

Capital Market Day 2009

Jürgen Gerdes, MAIL
Frankfurt, 6 May 2009







Summary

- 1 We entered Q1 2009 in very strong shape and are continuously mastering our 3 core challenges: competition, digital substitution, and regulatory changes
- 2 CD MAIL is hit hard by the economic downturn and faces challenging results for Q1 – revenues down by 4.5%
- 3 To deal with the impact from the economic crisis, we are rigorously adjusting our cost base – ability to cope with 20% volume decline
- 4 At the same time we prepare for the digital future of mail – our growth strategy supports our customers in digitizing their communication

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We entered Q1 2009 in a very good shape ...

Business unit	Highlights	Market share percent	Δ 2007/08 pp
Mail Communication 	Quality and service leadership – D+1=95.5%, 6 days per week delivery, 14,000 outlets, upgraded sorting technology	88*	+1
Dialogue Marketing 	Innovative and efficient solutions for times of stretched marketing budgets – MEDIAMAIL, MAILING-FACTORY, EINKAUFAKTUELL	13	±0
Parcel 	Best parcel service in Germany** – systematic expansion of 24/7 access with Packstations, Parcelboxes, and online franking	38	±0
Global Mail 	Strict focus on profitability – termination of business with non-profitable customer segments and discontinuation of DHL@home in US	13	-1

* Volume

** DHL was best in test in an overall assessment conducted by DISQ (Deutsches Institut für Service Qualität)

... and are continuously mastering 3 strategic core challenges

Competition



Revival of **competition from local postal services** (e.g., TNT, P2) and **newspaper publishers** (e.g., Holtzbrinck)

Very **capable competitors** in the highly contested **parcel business** (e.g., DPD, Hermes, UPS, GLS)

Digital substitution



Electronic substitutes are making **gains in our core markets**

- **Online billing** and **online banking** in Mail Communication
- **Banner** and **search engine ads** in Dialogue Marketing
- **Online news and magazines** in Press Services

Regulatory changes



VAT – could make our service **more expensive for customers not eligible to offset VAT**; hence losses to competitors

Opt-in – tightening of laws governing address trade could **significantly affect DM business**

The economic downturn is now overshadowing our core challenges

Competition

Digitization

Regulatory changes



Economic downturn

- **Dialogue Marketing** mostly affected – in economic crisis advertising markets come under pressure and marketing budgets are frozen immediately
- Moderate impact on **mail communication** – when GDP falls by 1 point, business mail volumes drop by 0.8 points
- Potential impact on **parcel** volumes – if mail order companies suffer seriously from economic crisis

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Marketing

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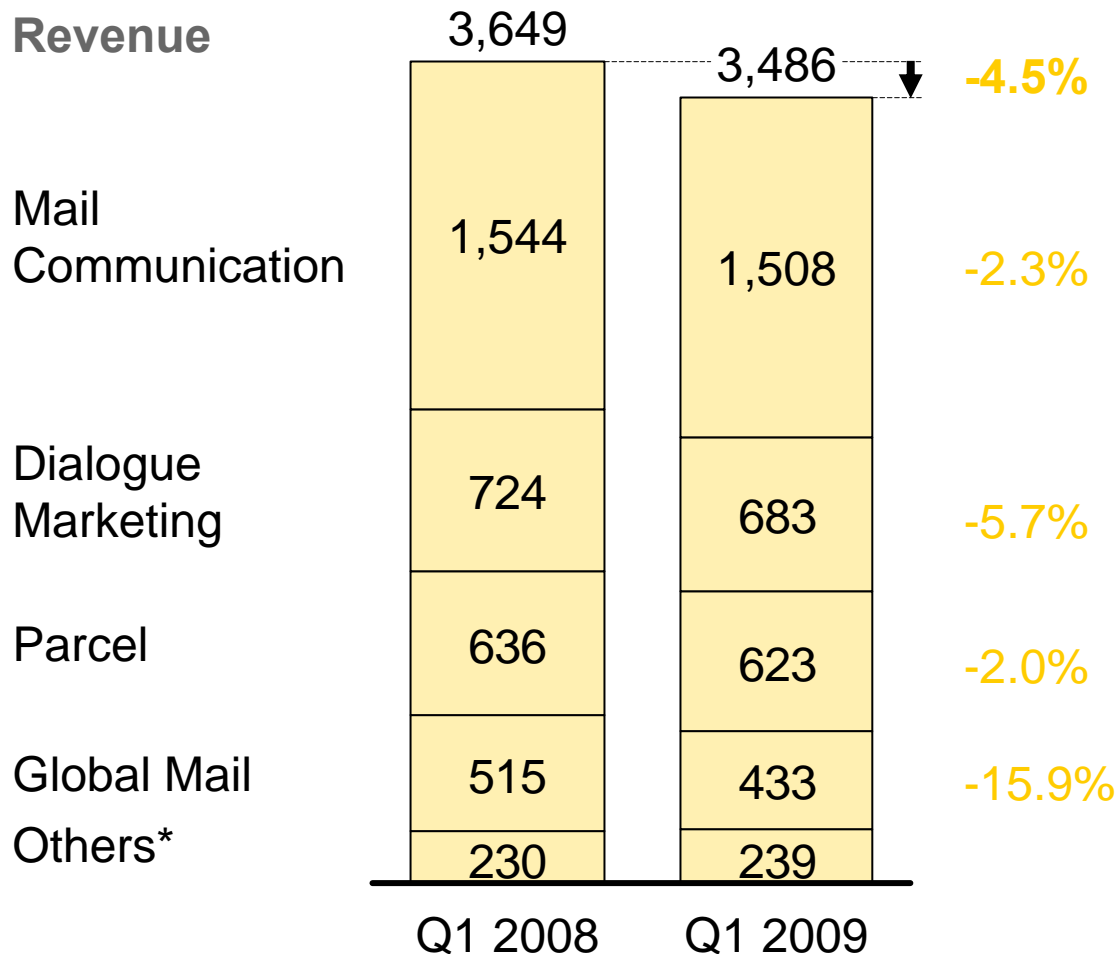
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EUR millions



Economic recession leads to decreased revenues in all products across business units

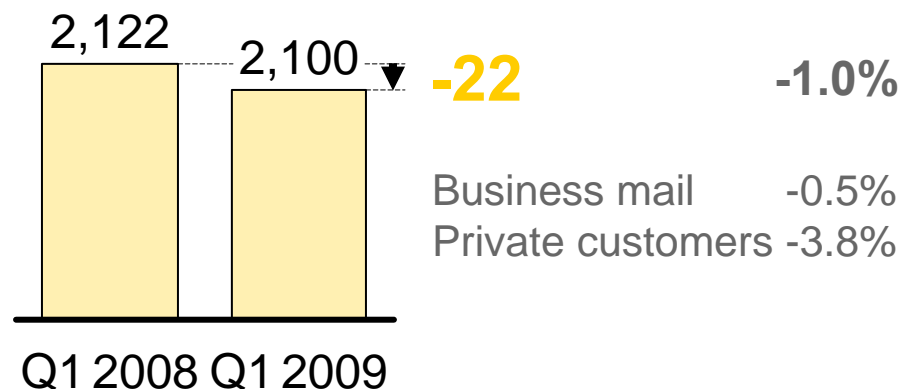
* Others including Press Services

Overall volume decreased by 4.6% – strong differences by Business Unit

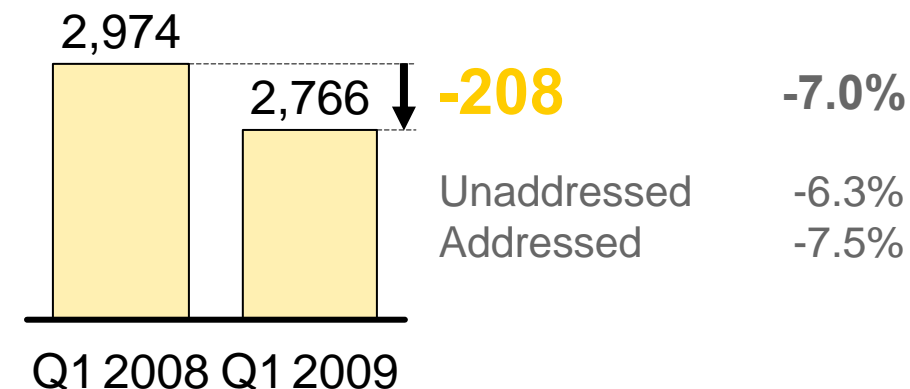
Mail divisional overview – Quarterly volume development

units millions

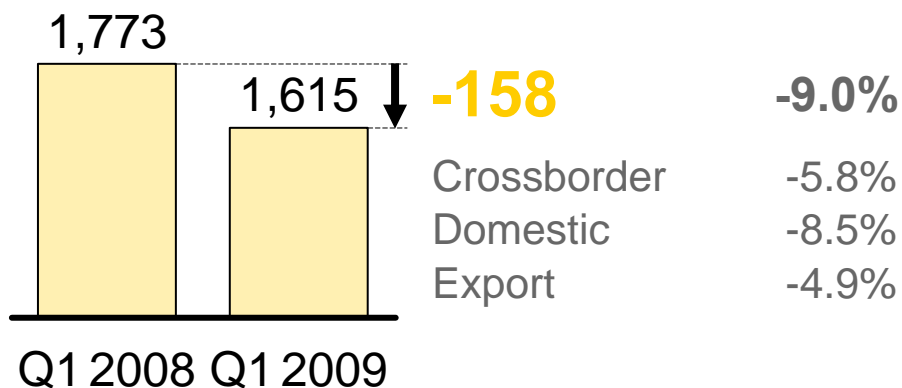
Mail Communication



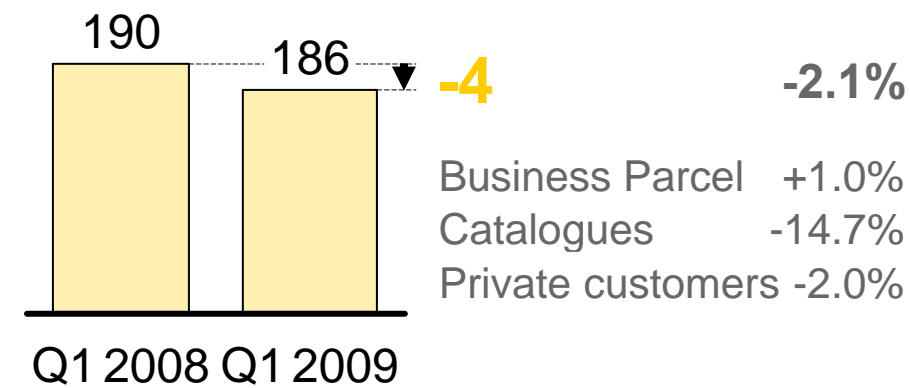
Dialogue Marketing



Global Mail



Parcel



Outlook for Q2 2009: moderate volume decline expected

Mail Communication

- **Stable volume development** with Business customers due to **high quality** and **reliability**
- **Competition** is regrouping
- **Digital substitution** accelerated by economic crisis

Global Mail

- **International mail volumes** continue to be **affected by global crisis**
- Additional **volume effect** from **termination of business** with unprofitable segments

Dialogue Marketing

- **Continuing volume decrease** as advertising market remains under pressure
- The new economy crisis showed that **DM performs** better during economic slow-downs than **classical channels**
- **Einkauf Aktuell** well above last year (+22% in revenues compared last year)

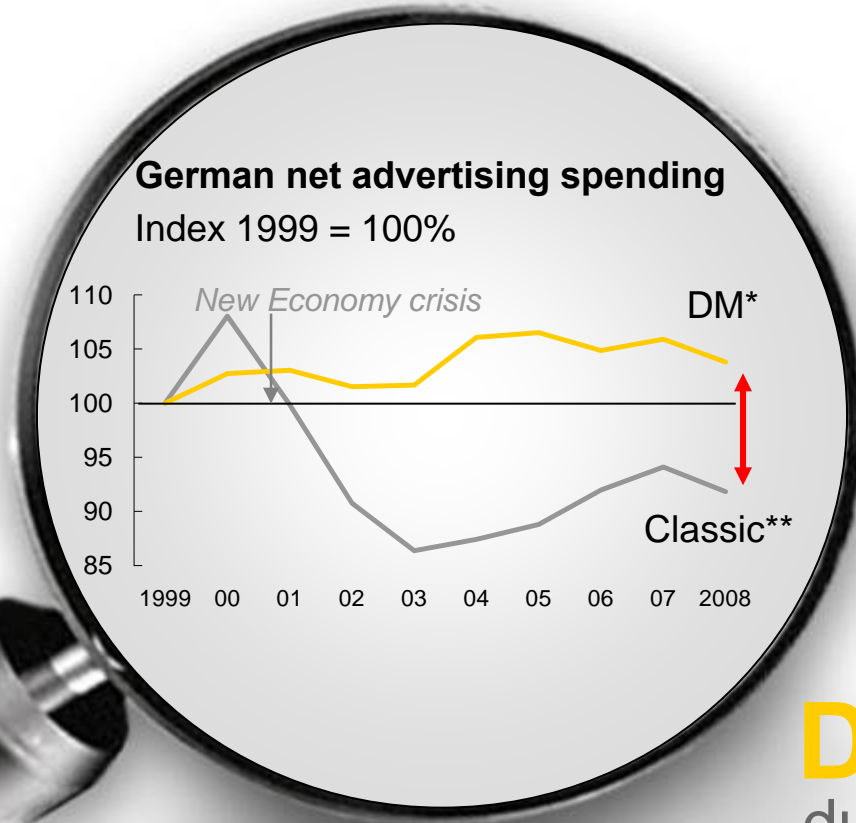
Parcel

- **Risk of volume decrease** with **classic mail order business** due to economic crisis
- **Increasing volumes** with **online trade** due to unique network of Packstations with 24/7 functionality

Advertisers appreciate Dialogue Marketing as a great channel in times of stretched marketing budgets

Dialogue Marketing

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DM performs significantly better during economic slowdowns than classical channels

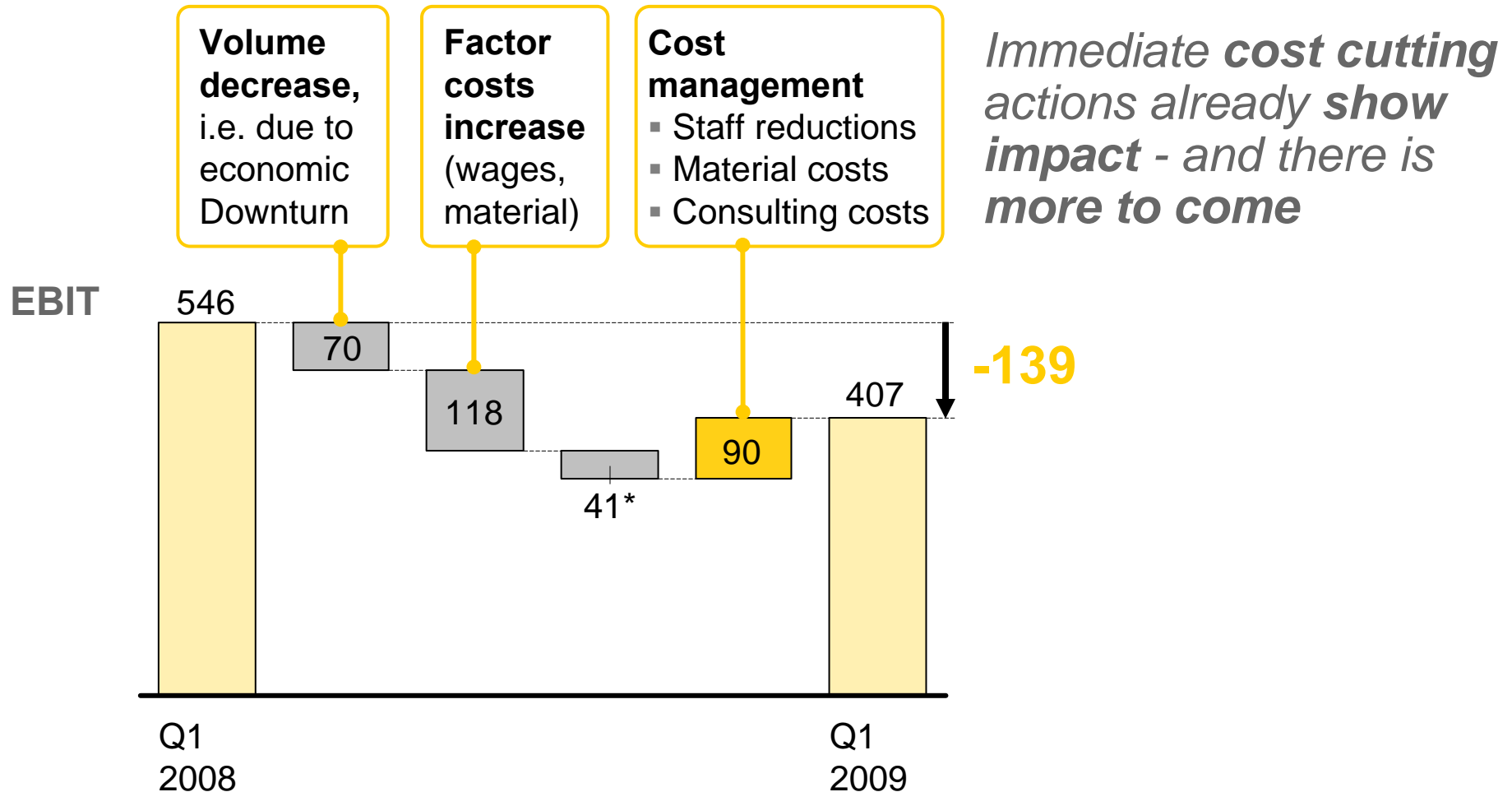
* DM revenues DPAG

** Classic = TV, Newspapers, Magazines, Radio, Poster, Cinema and Online

Source: ZAW (Zentralverband der deutschen Werbewirtschaft / Association of German Advertisers)

Immediate countermeasures already compensate partly for inevitable drop in EBIT

EUR millions



* Structural effects from Postbank divestiture and GBS allocation

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Cost-related actions CD MAIL

Increase productivity to cover increase of factor costs

Capture remaining productivity reserves in stationary processing, transportation, delivery, and overhead benchmarking in management departments

Flexibilize cost base in operations network

Compensate for up to 20% volume decrease:

- Using flexibilization reserve from natural and incentivized retirement, temporary and part-time contracts
- Outsourcing of services and closing down of facilities

Reduce indirect fixed costs

Significant contribution to IndEx (EUR 180 millions)

- Cutback in Marketing spending
- Reductions in IT development and contracting
- Sales efficiency program

Immediate action program for 2009 captures remaining productivity reserves in operations and indirect functions

Operations (examples)

Sorting

- Rolling out new sorting equipment for standard/compact/large letter formats
- Shutting down mail sorting centres on selective working days (e.g., Mondays)

Transportation

- Optimizing line haul for Mail and Parcel
- Discontinuing night airmail network
- Hedging diesel prices

Delivery

- Implementing “packed bag” concept
- Completing “compact regions” rollout
- Increase productivity via various individual measures

Overhead benchmarking in operations management departments

Indirect functions (examples)

Marketing

- Cutting communication costs by 25%
- Reducing development costs (e.g., IT, products)

Sales

- Introducing sales performance and efficiency program

IT

- Freezing budgets on non-contracted costs
- Renegotiation of outsourcing contracts
- Cutting IT development costs

General Management

- Reducing consulting costs by 30%

Total 2009 EBIT effect:

~ **EUR 300 million**

Actions with EBIT impact from 2010 onwards focus on flexibilizing cost base and further reducing indirect cost to match declining volume

Operations (examples)

To shape and secure our future we must reduce costs in a comprehensive and sustainable way.

Review structural network costs

- Mail sorting centres
- Transport
- Delivery

Review personnel costs

- Employee working time
- Employee wages
- Flexibility of personnel costs

Indirect functions (examples)

Sales

- Restructuring account management and sales channel setup/customer allocation
- Introducing new incentive schemes for senior management team

IT

- Cutting maintenance cost through consolidation and offshoring
- Reducing infrastructure cost through virtualization

Long-term transformation of core business demands radical change along 3 dimensions

Scenarios



Reconfiguration of value chain

- New network design for mail sorting centers
- Optimization of first/last mile
- Outsourcing of different functions (e.g. sorting centers, delivery areas and transportation)

Overhaul pricing model

- Receiver-centered pricing/flat fee tariff
- Additional fees for expanded services

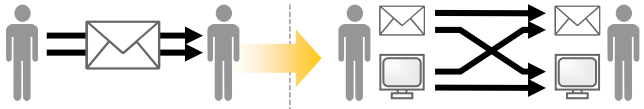

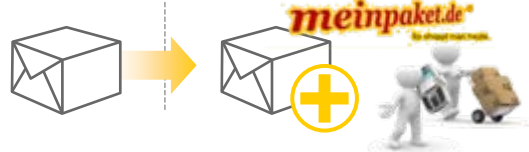
Adjustment of product & service portfolio

- Review product portfolio, e.g. cancel low margin and niche products
- Shift to online-products/services
- Reorganisation sales, e.g. refocus as customer care organisation

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Our growth strategy supports our customers in digitizing their communication

Business unit	Challenges from digital substitution	Answer CD MAIL <i>So far</i> <i>Soon</i>
Mail Communication	Less expensive digital media for transmitting information	<p>From paper-only communication to hybrid communication</p> 
Dialogue Marketing	Less expensive digital channels for advertising to target groups	<p>From direct mail to combined dialogue marketing – physical and digital</p> 
Parcel Germany	Platforms are consolidating senders and threatening DHL margins	<p>Increased loyalty with convenience and expanded services</p> 

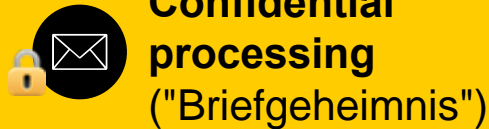
ONLINE LETTER expands physical mail with all its advantages into the electronic world

Today ...

Letter available only in paper-based form



Trusted identity



Confidential processing
("Briefgeheimnis")



Reliable delivery

E-mail provides none of these!

From 2009 on ...

Deutsche Post offers reliable mail communication – seamlessly connecting the paper-based and electronic world

Standard letter



Scan



Print



Online letter



01001100 11010010101 01001100



- Provides secure and binding online communication
- Bridges the gap between the paper-based and electronic world
- Simplifies standard processes and enables innovative digital communication offerings

Parcel Germany follows 2 strategic directions to position DHL as the leading service provider in e-commerce

Generate stronger demand



- **Meta shopping website** exclusively for shops delivering to **PACKSTATION**
- Proactive **addressee notification**

Goal

Buyers clearly prefer delivery by DHL

Strengthen sender loyalty



- **Shipping software** for seamless integration in e-commerce software
- Integrated **fulfillment solutions**

Goal

Leading service provider for e-commerce senders

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