and acts only in few cases as lessor.

We have started our project to implement the new lease standard in 2015 already, before IFRS 16 was issued in January 2016, because we wanted to implement this new standard as soon as possible. That means we intend to start applying IFRS 16 as of 1 January 2018. One reason is that we want to provide information under IFRS 16 internally and externally as soon as possible. The more important reason is that we want to implement the three new standards (IFRS 9, IFRS 15 and IFRS 16) together to manage the implementation effort as efficient as possible and to reduce the distortion of prior years' figures to a minimum. Our IFRS 16 implementation project team currently consists of five DPDHL employees and two external consultants. The project work includes the internal development of a lease contract database and a booking engine that will be implemented Group-wide. It does not include the costs for the consolidated Group companies to collect the relevant lease contract data and the completing of the lease database as well as processes to be set up for the future accounting of leases.

Please note that if we will not be able to early adopt the standard because of delay in the endorsement of IFRS 16 by the EU, the additional effort and cost for implementing the standard early become worthless. As DPDHL Group has a high number of leased assets and the influence of the new standard is significant on some of our KPIs, we are planning to establish a central lease team that will be responsible for the data quality assurance and all questions regarding lease accounting.

Our finance leases are currently documented mainly using MS Excel. As we only have few finance leases that will not reduce the costs for implementing IFRS 16.

13 If you are a user, are you aware of any costs in addition to those identified by EFRAG in paragraphs 116 to 118 of Appendix 3? Please quantify if possible and provide any available evidence.

This question is not relevant for us.

14 If a lessee has to develop new systems to support the accounting for leases, to what extent do you, as a lessee, expect internal benefits from the information provided by the new information? Please quantify to the extent possible. Do you agree with the benefits for users and preparers identified above? Are there any additional benefits for users and preparers? Please provide any available evidence.

As mentioned above DPDHL Group is implementing a Group-wide Lease contract database and subledger. This system will provide transparent information about leases within the whole Group that could be used for management reporting purposes and as basis for investment decisions. New processes need to be set up to establish a Group-wide standardized, efficient and reliable lease contract management and accounting, which will improve the reporting data quality regarding lease contracts.

16 Are there any issues that have not been raised in this Preliminary Consultation Document that should be considered by EFRAG? Please explain your view.

Deutsche Post DHL Group is a global mail and logistics company and listed in the German stock exchange index DAX. We intend to apply IFRS 16 early as of 1 January 2018. We are very much concerned that the endorsement will be delayed, so that we are not able to apply IFRS 16 together with IFRS 15 and 9. This will reduce comparability with other logistics companies worldwide that are still allowed to early adopt IFRS 16. Furthermore, it will deteriorate the quality of our year-on-year financial data, as we would need to explain the effects from the implementation of IFRS 15 and one year later of IFRS 16. We therefore strongly request EFRAG to endorse IFRS 16 in time for adaption as of 1 January 2018.